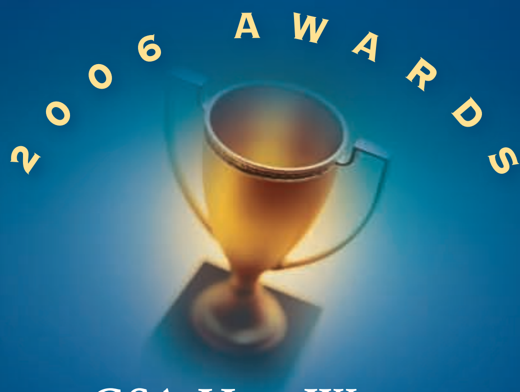
Financial Section



Awards GSA Has Won in 2006

Denver's Byron Rogers Courthouse Receives AIA Award.

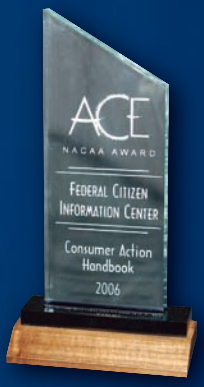
On September 8, the Denver Chapter of the American Institute of Architects (AIA) held its annual Design Awards Gala in Denver, CO. The Rocky Mountain Region's (R8) Byron Rogers Courthouse, located in downtown Denver, was presented with an Honor Award and a Sustainability Award. The Honor Award was one of only three awarded out of 100 projects submitted. This building received a LEED Gold certification for Existing Buildings. This was the first time in managing R8 Capital Construction projects that GSA returned $2.4 million in project funds to Central Office upon completion of the project.

E-Gov Receives Award for Excellence in Enterprise Architecture

E-Gov Institute selected the Missile Defense Agency (MDA) Enterprise Architecture Modeling System (MEAMS) project to receive an award for Excellence in Enterprise Architecture jointly sponsored by the E-Gov Institute, FCW Events, and FEAC Institute. This award is an example of the effective solutions the integrated MDA, SRA, and Federal Systems Integration and Management Center (FEDSIM) team strive to provide across the MDA-Enterprise Information Management System (EIMS) project.

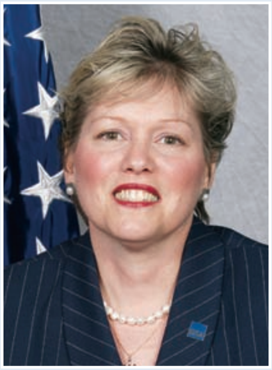
Consumer Action Handbook Wins Consumer Education Award

The *Consumer Action Handbook* has received the 2006 Achievement in Consumer Education award from the National Association of Consumer Agency Administrators at their annual conference. The Handbook, published by GSA's Office of Citizen Services and Communications (OCSC), provides advice on making wise consumer purchases, getting the most for your money, avoiding fraud, and solving consumer problems. The 2006 edition was published in cooperation with seven other Federal agencies and 28 private sector partners. The Handbook is consistently the most popular publication in the *Consumer Information Catalog.*



Letter from the Chief Financial Officer

I write this letter with a renewed sense of purpose and optimism. During fiscal year (FY) 2006, the General Services Administration's (GSA) financial management community teamed with the GSA's acquisition community to ensure we addressed the material weakness that contributed to a disclaimed audit opinion on the Bugetary Statements of our FY 2005 financial statements. I am very pleased to report that we accomplished our objectives and achieved our goal: we received an unqualified "clean" opinion for FY 2006. Moreover, this demonstrates GSA's commitment to customer satisfaction and ensuring sound financial management practices through transparency, accountability, and integrity.



Kathleen Turco

With the attainment of the independent auditor's unqualified financial statement opinion, the Office of the Chief Financial Officer (OCFO) is committed to moving forward vigorously during FY 2007 to continue improving our internal control processes and fulfill the financial management improvement goals of the President's Management Agenda (PMA). We fully implemented Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Controls," Appendix A during 2006 which is a significant accomplishment for the OCFO.

We embraced the A-123 circular requirements and fully implemented a management process for the documentation, assessment, testing, and reporting on internal controls over financial reporting. Based on the assessment as of June 30, 2006, we identified the existence of one material weakness related to monitoring, accounting, and reporting of budgetary transactions. Subsequently, we implemented corrective actions and the material weakness was resolved as of September 30, 2006. With the A-123 review process, GSA continues to strengthen fiscal management transparency and accountability.

We administered a strong and rigorous budget and financial reporting process and instituted a program that emphasizes solid internal controls to hold managers across GSA accountable for stewardship of taxpayer dollars. We continued our work in addressing these challenges and worked with management to improve Agency accountability. To improve GSA's overall management control program, we embarked on an enhancement program for our internal evaluation and review process to provide improved assurance over the reliability of our management and financial controls. We instituted a process for managers to provide accountability of their programs to ensure that the mission of the Agency is carried out efficiently, effectively, and in compliance with laws and regulations.

While our auditor's disclaimed opinion on the Bugetary Statements last year ended a long string of unqualified opinions, that wake up call strengthened our determination to educate the Services, Regions, and Staff offices in the proper close out of completed projects and returning unused budgetary authority, regardless of whether it is expired or cancelled, and therefore no longer available. This effort and the tireless reconciliation work completed by the offices on the "front lines" enabled GSA to earn an unqualified opinion on our FY 2006 financial statements.

We substantially addressed the material weakness identified last year by performing manual reconciliations and reviews.

These actions have resulted in more accurate financial accounting and reporting and reduced the significance of the prior year material weakness. To further improve on GSA's financial accounting and reporting processes, we will work with the Federal Acquisition Service (FAS) to automate their systems' reconciliation process by June 2007.

During FY 2006, the OCFO upgraded GSA's core financial system, Pegasys, to Momentum version 6.1.2, improving the delivery of timely, accurate, useful information to financial and program managers. We also participated in a number of government-wide financial initiatives, expanded the scope of transactions reviewed and reported, and worked with our intragovernmental trading agencies to resolve some of the most significant differences. GSA will continue to pursue improvements in the reporting process to increase efficiency and accuracy and further assist partner agencies in reconciling remaining differences.

My office expanded the analysis of customer requirements through our internal Performance Management Process (PMP). The continual PMP cycle unites the GSA Strategic Plan, the PMA, the Government Performance and Results Act (GPRA), and the Program Assessment Rating Tool (PART), with GSA's business line and program offices performance goals and measures. The alignment of the processes under the PMP, along with staff attention to addressing the requirements of the Budget and Performance Integration scorecard, resulted in GSA achieving a "green" for this portion of the PMA scorecard for the first time in the fourth quarter of FY 2006.

We are committed to using our resources to improve on the delivery of GSA's mission and continue to strive for excellence in financial management. These significant accomplishments are a testament to the dedication and commitment of GSA's financial and acquisition professionals. While mindful of the challenges we face, I am confident that GSA has a bright financial future, and I look forward to meeting our financial management objectives in FY 2007.

Kathleen M. Turco
Chief Financial Officer
November 10, 2006

Office of the Chief Financial Officer Major Accomplishments for 2006

GSA associates' time, efforts, and dedication are reflected in GSA's success.

OMB CIRCULAR A-123, MANAGEMENT RESPONSIBILITY FOR INTERNAL CONTROL

GSA successfully implemented the new requirements under OMB Circular A-123, Appendix A, Internal Control Over Financial Reporting. The requirements are similar in nature to those for publicly-traded companies contained in the Sarbanes-Oxley Act of 2002. The effort took significant planning and implementation support to document, assess, test, and report on internal controls over financial reporting. GSA's OCFO established an aggressive timeframe and a Senior Assessment Team (SAT) in order to complete the assessment by the June 30, 2006 deadline.

The A-123 implementation effort was led primarily by an OCFO team of associates who reported directly to the SAT. However, it could not have succeeded without the resources and support received from each of the Services' controller/chief financial offices and regional personnel. The financial managers in the Services assisted the OCFO in obtaining necessary documentation, including business processes, key controls, populations of data for sample selection, identification of systems to be tested, Federal Information Security Management Act (FISMA) assessments, Certification and Accreditation (C&A) Reports, and Statement on Auditing Standards (SAS) 70 audit reports for external financial services clients. Regional personnel played an important role in providing logistical support to conduct the tests and access to necessary documents, systems, and personnel.

The cooperation extended to the Central Team was truly outstanding and enabled management to complete the assessment within the established timeframe. During FY 2006, internal controls were tested in six regions. Testing will be rotated throughout the other regions over the next two years to ensure that all regions are tested within a three-year time period. The only exceptions are the GSA Finance Centers, which will be tested each year. Planning is underway to conduct next year's assessment, including identifying efficiencies in management's approach, improving communications, and incorporating any new test requirements to improve internal controls over financial reporting.

CORE FINANCIAL SYSTEMS (PEGASYS) UPGRADE

In July 2006, the OCFO upgraded its core financial systems software package—Momentum Financials—from release 5.1.6 to release 6.1.2. This upgrade ensures GSA's financial system, known as Pegasys, is current with Momentum baseline software releases, and that GSA can continue to support its mission of offering comprehensive and technologically progressive practices in Federal financial management.

This effort took significant planning, development (database conversion, interfaces), testing (systems, acceptance, regression, and performance), training (change management), and implementation support. The OCFO developed rigorous testing methodologies and procedures for all functional and technical areas to ensure a smooth transition.

The new software is entirely Web-based, requiring no additional software installations on users' machines. In addition, the upgraded software improves document workflow, introduced new cost allocation functionality, and enhanced external reporting and user querying capabilities.

The hardware platform for Pegasys was relocated to a new data center hosting site in Arizona. The hardware platform move, also known as the Momentum Platform Migration (MPM), was successfully completed without any adverse impact to Pegasys production operations. Systems security and configuration management procedures have also improved, as well as has technical support of the Pegasys 6.1.2 application. The MPM project provides a more secure, stable, reliable, and cost-effective infrastructure platform that not only supports the Pegasys 6.1.2 upgrade, but enhances GSA's ability to be a credible Shared Service Provider (SSP) in the Financial Management Line of Business (FMLoB) marketplace.

PROGRAM ASSESSMENT RATING TOOL

FY 2006 was the most successful year ever for GSA's execution of the Program Assessment Rating Tool (PART). Two new programs and four rescores were completed, all having acceptable long term outcome goals and efficiency measures and all demonstrating results. National Furniture Center and USA Services were the two new programs. National Furniture Center was rated "Moderately Effective" and USA Services was rated "Effective," which is the highest possible rating. USA Services was the first GSA program ever to be rated "Effective" in its initial evaluation.

Travel Management, Transportation Management, Charge Card Services, and the Office of Governmentwide Policy (OGP) were all successful "rescores"—Travel Management, Transportation Management, and OGP were all rated 'Moderately Effective," and Charge Card Services was rated "Effective." Achievement of the PART results was a cooperative effort among OMB, the OCFO, and the Services and the Staff Offices. This year's performance has set a new baseline for future improvements during FY 2007.

U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

NOV 9 2006

MEMORANDUM FOR LURITA DOAN
ADMINISTRATOR (A)

KATHLEEN M. TURCO
CHIEF FINANCIAL OFFICER (B)

FROM: BRIAN D. MILLER
INSPECTOR GENERAL (J)

SUBJECT: Audit of the General Services Administration's Fiscal Years 2006 and 2005 Financial Statements

This memorandum transmits PricewaterhouseCoopers LLP's (PwC) report on its Fiscal Years 2006 and 2005 Financial Statement Audit of the General Services Administration (GSA), and the Office of Inspector General's (OIG) report on internal controls over performance measures.

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires GSA's OIG or an independent external auditor, as determined by the OIG, to audit the Agency's financial statements. Under a contract monitored by the OIG, PwC, an independent public accounting firm, performed the Fiscal Years 2006 and 2005 Financial Statement Audit of GSA. The contract required that the audits be performed in accordance with United States Government Auditing Standards, and the Office of Management and Budget's (OMB) Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

Results of Independent Audit

Report on the Financial Statements of GSA, the General Supply Fund and the Information Technology Fund

In PwC's opinion, the financial statements of GSA, the General Supply Fund, and the Information Technology Fund, presented fairly, in all material respects, the balance sheets of GSA, the General Supply Fund, and the Information Technology Fund, as of September 30, 2006 and 2005, and the related statements of net cost and changes in net position for the years then ended, and the statements of budgetary resources and financing for the year ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

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Independent Auditor's Report

During the FY 2005 audit, it was noted that the statements of budgetary resources and financing of GSA, the General Supply Fund, and the Information Technology Fund, did not present fairly the status of budgetary resources in conformity with accounting principles generally accepted in the United States of America. PwC stated that management had identified material unfilled customer order balances and undelivered order balances of the Information Technology Fund that were invalid or cancelled. At the time it was unknown if the adjustment that may ultimately have to be made would disclose a material difference in the reported year-end balances. In addition, management discovered that it had failed to identify and adjust certain unfilled customer orders recorded by the Information Technology Fund that should have been reported in the General Supply Fund. Adjustments were made to correct the known errors; however, management was unable to determine the amounts of the potential unknown errors in unfilled customer orders of both funds and continued to review the balances after year-end.

Because of the reasons detailed above, PwC's scope of work was not sufficient to enable them to express, and they did not express an opinion on the statements of budgetary resources and statements of financing of GSA, the General Supply Fund, and the Information Technology Fund for the year ended September 30, 2005.

Report on the Financial Statements of the Federal Buildings Fund

In PwC's opinion, the financial statements of the Federal Buildings Fund, presented fairly, in all material respects, the financial position of the Federal Buildings Fund, as of September 30, 2006 and 2005, and the related statements of net cost of operations, changes in net position, budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control

In its report on internal control over financial reporting (including safeguarding of assets), PwC determined that GSA, the Federal Buildings Fund, the General Supply Fund, and the Information Technology Fund had no material weaknesses. However, PwC identified three reportable conditions concerning GSA's need to (1) improve the monitoring, accounting, and reporting of budgetary transactions, (2) strengthen system access, separation of duties and monitoring controls, and (3) improve Public Buildings Service's controls over accounting, reporting, and monitoring of construction in process projects.

Compliance with Laws and Regulations

PwC reported that in October 2006, the agency's Office of General Counsel reported to agency management 14 matters involving possible infractions related to the Antideficiency Act and the Purpose Statute.

<u>OIG Evaluation of PwC's Audit Performance</u>

To ensure the quality of the audit work performed, we conducted a review of PwC's Fiscal Years 2006 and 2005 Financial Statement Audit of GSA. Specifically, we:

- Reviewed and accepted PwC's approach and planning of the audit;
- Ensured the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Reviewed and accepted PwC's audit report; and
- Performed other procedures we deemed necessary.

PwC is responsible for the attached auditor's report dated November 10, 2006, and the conclusions expressed therein. We do not express an opinion on GSA's financial statements or internal controls or on whether GSA's financial management systems substantially complied with Federal Financial Management Improvement Act; or conclusions on compliance with laws and regulations.

<u>Report on Internal Controls Over Performance Measures</u>

In accordance with OMB Bulletin No. 06-03, the OIG performed the necessary audit procedures to obtain an understanding of the design and operation of internal controls over the reliability of data supporting the performance measures reported in the Management Discussion and Analysis section of GSA's Fiscal Year 2006 Annual Performance and Accountability Report. Our review found the design and operation of internal controls over performance measure data to be effective.

The Office of Inspector General appreciates the courtesies and cooperation extended to PwC and to our audit staff during the audit and review. If you have any questions, please contact me at (202) 501-0450. If your staff have any questions or need additional information please contact Andrew Patchan, Acting Assistant Inspector General for Auditing at (202) 501-0374.

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Independent Auditor's Report

PricewaterhouseCoopers

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Suite 900
1800 Tysons Blvd
McLean, VA 22102
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Report of Independent Auditors

To Mr. Brian Miller
Inspector General of the United States General Services Administration

In our audits of the United States General Services Administration (GSA) and its three primary revolving funds, the Federal Buildings Fund (the FBF), the General Supply Fund (the GSF), and the Information Technology Fund (the ITF), we found:

- The balance sheets of GSA, the GSF, and the ITF, as of September 30, 2006 and 2005, and the related consolidated and individual statements of net cost, and of changes in net position for the years then ended, and the statement of budgetary resources and the statement of financing for the year ended September 30, 2006, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We were unable to express an opinion on the combined and individual statements of budgetary resources, and the consolidated and individual statements of financing of GSA, the GSF, and the ITF for the year ended September 30, 2005.

- The balance sheets of FBF as of September 30, 2006 and 2005, and the related statements of net cost, of changes in net position and of financing, and the statements of budgetary resources for the years then ended are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

- GSA, the FBF, the GSF, and the ITF had no material weaknesses in internal control over financial reporting (including safeguarding of assets).

- No reportable instances of noncompliance with the applicable laws and regulations, we tested, specified in Appendix E of Office of Management and Budget (OMB) Bulletin No. 06-03, Audit Requirements for Federal Financial Statements. However, management has reported possible infractions on the part of GSA related to the Anti-Deficiency Act and Purpose Statute, resolution of which has yet to be determined.

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Report on the Financial Statements of GSA, the GSF, and the ITF

We have audited the accompanying consolidated balance sheets of GSA and the individual balance sheets of the GSF and the ITF, as of September 30, 2006 and 2005, and the related consolidated and individual statements of net cost and of changes in net position for the years then ended, and the statement of budgetary resources and statement of financing for the year ended September 30, 2006. We have also audited the individual financial statements of the FBF included in GSA's consolidated and combined financial statements, and our report on those financial statements is included below under the heading "Report on the Financial Statements of the FBF". These financial statements are the responsibility of GSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraphs, 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; except for the provisions of paragraph 6.10 relating to internal control over performance measures, Office of Management and Budget Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. The work required by the provisions of paragraph 6.10 relating to internal control over performance measures was performed by the GSA Office of Inspector General, and the objective of that work was to gain an understanding of and report deficiencies in the design of internal control over performance measures, rather than to plan the financial statement audit. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated November 14, 2005, we did not express an opinion on the fiscal year 2005 combined and individual statements of budgetary resources and statements of financing for the GSA, the GSF, and the ITF, as they did not present fairly the status of budgetary resources in conformity with accounting principles generally accepted in the United States of America due to the following reasons:

- Management identified material unfilled customer order and undelivered order balances of the ITF that were invalid or cancelled as of September 30, 2005. It was unknown if the adjustments that may ultimately be determined to be necessary may materially impact reported balances and activity reported in the ITF's fiscal year 2005, statement of budgetary resources and statement of financing;

- Management discovered that it had failed to identify and adjust certain unfilled customer orders recorded by the ITF that should be reported by the GSF. Adjustments to correct these known errors were recorded to ITF and GSF budgetary accounts. However, management was unable to determine the amounts of potentially material errors in unfilled customer orders of the ITF and the GSF, and continued to review current balances on an ongoing basis. As of September 30, 2005, we were unable to obtain sufficient evidence to support any adjustments that might be required to correct the reported amounts.

INDEPENDENT AUDITOR'S REPORT

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Because of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statements of budgetary resources and statements of financing of GSA, the GSF, and the ITF for the year ended September 30, 2005.

In our opinion, the balance sheets of GSA, the GSF, and the ITF as of September 30, 2006 and 2005, and the related consolidated and individual statements of net cost and of changes in net position for the years then ended, and the statement of budgetary resources and statement of financing for the year ended September 30, 2006, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Report on the Financial Statements of the FBF

We have audited the accompanying balance sheets of the FBF as of September 30, 2006 and 2005, and the related statements of net cost, of changes in net position and of financing, and the statements of budgetary resources for the years then ended. These financial statements are the responsibility of GSA's management. Our responsibility is to express an opinion on these 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, except for the provisions of paragraph 6.10 relating to internal control over performance measures, Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. The work required by the provisions of paragraph 6.10 relating to internal control over performance measures was performed by the GSA Office of Inspector General, and the objective of that work was to gain an understanding of and report deficiencies in the design of internal control over performance measures, rather than to plan the financial statement audit. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the FBF as of September 30, 2006 and 2005, and its net cost of operations, changes in net position, budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control

In planning and performing our audits, we considered GSA's, the FBF's, the GSF's, and the ITF's internal control over financial reporting by obtaining an understanding of GSA's, the FBF's, the GSF's, and the ITF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and

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performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinions on the consolidated, combined, and individual financial statements, where applicable, and not to provide an opinion on the internal controls. We limited our control testing to those controls necessary to achieve the following OMB control objectives, except for the provisions of paragraph 6.10 of OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, relating to internal control over performance measures, that provide reasonable, but not absolute assurance, that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the consolidated, combined, and individual financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use, or disposition; (2) transactions are executed in accordance with laws governing the use of budget authority and any other laws, regulations, and government-wide policies identified in Appendix E of OMB Bulletin No. 06-03 that could have a direct and material effect on the consolidated and combined financial statements; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. The work required by the provisions of paragraph 6.10 relating to internal control over performance measures was performed by the GSA Office of Inspector General. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. Our purpose was not to provide an opinion on GSA's, the FBF's, the GSF's, and the ITF's internal control. Accordingly, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. Under standards issued by the American Institute of Certified Public Accountants and OMB, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control that could adversely affect GSA's, the FBF's, the GSF's, and the ITF's ability to meet the internal control objectives related to the reliability of financial reporting, compliance with applicable laws and regulations, and the reliability of performance reporting previously noted. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors, fraud or non-compliance in amounts that would be material in relation to the consolidated and combined financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

* * *

Controls over monitoring, accounting, and reporting of budgetary transactions need improvement

Reportable Condition

PricewaterhouseCoopers LLP's (PwC's) November 14, 2005, Report of Independent Auditors on Internal Control, noted a material weakness in GSA's financial management systems, surrounding processes, substantial

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

transaction errors resulting from insufficient monitoring controls, and controls related to reporting of budgetary resources arising from the primary GSA service of customer agency order processing. These control weaknesses along with several uncertainties inhibited GSA management's timely prevention and detection of budgetary accounting and reporting misstatements, and as a result, we were unable to obtain reasonable assurance that certain budgetary balances reported on the fiscal year 2005 statement of budgetary resources and statement of financing of GSA, the GSF, and the ITF were reliable. Accordingly, we did not express an opinion on those fiscal year 2005 financial statements.

In fiscal year 2006, GSA and PBS, FSS, and FTS management undertook remedial actions to design and implement changes to their control and business processes around the reporting of budgetary transactions. These actions included the development of service line corrective action plans to address the fiscal year 2005 material weakness we reported in this area, and included a detailed approach to review fiscal year 2006 and prior year transactions. GSA management undertook efforts to: track and monitor the aging of unfilled customer orders (UFCO) and obligations; perform reconciliations of subsystems and business systems to the general ledger; develop policies and procedures to identify invalid contracts based on procurement regulations; perform reviews of budgetary entries at the transaction level; maintain inventories of budgetary transactions; assess the variance between the actual details of contracts and the statistical estimates made in the fiscal year 2005 balances; and confirm the unassigned UFCO balances allocated between the GSF and the ITF.

While tangible progress was made by management as noted above, we observed the following weaknesses during fiscal year 2006.

PwC performed control tests of the FBF, the GSF, and the ITF related to the processing, recording, and reporting of budgetary transactions. Controls either failed or were not in place at the time of our testing. The types of underlying transaction level errors observed by PwC during our control tests included instances of both overstatements and understatements of undelivered orders (UDOs), UFCOs, and recoveries of prior year obligations (PYRs), indicating weaknesses in the control procedures. These control weaknesses were related to:

1. UDOs, which represent GSA's commitments under obligations to vendors for goods and services ordered on behalf of customer agencies. During fiscal year 2006, we found instances where the FBF and the GSF management were unable to properly identify and record obligations as valid and complete.

2. UFCOs, which represent spending authority that customer agencies have obligated to GSA. During the fiscal year 2006 period, we noted that the FBF, the GSF, and the ITF management were unable to properly identify, classify, and record its UFCOs.

3. PYRs, which represent deobligations or downward adjustments to obligations incurred in prior years. GSA's business feeder systems for the GSF and the ITF did not provide detailed transaction level information to correctly recognize PYRs within Pegasys. As a result, time-consuming manual procedures were needed to compensate for financial system limitations.

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According to OMB Circular No. A-123, *Management's Responsibility for Internal Control*:

- Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation. Application control should be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete.

- Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year.

- Deficiencies identified whether through internal review or by an external audit should be evaluated and corrected. A systematic process should be in place for addressing deficiencies.

The goal of the Chief Financial Officers (CFO) Act is to improve accounting and financial management practices by providing management with the full range of information needed for day-to-day management. The Federal Financial Management Improvement Act of 1996 (FFMIA) builds on the foundation laid by the CFO Act by emphasizing the need for agencies to have financial management systems that can generate reliable, useful, and timely information with which to make fully informed decisions and to ensure accountability on an ongoing basis. Specifically, section 803(a) of the FFMIA requires each agency to implement and maintain systems that comply substantially with (1) the Federal financial management systems requirements, (2) the applicable Federal accounting standards, and (3) the United States Standard General Ledger at the transaction level.

We understand GSA operations are characterized by a highly decentralized environment. Each of GSA's three services (PBS, FSS, and FTS) operates as an autonomous unit, with each maintaining its own separate computer environments. Each is headed by a commissioner and assisted by a chief financial officer for PBS and a controller for FSS and FTS, who reports directly to the commissioner of that service. GSA's agency-level financial community consists of the Office of the Chief Financial Officer (OCFO). The agency-level CFO reports directly to the Administrator and oversees all agency-wide financial management activities.

Many operating processes and personnel involved in transaction initiation, processing and monitoring -- which ultimately affect the reliability of financial reporting -- do not fall within the direct control of the finance function at the OCFO level. For example, while the OCFO is responsible for compiling GSA's financial statements, it relies upon information that is submitted by the regions and service lines. Appropriate classification of the status of orders and obligations within the financial systems, budgetary accounts, and financial reports is largely dependent upon routine transaction-level review and ongoing, pro-active financial management performed by service line finance and operations management. Accordingly, GSA's success in designing, implementing and achieving effective internal controls over financial reporting is dependent upon effective interactions and shared accountabilities among finance and operations managers and staff across the enterprise.

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

PwC's control evaluation demonstrated that improvements in processes have been implemented and that improved monitoring oversight of down-stream control processes was performed by GSA's financial management community and the OCFO. The OCFO has made significant progress in driving financial management and reporting initiatives and improvements throughout the service line communities.

Recommendation:

We recommend that GSA with OCFO oversight:

- Ensure compliance with policies and procedures to prepare and monitor budgetary accounting and reporting on a routine basis, which include supervisory reviews, analytical procedures, and data validation, and ensure that activities are in compliance with the applicable guidance.
- Enhance service line business system capabilities to enable the timely and accurate transmission of budgetary reporting requirements to Pegasys.
- Continue its internal quality reviews and maintain evidence of monitoring controls, specifically supervisory reviews on a quarterly basis, to ensure compliance with laws and regulations and to validate the presentation of the statement of budgetary resources and the financial statements.
- Expand upon the implementation of OMB Circular A-123 to address root causes of budgetary reporting control weaknesses across the breadth and depth of the financial reporting process -- from the level of transaction initiation, through all processing activities, through the preparation of interim and annual financial reports. Effective remediation should be instituted to implement needed reforms to the control environment, risk assessment processes, control activities, information and communication, and monitoring elements of GSA's integrated internal control system. GSA's assessment and remediation should encompass operating activities that may occur indirectly or outside of the finance function -- such as contract management -- but which have a direct and fundamental impact upon the complete, accurate, and reliable reporting of transaction-level information.

GSA needs to strengthen system access, separation of duties, and monitoring controls

Reportable Condition

In prior fiscal years, GSA had a reportable condition regarding security weaknesses across GSA, the FBF, the GSF, and the ITF. During fiscal year 2006, GSA undertook corrective actions by implementing new policies and procedures to resolve a majority of the issues raised in the prior years. However, current year testing evidenced further control deficiencies that indicate weaknesses within GSA's logical access controls, separation of duties, and monitoring of user actions. We noted the following:

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1. Inadequate procedures for granting access and maintaining completed access authorizations:

   - Access authorizations were not completed and maintained for logical access to Pegasys and the System for Tracking and Administering Real Property (STAR).
   - Policies and procedures did not exist for performing periodic user recertification and monitoring of inactive accounts for the RWA Entry and Tracking Application (RETA).
   - A uniform procedure for requesting, authorizing, and granting access to the Office of Information Technology Management Information System (OMIS) was not implemented across all regions that use the application.

2. Weak separation of user and administrator duties:

   - Administrator accounts with access to the Oracle and Windows 2000 environments in OMIS were shared by multiple individuals with little accountability for user actions.
   - The access role structures for the Tracking and Ordering System (TOS) and OMIS were not setup in compliance with separation of duties and least privilege policies.

3. Weak monitoring of application audit trails and violation reports:

   - Policies and procedures for review of OMIS Windows 2000 security logs were not in place.
   - The logging capability and review process for STAR logs needs enhancement.
   - Monitoring of RETA user security logs and violation reports by a Security Administrator was not documented.

These weaknesses expose GSA's financial management systems and resources to the following risks:

- Failure to maintain documentation of user authorizations and performance of recertification procedures presents the risk that unauthorized users can have access to the applications that is not commensurate with their current job responsibilities, and potentially affect the integrity of the financial data.

- Lack of enforcement of separation of duties policies and procedures exposes the applications to the risk that certain users (IT management staff and end users) could obtain the ability to perform multiple critical system maintenance tasks and initiate and approve transactions without adequate oversight and limitations. This violation of the concept of "least privilege" may lead to an environment more conducive to fraudulent activity and/or inaccurate processing of financial data, ultimately affecting the integrity of the financial statements.

- Allowing administrator accounts with shared passwords creates an environment where malicious or inadvertent activity could occur with little or no individual accountability or audit trail. Multiple users accessing sensitive system functions under the same user account detracts from the ability to trace system events and actions to specific users. This creates a risk from a financial reporting perspective if the application feeds financial data to the general ledger, and ultimately the financial statements.

- Without a timely and formal review of user activity logs and violation reports, critical financial data may be corrupted, potentially affecting the financial statements. Furthermore, the lack of formal review of these logs invites the possibility of improper user activity going undetected or uncorrected.

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The combination of these risks results in users having potentially unauthorized and unmonitored access to the applications that support financial line items, and potentially having the ability to perform unauthorized transactions and updates without being detected.

Recommendation:

GSA management should strengthen general and application security controls by taking actions to improve:

- Completion and maintenance of access authorizations;
- Procedures for performing user access recertification;
- Procedures for requesting and granting access to applications;
- Access role structures to ensure compliance with separation of duties and least privilege policies; and
- Monitoring and review of user security logs and violation reports.

Controls over accounting, reporting, and monitoring of construction in process projects continue to need improvement

Reportable Condition

Since fiscal year 2001, PBS has experienced problems related to cost transfers of construction and major and minor repair and alteration projects out of the construction in process (CIP) general ledger accounts to the appropriate asset general ledger accounts upon substantial completion, as well as not expensing items from CIP when a project is abandoned, cancelled, or when the item does not meet the definition of a capital asset. The classification of projects as CIP or Property, Plant and Equipment (PP&E) is difficult and subjective, especially for multi-phased projects which, in some cases, may require the knowledge of an experienced Project Manager or specialist to make the determination. Furthermore, the terms "substantial completion" and "multi-phased projects" were not clearly defined throughout the year, which resulted in different interpretations for similar projects amongst regions.

In our previous reports, we recommended management address the reported control weaknesses to ensure accurate and timely financial reporting. Management's corrective action plan was twofold: 1) enforcing its control procedures at the project level through communication with regional offices; and 2) continuing to implement its mitigating controls through a 100% quarterly review of all CIP projects over $7 million and a semi-annual statistical sample review on the remaining population of CIP projects. However, as of September 30, 2006, the magnitude of errors identified by management during their reviews and our audit testing continues to indicate that the underlying detail transactions are not accurate, weaknesses exist in execution of control activities, and systems enhancements are necessary. Specifically, the following conditions were noted:

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1. Controls over manual input of actual substantial completion dates, timely transfer of assets to the appropriate asset account, and validation of incorrectly capitalized, cancelled, or abandoned CIP projects are not effective.

2. Corrections of errors noted during management's mitigating control procedures are not made to the financial systems at the detail transaction level.

3. PBS' work item inventory system, Inventory Reporting Information System (IRIS), generates and maintains project information at the ASID level, which is equivalent to a project number in RPADS and Pegasys. However, it cannot manage the accounting treatment at the individual asset level.

4. IRIS feeds project data to RPADS, which is developed, maintained, and operated by the GSA Office of the CFO. RPADS interfaces with Pegasys to update the related general ledger accounts. However, current system limitations in RPADS inhibit the processing of multiple CIP completion dates within a multiphase project. Therefore, data is only read at the project level resulting in incorrect project completion dates in Pegasys, upon which incorrect depreciation activities are based.

5. The general ledger accounts related to CIP, PP&E, and depreciation are materially misstated throughout, and at the end of, the fiscal year. These accounts are not corrected or updated for errors noted during management's reviews. Errors in amounts in CIP, PP&E, and depreciation balances are maintained in separate manual spreadsheets, which are then used to record adjustments at the summary level for financial statement reporting purposes only, as opposed to recording in the system of record. As of September 30, 2006, PBS recorded $1.4 billion in summary adjustments to transfer construction costs from the CIP account to the PP&E account. This amount was derived based on the periodic reviews spanning multiple years of all CIP projects over $7 million and a statistical sample of the remaining unadjusted CIP projects.

6. We reviewed a sample of 45 Minor Repair and Alteration (Budget Activity PG54) and 45 Major Projects (Budget Activity PG51/PG55) project files from three Regions to evaluate whether substantially completed projects were properly transferred from CIP to the appropriate asset general ledger account timely. We noted the following errors which indicate substantially completed CIP projects were not transferred timely to the proper asset account, not transferred at all, or incorrectly transferred, indicating continued weaknesses in the underlying controls.

Region	Sample Size	Errors Noted
Region 3 – Mid Atlantic	30	1/30
Region 4 – Southeast Sunbelt	30	3/30
Region 11 – National Capital Region	30	2/30

7. The results of FBF management's August 2006, statistical sample and 100% review of all CIP projects over $7 million indicated that 24% of the CIP projects reviewed were incorrectly classified as CIP,

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either because they were substantially complete or did not meet PBS' policy for capitalization and should be expensed, and resulted in a downward adjustment to the CIP year-end balance of over $147 million.

According to OMB Circular No. A-123, *Management's Responsibility for Internal Control*:

1. Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation. Application control should be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete.

2. Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year.

3. Deficiencies identified whether through internal review or by an external audit should be evaluated and corrected. A systematic process should be in place for addressing deficiencies.

The goal of the CFO Act is to improve accounting and financial management practices by providing management with the full range of information needed for day-to-day management. The Federal Financial Management Improvement Act of 1996 (FFMIA) builds on the foundation laid by the CFO Act by emphasizing the need for agencies to have financial management systems that can generate reliable, useful, and timely information with which to make fully informed decisions and to ensure accountability on an ongoing basis. Specifically, section 803(a) of the FFMIA requires each agency to implement and maintain systems that comply substantially with (1) the Federal financial management systems requirements, (2) the applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level.

PBS should enforce effective internal controls which prevent errors in individual transactions and balances from occurring in the future. Maintaining accurate data in IRIS and enhancing the system capabilities of RPADS for CIP projects is necessary for PBS to generate accurate financial information on a routine basis. We believe such preventative controls would be more effective and efficient than the compensating quarterly high dollar reviews and semi-annual statistical sampling controls.

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Recommendation

We recommend that PBS management:

- Work with the GSA OCFO on replacing RPADS with an Asset Management Module integrated with Pegasys that enables the reporting of CIP transactions at the individual asset level. This will reduce the number of summary adjustments made to the financial statements for financial reporting purposes.
- Enhance the capabilities of IRIS to include budgetary and proprietary accounting related information at the asset level within an ASID.
- Continue its efforts to communicate the definition of "substantial completion" to its Regional offices.
- Continue to enforce its control procedures at the project level, to ensure that substantially complete CIP projects are transferred to the appropriate asset account in a timely manner.
- Implement Regional procedures that require expensing items from CIP when a project is cancelled or when the item does not meet the definition of a capital asset.
- As enhancements are implemented, management should perform compensating detective controls aimed at resolving potential financial reporting errors.

We also noted other less significant matters involving GSA's, the FBF's, the GSF's, and the ITF's internal control that we will communicate to management in a separate letter.

Report on Compliance with Applicable Laws and Regulations

The management of GSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance that transactions are executed in accordance with laws governing the use of budget authority and any other laws, regulations, and government-wide policies identified in Appendix E of OMB Bulletin No. 06-03 that could have a direct and material effect on the consolidated and combined financial statements, including the requirements referred to in FFMIA. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to GSA, the FBF, the GSF and the ITF. 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 of compliance disclosed the following instance of possible non-compliance with laws and regulations discussed in the preceding paragraph exclusive of FFMIA or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

FTS contracting practices

As a follow-up to their June 2005 report that cited instances in which FTS officials did not comply with all applicable procurement regulations and possible infractions of the Antideficiency Act (ADA), 31 U.S.C. §

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1341(a), the OIG issued a report on September 29, 2006, titled, "Compendium of Audits of FTS Client Support Center Controls". In this report, they noted the Client Support Centers (CSCs) generally met the relevant regulations contained in the Federal Acquisition Regulations and GSA guidance, and that eleven of the twelve regional CSCs reviewed that were previously determined to be "not compliant with procurement regulations but making significant progress toward becoming compliant" are now compliant with procurement regulations. The remaining one CSC had been determined to be compliant by the OIG in their June 2005 report.

In a letter dated October 27, 2006, the GSA Office of General Counsel (OGC) communicated to GSA management 14 matters involving possible infractions on the part of GSA related to the ADA and Purpose Statute. Of the 14, the GSA OGC determined that nine of the cases can be fixed provided that the Department of Defense (DoD) can supply corrective funding. Of the remaining five matters, GSA continues to work with the DoD to determine if corrective funding can be supplied.

Under FFMIA, we are required to report whether GSA's, the FBF's, the GSF's, and the ITF's financial management systems substantially comply with: (1) the Federal financial management systems requirements; (2) the applicable Federal accounting standards; and (3) the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which GSA's, the FBF's, the GSF's and the ITF's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Other Information

The Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) are not required parts of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the information and express no opinion on it.

The other accompanying information included in this performance and accountability report is presented for purposes of additional analysis and is not a required part of the consolidated and combined, or individual, financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated and combined, and individual financial statements and, accordingly, we express no opinion on it.

* * *

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This report is intended solely for the information and use of the management and Inspector General of GSA, OMB, the Government Accountability Office, and Congress and is not intended to, and should not, be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

November 9, 2006

INDEPENDENT AUDITOR'S REPORT

U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

NOV 9 2 2006

MEMORANDUM FOR LURITA DOAN
ADMINISTRATOR (A)

KATHLEEN M. TURCO
CHIEF FINANCIAL OFFICER (B)

FROM: BRIAN D. MILLER
INSPECTOR GENERAL (J)

SUBJECT: Report on Internal Controls Over Performance Measures
Report Number: A070007/B/F/F07004

This report presents the results of the Office of Inspector General's (OIG) review regarding the design and operation of the system of internal controls over performance measures reported in the Management Discussion and Analysis section of the General Services Administration's (GSA) Fiscal Year 2006 Performance and Accountability Report. This report also describes our audit responsibilities for conducting the performance measure review.

Scope and Methodology

Under a contract monitored by the OIG, PricewaterhouseCoopers LLP performed the audit of GSA's Fiscal Year 2006 Financial Statements. However, the portion of the audit related to internal controls over performance measures was performed by the OIG. During our review, we made an assessment of whether the data and systems supporting the performance measures exist and are complete to ensure reliable reporting of GSA's performance measures. To obtain an understanding of the controls in place, we examined current GSA Government Performance and Results Act reporting policy and met with officials from the Office of the Chief Financial Officer (OCFO) regarding compliance with the policy. We also reviewed documentation provided by OCFO officials and performed tests that demonstrated that internal controls were in place and operational. Our procedures were not designed to provide assurance on internal controls over reported performance measures. Therefore, we do not provide an opinion on such controls.

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We conducted this review in accordance with generally accepted government auditing standards, as well as the provisions set forth in the Office of Management and Budget Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, related to performance measures.

Results of Audit

We found the design and operation of the system of internal controls over performance measure data reported in the Management Discussion and Analysis Section of the Agency's Fiscal Year 2006 Performance and Accountability Report to be effective.

In Fiscal Year 2005, GSA Order CFO 2170.1, "Performance Measurement Data Verification and Validation Procedures," became effective, requiring a cyclical review of the performance measure data reported by each Service and Staff Office. Our review found that in accordance with this Order, the OCFO performed and documented the required review of performance measure data, and that the conclusions therein were adequately supported.

We would like to thank the staff of the Office of the Chief Financial Officer for the assistance provided during our review. Should you or your staff have any questions, please feel free to contact me directly or the audit manager for this review, Anthony Mitchell, on (202) 501-0006.

Principal Financial Statements

CONSOLIDATING STATEMENTS OF NET COST

For the Fiscal Years Ended September 30, 2006 and 2005
(Dollars in Millions)

	2006	2005
FEDERAL BUILDINGS FUND:		
Revenues:.		
Building Operations - Government-Owned	**$3,740**	$ 3,662
Building Operations - Leased	**4,769**	4,583
Expenses:		
Building Operations - Government-Owned	**3,188**	2,830
Building Operations - Leased	**4,714**	4,441
Net Revenues From (Cost of) Operations	**607**	974
GENERAL SUPPLY FUND:		
Revenues:		
Global Supply Operations	**1,029**	1,028
Vehicle Acquisition and Leasing	**1,527**	1,454
Commercial Acquisition	**424**	452
Professional Services	**661**	732
Other Programs	**62**	68
Expenses:		
Global Supply Operations	**1,005**	1,056
Vehicle Acquisition and Leasing	**1,466**	1,403
Commercial Acquisition	**368**	395
Professional Services	**675**	729
Other Programs	**66**	66
Net Revenues From (Cost of) Operations	**123**	85
INFORMATION TECHNOLOGY FUND:		
Revenues:		
Network Services	**1,210**	1,247
IT Solutions	**3,704**	5,473
Expenses:		
Network Services	**1,169**	1,206
IT Solutions	**3,856**	5,525
Net Revenues From (Cost of) Operations	**(111)**	(11)

Continued from previous page

	2006	2005
OTHER FUNDS:		
Revenues:		
Working Capital Fund	**367**	378
GSA OE and OGP Funds	**20**	7
Other Funds	**13**	12
Expenses:		
Working Capital Fund	**372**	360
GSA OE and OGP Funds	**160**	171
Other Funds	**110**	103
Net Revenues From (Cost of) Operations	**(242)**	(237)
LESS: INTRA-GSA ELIMINATIONS (NOTE 1-B):		
Revenues	**586**	581
Expenses	**618**	608
GSA CONSOLIDATED:		
Revenues	**16,940**	18,515
Expenses	**16,531**	17,677
Net Revenues From (Cost of) Operations	**$409**	$ 838

The accompanying notes are an integral part of these statements.

Principal Financial Statements

CONSOLIDATING BALANCE SHEETS

As of September 30, 2006 and 2005
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND	
	2006	**2005**	**2006**	**2005**
ASSETS				
Intragovernmental Assets:				
Funds with U.S. Treasury (Note 1-D,2)	**$ 5,606**	$ 5,449	**$ 490**	$ 492
Accounts Receivable - Federal, Net (Note 4)	**295**	314	**377**	398
Prepaid Expenses and Advances - Federal	**6**	1	**4**	6
Total Intragovernmental	**5,907**	5,764	**871**	896
Inventories (Note 1-E)	**6**	5	**246**	224
Accounts Receivable - Public, Net (Note 4)	**11**	11	**87**	78
Prepaid Expenses and Advances - Public	**20**	18	**-**	-
Other Assets	**12**	14	**4**	6
Property and Equipment (Notes 1-F,5):				
Buildings	**25,764**	24,053	**-**	-
Leasehold Improvements	**207**	304	**24**	15
Telecommunications and ADP Equipment	**-**	-	**-**	-
Motor Vehicles	**-**	-	**3,935**	3,880
Other Equipment and Software	**76**	68	**134**	140
Less: Accumulated Depreciation and Amortization	**(12,760)**	(11,991)	**(1,314)**	(1,307)
Subtotal	**13,287**	12,434	**2,779**	2,728
Land	**1,438**	1,273	**-**	-
Construction in Process and Software in Development	**2,118**	2,309	**16**	9
Total Property and Equipment	**16,843**	16,016	**2,795**	2,737
Total Assets	**$ 22,799**	$ 21,828	**$ 4,003**	$ 3,941
LIABILITIES AND NET POSITION				
Intragovernmental Liabilities:				
Accounts Payable and Accrued Expenses - Federal	**$ 75**	$ 67	**$ 21**	$ 29
Deferred Revenue and Advances - Federal	**13**	28	**85**	81
Intragovernmental Debt (Note 6)	**2,192**	2,201	**-**	-
Other Intragovernmental Liabilities (Note 9)	**259**	266	**7**	4
Total Intragovernmental	**2,539**	2,562	**113**	114
Accounts Payable and Accrued Expenses - Public	**944**	796	**272**	278
Deferred Revenue and Advances - Public	**4**	3	**1**	1
Environmental and Disposals Liabilities (Notes 5,10)	**94**	93	**-**	-
Obligations Under Capital Leases (Note 8)	**285**	296	**-**	-
Workers' Compensation Actuarial Liability (Note 7)	**106**	109	**37**	36
Annual Leave Liability (Note 1-G)	**43**	41	**19**	19
Deposit Fund Liability	**-**	-	**-**	-
Earnings Payable to U.S. Treasury	**-**	-	**157**	84
Other Liabilities (Note 9)	**232**	190	**-**	-
Total Liabilities	**4,247**	4,090	**599**	532
NET POSITION (NOTE 14):				
Cumulative Results of Operations	**18,552**	17,738	**3,404**	3,409
Unexpended Appropriations	**-**	-	**-**	-
Total Net Position	**18,552**	17,738	**3,404**	3,409
Total Liabilities and Net Position	**$ 22,799**	$ 21,828	**$ 4,003**	$ 3,941

The accompanying notes are an integral part of these statements.

INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
2006	2005	2006	2005	2006	2005	2006	2005
$ 188	$ 231	$ 595	$ 606	$ -	$ -	$ 6,879	$ 6,778
831	1,083	3	3	24	28	1,482	1,770
-	-	2	1	4	1	8	7
1,019	1,314	600	610	28	29	8,369	8,555
-	-	-	-	-	-	252	229
3	10	26	16	-	-	127	115
-	-	-	-	-	-	20	18
6	7	1	1	20	26	3	2
-	-	-	-	-	-	25,764	24,053
-	-	-	-	-	-	231	319
104	159	-	-	-	-	104	159
-	-	-	-	-	-	3,935	3,880
23	94	80	78	-	-	313	380
(107)	(222)	(40)	(32)	-	-	(14,221)	(13,552)
20	31	40	46	-	-	16,126	15,239
-	-	-	-	-	-	1,438	1,273
-	85	1	-	-	-	2,135	2,403
20	116	41	46	-	-	19,699	18,915
$ 1,048	$ 1,447	$ 668	$ 673	$ 48	$ 55	$ 28,470	$ 27,834
$ 2	$ 36	$ 6	$ 13	$ 24	$ 28	$ 80	$ 117
27	44	39	52	24	27	140	178
-	-	-	-	-	-	2,192	2,201
-	1	24	58	-	-	290	329
29	81	69	123	48	55	2,702	2,825
805	1,049	29	29	-	-	2,050	2,152
-	2	-	-	-	-	5	6
-	-	31	21	-	-	125	114
-	-	-	-	-	-	285	296
2	5	20	20	-	-	165	170
11	13	19	19	-	-	92	92
-	-	65	54	-	-	65	54
-	-	32	22	-	-	189	106
-	-	49	49	-	-	281	239
847	1,150	314	337	48	55	5,959	6,054
201	297	243	231	-	-	22,400	21,675
-	-	111	105	-	-	111	105
201	297	354	336	-	-	22,511	21,780
$ 1,048	$ 1,447	$ 668	$ 673	$ 48	$ 55	$ 28,470	$ 27,834

Principal Financial Statements

CONSOLIDATING STATEMENTS OF CHANGES IN NET POSITION

For the Fiscal Years Ended September 30, 2006 and 2005
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND	
	2006	**2005**	**2006**	**2005**
BEGINNING BALANCE OF NET POSITION:				
Cumulative Results of Operations	**$ 17,738**	$ 16,686	**$ 3,409**	$ 3,275
Unexpended Appropriations	**-**	30	**-**	-
Net Position Beginning Balance	**17,738**	16,716	**3,409**	3,275
RESULTS OF OPERATIONS:				
Net Revenue From (Cost of) Operations	**607**	974	**123**	85
Appropriations Used (Note 1-C)	**75**	30	**-**	-
Non-Exchange Revenue (Notes 1-C, 1-G)	**2**	-	**-**	-
Imputed Financing Provided By Others	**57**	55	**30**	28
Transfer of Earnings Paid and Payable to U.S.Treasury	**-**	-	**-**	-
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	**73**	(7)	**(159)**	20
Receipts Paid and Reclassified as Payable From (To) the Land and Water Conservation Fund	**-**	-	**-**	-
Other	**-**	-	**1**	1
Net Results of Operations	**814**	1,052	**(5)**	134
CHANGES IN UNEXPENDED APPROPRIATIONS:				
Appropriations Received	**75**	-	**-**	-
Appropriations Used	**(75)**	(30)	**-**	-
Appropriations Adjustments and Transfers From Other Agencies or Funds	**-**	-	**-**	-
Other	**-**	-	**-**	-
Net Change in Unexpended Appropriations	**-**	(30)	**-**	-
ENDING BALANCE OF NET POSITION:				
Cumulative Results of Operations	**18,552**	17,738	**3,404**	3,409
Unexpended Appropriations	**-**	-	**-**	-
Net Position Ending Balance	**$ 18,552**	$ 17,738	**$ 3,404**	$ 3,409

The accompanying notes are an integral part of these statements.

INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
2006	2005	2006	2005	2006	2005	2006	2005
$ 297	$ 293	$ 231	$ 179	$ -	$ -	$ 21,675	$ 20,433
-	-	105	110	-	-	105	140
297	293	336	289	-	-	21,780	20,573
(111)	(11)	(242)	(237)	(32)	(27)	409	838
-	-	197	215	-	-	272	245
-	-	94	57	-	-	96	57
15	15	26	44	32	27	96	115
-	-	(68)	(28)	-	-	(68)	(28)
-	-	11	6	-	-	(75)	19
-	-	(6)	(5)	-	-	(6)	(5)
-	-	-	-	-	-	1	1
(96)	4	12	52	-	-	725	1,242
-	-	217	218	-	-	292	218
-	-	(197)	(215)	-	-	(272)	(245)
-	-	(14)	(8)	-	-	(14)	(8)
-	-	-	-	-	-	-	-
-	-	6	(5)	-	-	6	(35)
201	297	243	231	-	-	22,400	21,675
-	-	111	105	-	-	111	105
$ 201	$ 297	$ 354	$ 336	$ -	$ -	$ 22,511	$ 21,780

Principal Financial Statements

COMBINING STATEMENTS OF BUDGETARY RESOURCES

For the Fiscal Years Ended September 30, 2006 and 2005
(Dollars in Millions)

	FEDERAL BUILDINGS FUND	
	2006	**2005**
BUDGETARY RESOURCES:		
Unobligated Balance, Net - Beginning Balance	**$ 3,834**	$ 4,293
Prior Year Recoveries	**65**	274
Budget Authority		
Appropriations	**75**	-
Spending Authority:		
Earned Revenue	**8,546**	8,263
Change in Unfilled Customer Orders	**165**	(222)
Previously Unavailable	**515**	-
Resources Temporarily Not Available	**(56)**	(515)
Transfers	**(41)**	(40)
Total Budgetary Resources	**13,103**	12,053
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred		
Direct	**-**	-
Reimbursable	**9,075**	8,219
Unobligated Balance - Available		
Apportioned	**4,028**	3,737
Exempt from Apportionment	**-**	-
Unobligated Balance - Not Available	**-**	97
Total Status of Budgetary Resources	**13,103**	12,053
CHANGE IN OBLIGATED BALANCE:		
Obligated Balance, Net - Beginning Balance		
Unpaid Obligations, Oct 1	**2,942**	3,095
Less: Uncollected Customer Payments, Oct 1	**(1,731)**	(1,879)
Obligations Incurred	**9,075**	8,219
Less: Gross Outlays	**(8,476)**	(8,099)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	**(65)**	(274)
Change in Uncollected Customer Payments (Increase)/Decrease	**(156)**	149
Obligated Balance, Net - End of Period:		
Unpaid Obligations	**3,476**	2,942
Less: Uncollected Customer Payments	**(1,887)**	(1,731)
NET OUTLAYS		
Gross Outlays	**8,476**	8,099
Less: Offsetting Collections	**(8,555)**	(8,190)
Less: Offsetting Receipts	**-**	-
Net Outlays	**$ (79)**	$ (91)

The accompanying notes are an integral part of these statements.

General Supply Fund		Information Technology Fund		Other Funds		GSA Consolidated Totals	
2006	2005	2006	2005	2006	2005	2006	2005
$ 714	$ 594	$ 1,769	2,331	$ 194	$ 155	$ 6,511	7,373
83	98	367	989	25	26	540	1,387
-	-	-	-	260	238	335	238
4,628	4,720	4,946	6,747	396	425	18,516	20,155
(121)	(121)	(861)	(2,073)	(17)	(4)	(834)	(2,420)
-	-	-	-	-	-	515	-
-	-	-	-	-	-	(56)	(515)
(92)	-	-	-	(13)	(5)	(146)	(45)
5,212	5,291	6,221	7,994	845	835	25,381	26,173
-	-	-	-	206	216	206	216
4,624	4,577	4,987	6,225	404	425	19,090	19,446
588	614	-	-	108	69	4,724	4,420
-	-	1,234	1,769	-	-	1,234	1,769
-	100	-	-	127	125	127	322
5,212	5,291	6,221	7,994	845	835	25,381	26,173
1,134	1,288	3,177	4,887	195	177	7,448	9,447
(1,356)	(1,459)	(4,714)	(6,930)	(16)	(6)	(7,817)	(10,274)
4,624	4,577	4,987	6,225	610	641	19,296	19,662
(4,559)	(4,633)	(5,190)	(6,945)	(614)	(597)	(18,839)	(20,274)
(83)	(98)	(367)	(989)	(25)	(26)	(540)	(1,387)
143	103	1,062	2,215	11	(10)	1,060	2,457
1,115	1,134	2,607	3,177	166	195	7,364	7,448
(1,212)	(1,356)	(3,652)	(4,714)	(5)	(16)	(6,756)	(7,817)
4,559	4,633	5,190	6,945	614	597	18,839	20,274
(4,650)	(4,702)	(5,147)	(6,889)	(390)	(411)	(18,742)	(20,192)
-	-	-	-	(76)	(21)	(76)	(21)
$ (91)	$ (69)	$ 43	$ 56	$ 148	$ 165	$ 21	$ 61

Principal Financial Statements

CONSOLIDATING STATEMENTS OF FINANCING

For the Fiscal Years Ended September 30, 2006 and 2005
(Dollars in Millions)

	FEDERAL BUILDINGS FUND 2006	FEDERAL BUILDINGS FUND 2005	GENERAL SUPPLY FUND 2006	GENERAL SUPPLY FUND 2005
RESOURCES USED TO FINANCE ACTIVITIES:				
Obligations Incurred	**$ 9,075**	$ 8,219	**$ 4,624**	$ 4,577
Less: Spending Authority From Offsetting Collections and Adjustments	**(8,776)**	(8,315)	**(4,590)**	(4,697)
Financing Imputed for Cost Subsidies	**57**	55	**30**	28
Other	**(82)**	5	**74**	(29)
Total Resources Used to Finance Activities	**274**	(36)	**138**	(121)
RESOURCES USED THAT ARE NOT PART OF THE NET COST OF OPERATIONS:				
(Increase)/Decrease in Goods and Services Ordered But Not Yet Received	**(394)**	144	**7**	173
Increase/(Decrease) in Unfilled Customer Orders	**165**	(222)	**(121)**	(121)
Costs Capitalized on the Balance Sheet	**(1,655)**	(1,634)	**(749)**	(752)
Financing Sources Funding Prior Year Costs	**48**	(33)	**(84)**	-
Other	**-**	2	**77**	24
Total Resources Used That Are Not Part of the Net Cost of Operations	**(1,836)**	(1,743)	**(870)**	(676)
COSTS FINANCED BY RESOURCES RECEIVED IN PRIOR PERIODS:				
Depreciation and Amortization	**940**	788	**394**	385
Net Book Value of Property Sold	**12**	-	**285**	312
Other	**22**	41	**(74)**	9
Total Costs Financed by Resources Received in Prior Periods	**974**	829	**605**	706
COSTS REQUIRING RESOURCES IN FUTURE PERIODS:				
Unfunded Capitalized Costs	**(33)**	(19)	**-**	-
Unfunded Current Expenses	**14**	(5)	**4**	6
Total Costs Requiring Resources in Future Periods	**(19)**	(24)	**4**	6
Net (Income From) Cost of Operations	**$ (607)**	$ (974)	**$ (123)**	$ (85)

The accompanying notes are an integral part of these statements.

Information Technology Fund		Other Funds		Less: Intra-GSA Eliminations		GSA Consolidated Totals	
2006	2005	2006	2005	2006	2005	2006	2005
$ 4,987	$ 6,225	**$ 610**	$ 641	**$ -**	$ -	**$ 19,296**	$ 19,662
(4,452)	(5,663)	**(404)**	(447)	**-**	-	**(18,222)**	(19,122)
15	15	**26**	44	**32**	27	**96**	115
7	-	**(76)**	(3)	**-**	-	**(77)**	(27)
557	577	**156**	235	**32**	27	**1,093**	628
322	1,523	**20**	(21)	**-**	-	**(45)**	1,819
(861)	(2,073)	**(17)**	(4)	**-**	-	**(834)**	(2,420)
-	(27)	**(9)**	(13)	**-**	-	**(2,413)**	(2,426)
-	-	**-**	-	**-**	-	**(36)**	(33)
(4)	-	**69**	33	**-**	-	**142**	59
(543)	(577)	**63**	(5)	**-**	-	**(3,186)**	(3,001)
13	17	**14**	12	**-**	-	**1,361**	1,202
-	-	**-**	-	**-**	-	**297**	312
85	-	**-**	-	**-**	-	**33**	50
98	17	**14**	12	**-**	-	**1,691**	1,564
-	-	**-**	-	**-**	-	**(33)**	(19)
(1)	(6)	**9**	(5)	**-**		**26**	(10)
(1)	(6)	**9**	(5)	**-**	-	**(7)**	(29)
$ 111	$ 11	**$ 242**	$ 237	**$ 32**	$ 27	**$ (409)**	$ (838)

Notes to the Financial Statements

For the Fiscal Years Ended
September 30, 2006 and 2005

Organization

The U.S. General Services Administration (GSA) was created by the U.S. Federal Property and Administrative Services Act of 1949, as amended. The U.S. 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 General Services, 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

For its principal financial statements, GSA uses consolidating and combining formats to display its three largest revolving funds: the Federal Buildings Fund (FBF), General Supply Fund (GSF), and Information Technology Fund (ITF). All other funds have been combined under Other Funds.

The FBF is the primary fund used to record activities of the Public Buildings Service (PBS). The GSF and the ITF are the primary funds used to record activities of the former Federal Supply Service (FSS) and Federal Technology Service (FTS), respectively. The FSS and FTS organizations were combined into one Federal Acquisition Service (FAS) in the fourth quarter of fiscal year (FY) 2005.

In association with some of the primary purposes that led to the creation of FAS (to modify GSA's operational and management structure to better serve the Federal community's procurement needs and gain efficiencies within those operations), GSA submitted proposed legislation that would merge the GSF and ITF to create a funding structure that allows greater efficiencies in operations and more focused financial management. In the current operating environment, elements of technology are highly integrated into most significant procurements. The separate funding structure and authorities of GSF and ITF required segregation of technology from non-technology procurements, which can significantly hinder efficient management of procurements.

From GSA's proposed legislation, Congressional action was taken, resulting in development of the General Services Administration Modernization Act, which was signed into law on October 6, 2006, combining GSF and ITF into one new fund, the Acquisition Services Fund, with an effective date of December 5, 2006. Accordingly, there is no retroactive impact for financial statements reporting purposes.

The accompanying financial statements of GSA include the accounts of all funds which 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 the U.S. Congress. The revolving funds in the Other Funds category consist of the following:

- Federal Citizen Information Center Fund (FCICF)
- Panama Canal Revolving Fund
- 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 12 General Fund accounts of which four are funded by current year appropriations, two by no-year appropriations, and six which cannot incur new obligations. The general funds included in the Other Funds category are as follows:

- Allowances and Office Staff for Former Presidents
- Budget Clearing Account
- Undistributed Intragovernmental Payments
- Election Reform Payments
- Election Reform Reimbursements
- Excess and Surplus Real and Related Personal Property Holding Account
- Expenses, Electronic Government Fund
- Expenses, Presidential Transition
- Office of Inspector General (OIG)
- Operating Expenses, GSA
- Operating Expenses, Government-wide Policy
- Real Property Relocation

SPECIAL FUNDS are accounts established for receipts earmarked 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 the Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds,* these Special Funds are classified as earmarked funds. Although immaterial, earmarked fund balances 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's special funds consist of the following:

- Expenses, Disposal of Real and Related Personal Property
- Expenses, Transportation Audits
- Expenses, Acquisition Workforce Training Fund
- Operating Expenses, Disposal of Real and Related Personal Property
- 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
- Transfer of Surplus Real and Related Personal Property

MISCELLANEOUS RECEIPT AND DEPOSIT FUND accounts are considered non-entity funds 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 automatically transfers all cash balances in these receipt accounts to general funds 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
- Employees' Payroll Allotment Account, U.S. Savings Bonds
- 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
- Reserve for Purchase Contract Projects
- Unconditional Gifts of Real, Personal, or Other Property
- Withheld State and Local Taxes

Notes to the Financial Statements

B. Basis of Accounting

The principal financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by FASAB, and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements.* The American Institute of Certified Public Accountant's (AICPA) Statement on Auditing Standards No. 91, *Federal GAAP Hierarchy,* established a hierarchy of GAAP for Federal financial statements. GSA's financial statements are prepared in accordance with requirements prescribed in OMB Circular A-136, in all material respects. These formats are considerably different from business-type formats. The Statements of Net Cost present the operating results of GSA by major programs and responsibilities. The Balance Sheets present the financial position of GSA using a format clearly segregating intra-governmental balances. The Statements of Changes in Net Position display the changes in equity accounts. The Statements of Budgetary Resources present the sources, status, and uses of GSA's budgetary resources. Lastly, the Statements of Financing bridge the gap between the uses of budgetary resources with the operating results reported on the Statements of Net Cost.

GSA reconciles all intragovernmental fiduciary transactions activity, and worked with agency partners to reduce significant or material differences reported by other agencies in conformance with Department of the Treasury intra-governmental reporting guidelines and requirements of OMB Circular A-136.

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

On the Statements of Net Cost, Balance Sheets, Statements of Changes in Net Position, and Statements of Financing, all significant intra-agency balances and transactions have been eliminated in consolidation. No such eliminations have been made on the Combining Statements of Budgetary Resources. Certain amounts of expenses eliminated on the 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 Statements of Changes in Net Position. Accordingly, on the Statements of Net Cost the revenues and expense eliminations do not match. The 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.

C. Revenue Recognition and Appropriations Used

Substantially all revenues reported by GSA's funds on the Statements of Net Cost are generated from intra-governmental sales of goods and services, with the exception of GSF Schedules program revenues noted below. GSA earns 99 percent of revenues from other Federal customers. Expenses are primarily incurred with non-Federal entities supplying the underlying goods and services being provided to GSA's Federal customers with only one percent of operating expenses resulting from purchases from other Federal agencies. 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 the 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 costs covered by other funds or entities of the U.S. government, such as for post-employment and other inter-entity costs. Revenues from non-Federal entities make up an immaterial portion of GSA's total sales. Accordingly, where not otherwise governed by law, unique rates for non-Federal customers have generally not been established.

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 with customers, as space and services are provided. Generally, agencies are billed for space at rent based upon commercial rates for comparable 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. Revenue under nonrecurring reimbursable building repairs and alterations (R&A) projects is recognized under the percentage-of-completion method. In the GSF, Global Supply revenues are recognized as goods are provided to customers. Vehicle Acquisition and Leasing revenues are recognized when goods are provided and based on rental agreements over the period vehicles are dispatched. Commercial Acquisitions revenues are recognized when goods are provided, and fee revenues in the GSA Schedules programs are earned based on estimated and actual usage of GSA's contracting vehicles by other agencies. The Schedules programs generated $276 million in fees, constituting 7.5 percent of GSF revenues in FY 2006, and $269 million (7.2 percent of GSF revenues) in FY 2005. Professional Services revenues are recognized when goods and services are provided. In the ITF, telecommunications service revenues are generally recognized based on customer usage or on fixed line rates. IT Solutions revenues are earned when goods or services are provided or as reimbursable project costs are incurred. In the WCF, revenues are generally recognized as general management and administrative services are provided to the Service components of GSA and to external customers. Such 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 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's operations where ultimate collections must be deposited in miscellaneous receipt accounts of the U.S. Treasury. Non-Exchange revenues are reported net of associated bad debt expense on uncollectible accounts.

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

D. Fund Balance with U.S. Treasury

This total represents all unexpended balances for GSA's accounts with the U.S. Treasury. Amounts in Fund Balance with U.S. Treasury are based on the balances reported on the books of the U.S. Treasury, as the official record of the Federal government. Adjustments are only made to those amounts when significant errors are identified.

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's legislative authorities, the gross proceeds from some sales are deposited in GSA's Special Fund receipt accounts and recorded as Non-Exchange Revenues in the Consolidating 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.

E. Inventories

Operating supplies, which will be consumed in operations, are valued at the lower of cost, determined principally on the first-in, first-out method, or market. In the FBF, inventory balances consist of operating supplies.

Inventories held for sale to other Federal agencies consist primarily of GSF inventories, which are valued at the lower of cost, generally determined on a moving average basis, or market. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical counting plan. In the GSF, $3.5 million 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 which 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.

NOTES TO THE FINANCIAL STATEMENTS

F. Property and Equipment (See Note 5)

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 are capitalized. Normal repair and maintenance costs are expensed as incurred. The cost of R&A and of leasehold improvements performed by GSA, but financed by other agencies, is not capitalized in GSA's financial statements as such amounts are transferred to the other agencies upon completion of the project. Substantially 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. Prior to 1974, no depreciation was recorded by GSA. It is GSA policy to capitalize construction costs in the Land and 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.

Telecommunications equipment and automated data processing equipment are used in operations to perform services for other Federal agencies for which billings are rendered. Most of the assets comprising Other Equipment are used internally by GSA. Telecommunications and other equipment are depreciated over periods generally ranging from three to 10 years. Automated data processing equipment is depreciated over periods generally ranging from three to five years.

Motor vehicles are generally depreciated over four to six 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.

G. Annual, Sick, and Other Types of Leave

Annual leave liability is accrued as it is earned and the accrual is relieved 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 nonvested leave are expensed as taken.

❷ FUND BALANCE WITH U.S. TREASURY

A. Reconciliation to U.S. Treasury

There were only negligible differences between amounts reported by GSA and those reported to the U.S. Treasury as of September 30, 2006 and 2005.

B. Balances by Fund Type

Fund Balance with U.S. Treasury are primarily components of revolving funds such as the FBF, GSF, and ITF. Within the Other Funds category, Special Receipt and Special Expenditure Funds are classified as earmarked funds in accordance with FASAB SFFAS No. 27, *Identifying and Reporting Earmarked Funds.* The fund balances in the Other Funds category contains amounts in the following fund types (dollars in millions):

	2006	2005
Revolving Funds	$ 218	$ 216
Appropriated and General Funds	181	185
Special Receipt Funds	113	126
Special Expenditure Funds	45	28
Deposit Funds	38	51
Total Other Funds	$ 595	$ 606

C. Relationship to the Budget

In accordance with FASAB SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, the following information is provided to further identify amounts in Fund Balance with U.S. Treasury as of September 30, 2006, and 2005, 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. Unobligated balances presented below will not equal related amounts reported on the Combining Statements of Budgetary Resources (CSBR). In the FBF, the CSBR includes balances associated with borrowing authority for which actual funds have not yet been realized (see Note 6). In the Other Funds group, the schedule below includes unavailable unobligated balances of Special Receipt and Deposit Funds, shown above in Note 2B, which are not reportable for purposes of the CSBR The following schedule presents elements of the Fund Balance with U.S. Treasury, (dollars in millions):

	OBLIGATED BALANCE, NET	UNOBLIGATED BALANCE		TOTAL
		AVAILABLE	UNAVAILABLE	
FY 2006				
FBF	$ 1,560	$ 3,990	$ 56	$5,606
GSF	(98)	588	-	490
ITF	(1,046)	1,234	-	188
Others	161	108	326	595
Total	$ 577	$ 5,920	$ 382	$6,879
FY 2005				
FBF	$ 1,153	$ 3,684	$ 612	$5,449
GSF	(222)	614	100	492
ITF	(1,538)	1,769	-	231
Others	179	69	358	606
Total	$ (428)	$ 6,136	$ 1,070	$6,778

D. Availability of Funds

In GSA's earmarked Special Receipt Funds, included in balances of Fund Balance with U.S. Treasury, are certain amounts that may be transferred to either the U.S. Treasury (Treasury) or the Land and Water Conservation Fund (see Note 1.D). These amounts, related to the Transportation Audits program and surplus real property disposals, are subject to transfer subsequent to GSA's determination of the internal working capital needs of these programs. Such amounts totaled $113 million and $118 million at September 30, 2006 and 2005, respectively, of which $32 million and $21 million, respectively, were recorded as liabilities in the Consolidating Balance Sheets.

At September 30, 2006 and 2005, the amounts in Fund Balance with Treasury that were no longer available for expenditure and authorities cancelled totaled $4 million and $3 million, respectively. Of these amounts, substantially all balances were transferred back to the Special Fund Receipt Accounts from which they were appropriated, with minor amounts returned to the Treasury General Fund.

The Fund Balance with U.S. Treasury balances also includes amounts where authority to incur new obligations has expired, but are available to liquidate residual obligations that originated when the funds were available. Such expired balances totaled $38 million and $31 million at September 30, 2006 and 2005, 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 $56 million and $515 million at September 30, 2006 and 2005, respectively, and will not be available for expenditure except as authorized in future appropriation acts.

For the GSF and ITF, legislative authorities set certain limitations on the amount of earnings that may be retained in those funds. Amounts in excess of such limitations are returned to the Treasury General Fund. At the end of FYs 2006 and 2005, only the GSF had estimated balances in this regard, totaling $157 million and $84 million, respectively, of excess amounts that are classified as Earnings Payable to Treasury.

NOTES TO THE FINANCIAL STATEMENTS

Effective on October 1, 2004, Public Law 108-309 transferred the balances of the Panama Canal Revolving Fund to GSA as the Panama Canal Commission was abolished. At September 30, 2006 and 2005, this fund contains $41 million of balances being retained to liquidate any claims related to that Commission and its responsibilities. After settlement of all litigations, any balances not needed to liquidate claims will be returned to the government of Panama.

3 NON-ENTITY ASSETS

As of September 30, 2006 and 2005, certain amounts reported on the balance sheet are not available to management for use in ongoing operations and are classified as Non-entity assets (see Note 1.A). These balances consisted of the following (dollars in millions):

	2006	2005
Funds with U.S. Treasury	$ **85**	$ 106
Accounts Receivable - Public	**1**	1
Prepaid Expenses - Federal	-	1
Total	$ **86**	$ 108

4 ACCOUNTS AND NOTES RECEIVABLE

Substantially all accounts receivable are from other Federal agencies. 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.

Notes receivable are from the sale of surplus real and related personal property, from motor vehicle damage claims, and from contract claims. Interest rates range from zero percent to 12.6 percent.

A summary of Accounts and Notes Receivable is as follows (dollars in millions):

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND	
	2006	2005	2006	2005
CURRENT:				
Accounts Receivable - Billed	$ **110**	$ 119	$ **79**	$ 91
Accounts Receivable - Unbilled	**200**	218	**388**	389
Allowance for Doubtful Accounts	**(4)**	(12)	**(3)**	(4)
Subtotal Current Receivables	**306**	325	**464**	476
NONCURRENT NOTES RECEIVABLE				
(Net of Allowance of $51 million and $45 million in 2006 and 2005, respectively)	-	-	-	-
Total Accounts and Notes Receivable	$ **306**	$ 325	$ **464**	$ 476

INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
2006	2005	2006	2005	2006	2005	2006	2005
$ 36	$ 69	$ 30	$ 21	$ -	$ -	$ 255	$ 300
799	1,024	3	3	24	28	1,366	1,606
(1)	-	(4)	(5)	-	-	(12)	(21)
834	1,093	29	19	24	28	1,609	1,885
-	-	-	-	-	-	-	-
$ 834	$ 1,093	$ 29	$ 19	$ 24	$ 28	$ 1,609	$ 1,885

Notes to the Financial Statements

5 Property and Equipment

A. Summary of Balances

In FY 2006, GSA recorded capitalized interest costs of $6.7 million in the Construction in Process account associated with debt provided by the U.S. Treasury's Federal Financing Bank (FFB), as discussed in Note 6. Interest capitalized in FY 2005 amounted to $2.6 million. Balances in GSA's Property and Equipment accounts subject to depreciation as of September 30, 2006 and 2005, are summarized below (dollars in millions).

	2006			2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 25,764	$ 12,534	$ 13,230	$ 24,053	$ 11,682	$ 12,371
Leasehold Improvements	231	197	34	319	285	34
Telecom and ADP Equipment	104	88	16	159	136	23
Motor Vehicles	3,935	1,224	2,711	3,880	1,219	2,661
Other Equipment	313	178	135	380	230	150
Total	$ 30,347	$ 14,221	$ 16,126	$ 28,791	$ 13,552	$ 15,239

B. Cleanup Costs

In GSA's FBF, certain properties contain environmental hazards that will ultimately need to be removed and/or require containment mechanisms to prevent health risks to the public. 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 Clean Air Act, and the Resource Conservation and Recovery Act.

In accordance with FASAB's SFFAS Numbers 5 and 6, *Accounting for Liabilities of the Federal Government,* and *Accounting for Property Plant and Equipment,* respectively, and interpretive guidance in *Federal Financial Accounting and Auditing Technical Release Number 2* issued by the Accounting and Auditing Policy Committee, if an agency is required by law to clean up such hazard, the estimated amount of cleanup cost must be reported in the financial statements. Accordingly, GSA recognized liabilities totaling $94 million and $93 million for Environmental and Disposals costs as of September 30, 2006 and 2005, respectively, for properties currently in GSA's property inventory. In instances where no reasonable estimate of the cost to clean up a particular site could be made, GSA recognized the estimated costs for related environmental studies as is prescribed in the guidance noted above. Management has estimated an additional $15 million and $25 million in FYs 2006 and 2005, respectively, of potential cleanup costs where it is only possible that GSA could incur additional costs. In some instances, GSA has been named as a party in certain environmental cases where the subject property is no longer in the GSA or Federal property inventory. GSA's liability for such cases is further discussed in Note 10.

C: Heritage Assets

With an average age of GSA's buildings being over 44-years-old, 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 preservation of historical elements is a significant priority. In accordance with SSFAS No. 29, *Heritage Assets and Stewardship Land*, these buildings meet the definition of Multi-use Heritage Assets, and are reportable within general property, plant, and equipment on the Balance Sheets.

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 243 buildings on the National Register, of which 64 are designated as National Historical Landmarks. An additional 108 buildings are, or appear, eligible for listing on the National Register. 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 U.S. Department of the Interior.

6 Intragovernmental Debt

A. Lease Purchase Debt

Starting in FY 1991, GSA entered into several agreements to fund the purchase of land and construction of buildings under the FBF lease purchase authority. Under these agreements, the FBF borrows monies (as advance payments) through the FFB or executes lease-to-own contracts to finance the lease purchases. The program authorizes total expenditures of $1,945 million for 11 projects. In FYs 2006 and 2005, the FFB made advance payments on behalf of GSA totaling $44 million and $43 million, respectively. As of September 30, 2006 and 2005, $67 million and $111 million, respectively, of borrowing authority under the lease purchase program remained available for additional advance payments.

Resources to retire debt are obtained from annual revenues generated by the FBF. Aggregate debt maturities are as follows (dollars in millions): 2007 - $41; 2008 - $43; 2009 - $46; 2010 - $49; 2011 - $53; 2012 and beyond - $1,257.

B. Pennsylvania Avenue Debt

The former Pennsylvania Avenue Development Corporation (PADC) originally received authority to borrow from the FFB to finance construction of the Ronald Reagan Building (RRB) in Washington, D.C., with a project budget of $738 million. Effective March 31, 1996, the PADC was dissolved, with portions of its functions, assets, and liabilities being transferred to GSA, including the RRB.

Subsequent legislation consolidated GSA's portion of these assets and liabilities into the FBF, in which the cost and associated debt for the RRB is now recorded.

No additional amounts are anticipated to be borrowed under this authority.

Aggregate maturities on debt related to the RRB are as follows (dollars in millions): 2007 - $17; 2008 - $18; 2009 - $19; 2010 - $20; 2011 - $21; 2012 and beyond - $608.

C. Schedules of Debt Arrangements

GSA's outstanding debt arrangements in the FBF at September 30, 2006 and 2005 were as follows (dollars in millions):

	2006	2005
LEASE PURCHASE DEBT:		
Mortgage loans and construction advances held by the FFB, due at various dates from June 28, 2021, through August 1, 2035, at interest rates ranging from 3.935 percent to 8.561 percent	**$ 1,489**	$ 1,483
PENNSYLVANIA AVENUE DEBT:		
Ronald Reagan Building, mortgage loans due November 2, 2026, at interest rates ranging from 4.004 percent to 8.323 percent	**703**	718
TOTAL GSA DEBT	**$ 2,192**	$ 2,201

Notes to the Financial Statements

7 Workers' Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides income 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' compensation, and medical and miscellaneous costs for approved compensation cases. The present value of these estimates at the end of FY 2006 was calculated by DOL using a discount rate of 5.170 percent for FY 2006 and 5.313 percent for FY 2007 and thereafter. At the end of FY 2005, the discount rate used was 4.528 percent for FY 2005 and 5.020 percent for FY 2006 and thereafter. The actuarial liability recorded by GSA totaled $165 million and $170 million as of September 30, 2006 and 2005, respectively.

8 Leasing Arrangements

As of September 30, 2006, GSA was committed to various non-cancellable operating leases primarily covering administrative office space and storage facilities maintained by the FBF. Many of these leases contain escalation clauses tied to inflationary and tax increases and renewal options. GSA also uses a small volume of operating leases of vehicles in the GSF to fill demand when sufficient owned vehicles are not available. The following are schedules of future minimum rental payments required under leases that have initial or remaining non-cancellable terms in excess of one year, and under capital leases together with the present value of the future minimum lease payments (dollars in millions):

OPERATING LEASES	
FISCAL YEAR	TOTAL
2007	$ 3,844
2008	3,181
2009	2,812
2010	2,470
2011	2,178
2012 and thereafter	8,415
Total future minimum lease payments	$ 22,900

CAPITAL LEASES	
FISCAL YEAR	TOTAL
2007	$ 32
2008	32
2009	31
2010	31
2011	31
2012 and thereafter	304
Total future minimum lease payments	461
Less: Amounts representing Interest	173
Executory Costs	3
Total obligations under capital leases	$ 285

Substantially all leased space maintained by the FBF is sublet to other Federal agencies at rent charges based upon approximate commercial rates for comparable space. The agreements covering the sublease arrangements allow customer agencies to terminate the sublease at any time. In most cases, however, GSA believes the subleases will continue without interruption. Rental income under subleasing agreements approximated $4.4 billion and $4.2 billion for the fiscal years ended September 30, 2006 and 2005, respectively. Rent expense under all operating leases, including short-term non-cancellable leases, was approximately $4.1 billion and $3.9 billion in FYs 2006 and 2005, respectively. The Consolidating Balance Sheets as of September 30, 2006 and 2005 include capital lease assets of $363 million in both years for buildings. Aggregate accumulated amortization on such structures totaled $129 million and $116 million in those years, 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, 2006 and 2005, amounts reported on the balance sheet as Other Intragovernmental Liabilities and Other Liabilities, which are substantially all long-term in nature, consisted of the following (dollars in millions):

	FBF	GSF	ITF	OTHERS	TOTAL GSA CONSOLIDATED
2006					
Other Intragovernmental Liabilities:					
Workers' Compensation Due to DOL	$ 21	$ 7	$ -	$ 4	$ 32
Deposits Held in Suspense	-	-	-	20	20
Payments Due to the Judgment Fund (Note 10)	238	-	-	-	238
Total	**$ 259**	**$ 7**	**$ -**	**$ 24**	**$ 290**
Other Liabilities:					
Contingencies	$ 31	$ -	$ -	$ -	$ 31
Installment Purchase Liabilities	166	-	-	-	166
Pensions for Former Presidents	-	-	-	8	8
Liabilities of the Panama Canal Commission	-	-	-	41	41
Unamortized Rent Abatements	35	-	-	-	35
Total	**$ 232**	**$ -**	**$ -**	**$ 49**	**$ 281**
2005					
Other Intragovernmental Liabilities:					
Workers' Compensation Due to DOL	$ 22	$ 4	$ 1	$ 6	$ 33
Deposits Held in Suspense	-	-	-	52	52
Payments Due to the Judgment Fund (Note 10)	244	-	-	-	244
Total	**$ 266**	**$ 4**	**$ 1**	**$ 58**	**$ 329**
Other Liabilities:					
Contingencies	$ 5	$ -	$ -	$ -	$ 5
Installment Purchase Liabilities	149	-	-	-	149
Pensions for Former Presidents	-	-	-	8	8
Liabilities of the Panama Canal Commission	-	-	-	41	41
Unamortized Rent Abatements	36	-	-	-	36
Total	**$ 190**	**$ -**	**$ -**	**$ 49**	**$ 239**

Notes to the Financial Statements

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, 2006 and 2005 were as follows (dollars in millions):

	2006	2005
FBF	**$ 2,459**	$ 2,063
GSF	**811**	816
ITF	**1,799**	2,122
Other Funds	**132**	154
Total Undelivered Orders	**$ 5,201**	$ 5,155

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.

C. Contingencies Covered by GSA Funds

As of September 30, 2006 and 2005, GSA recorded liabilities in total of $119 million and $89 million, respectively, for pending and threatened legal matters for which, in the opinion of GSA management and legal counsel, GSA funds will probably incur losses. Of these amounts, $88 million and $84 million respectively, relate to environmental claims. Environmental claims are included in Environmental and Disposal Liabilities, and the balance of possible contingent liabilities are reported within Other Liabilities on the Consolidating Balance Sheets.

In addition, GSA had another $130 million and $180 million in contingencies at September 30, 2006 and 2005, respectively, 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.

In most cases, legal matters which 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 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.

D. Contingencies Covered by the Judgment Fund

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 FASAB's Interpretation Number 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, GSA reported $31 million and $22 million in FYs 2006 and 2005, respectively, of Environmental and Disposals and Other Liabilities for contingencies which will require funding exclusively through the Judgment Fund. Of those amounts, almost $31 million and $21 million result from several environmental cases outstanding at the end of FYs 2006 and 2005, respectively, 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 of the Federal Government.*

Additional contingencies subject to ultimate funding from the Judgment Fund where the risk of loss is reasonably possible but not probable ranged from $149 million to $3.5 billion at September 20, 2006, and ranged from $171 million to $3.5 billion at September 30, 2005.

The recognition of claims to be funded through the Judgment Fund on GSA's Consolidating Statements of Net Cost and Consolidating 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.

Amounts paid from the Judgment Fund on behalf of GSA were $12 million and $47 million in FYs 2006 and 2005, respectively. Of these amounts $5 million and $23 million, respectively, related to claims filed under the Contract Disputes Act for which payments have been or will be made to reimburse the Judgment Fund by the GSA funds liable under the contracts in dispute. The balance of claims paid on behalf of GSA does not require reimbursement to the Judgment Fund.

11 Unfunded Liabilities

As of September 30, 2006 and 2005, budgetary resources were not yet available to fund certain liabilities reported on the balance sheet. 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 Consolidating Balance Sheets that are not covered by budgetary resources consist of the following (dollars in millions):

	2006	2005
Intragovernmental Debt	**$ 48**	$ 58
Other Intragovernmental Liabilities	**270**	277
Obligations Under Capital Lease	**263**	273
Workers' Compensation Actuarial Liabilities	**165**	170
Environmental and Disposal	**125**	114
Annual Leave Liability	**92**	92
Other Liabilities	**281**	239
Total Liabilities Not Covered By Budgetary Resources	**$ 1,244**	$ 1,223

In addition, all balances reported in the Consolidating Balance Sheets under the captions: Deposit Fund Liability, and Earnings Payable to Treasury, as well as amounts shown as Other Intragovernmental Liabilities - Deposits Held in Suspense in Note 9, 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.

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 verses 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 2007 President's Budget, which contains FY 2005 financial statement results. The FY 2008 President's Budget, containing FY 2006 actual results is expected to be released in February, 2007. Balances submitted to the U.S. Treasury constitute the basis for reporting of actual results in the President's Budget.

Notes to the Financial Statements

Differences between the CSBR and the President's Budget can be due to adjustments identified by GSA during the preparation of the CSBR, which occurred after the U.S. Treasury's deadline for reporting of fund balances and budget execution results. Such adjustments to the balances reported to the U.S. Treasury were made on the CSBR to more fully reflect the activity for the fiscal year ended, and for balances as of, September 30, 2005.

The basis of the CSBR is data reported to the U.S. Treasury on the Reports on Budget Execution and Budgetary Resources (SF 133). However, as the CSBR is being developed, items may be identified that require adjustment to the data originally submitted on the SF 133s, which would create differences between the CSBR and the President's Budget. Generally, such items are identified after the deadlines for reporting to the U.S. Treasury, and reflect reclassifications of balances to report the proper status of obligations or budgetary resources. For FY 2005, the only significant differences were due to the effect of adjustments recorded on the CSBR of the FBF, based on statistical sampling techniques which were not sufficiently detailed for SF 133 reporting. Such amounts recorded in the FBF resulted in decreases to budgetary resources of $239 million, decreases to obligations incurred of $41 million, decreases in unobligated balances of $200 million, and increases in the net Balances of Obligations totaling $200 million.

Additional 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 appropriated funds, but which are appropriately included in the CSBR in the Other Funds group. Such amounts totaled $34 million, $3 million, and $31 million, respectively, in FY 2005.

In some instances OMB may require additional changes to actual reported results for pending or known changes in legislation that affect future presentations. Small rounding differences also exist due to differences in display of the CSBR versus the President's Budget.

The most significant comparable amounts reported in the FY 2005 CSBR and FY 2007 President's Budget, and the total differences where the CSBR contains balances greater or (less) than amounts reported in the President's Budget are as follows (dollars in millions):

	FBF		GSF		ITF		OTHERS		TOTAL		
	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	DIFFERENCE
Budgetary Resources	$12,568	$12,808	$5,291	$ 5,291	$ 7,994	$ 7,995	$ 835	$ 798	$26,688	$26,892	$ (204)
Obligations Incurred	8,219	8,260	4,577	4,577	6,225	6,225	641	641	19,662	19,703	(41)
Unobligated Balances	4,349	4,548	714	714	1,769	1,770	194	162	7,026	7,194	(168)
Balance of Obligations	1,211	1,014	(222)	(222)	(1,537)	(1,538)	179	183	(369)	(563)	194
Outlays	(91)	(92)	(69)	(69)	56	56	165	191	61	86	(25)

⓭ STATEMENT OF BUDGETARY RESOURCES

The CSBR present GSA's budgetary results in accordance with reporting requirements prescribed in OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget,* which identifies budgetary resources available for spending, the status of those resources, and the relationship between obligated balances and outlays (see Note 12). For balances reported as obligations incurred, all ITF balances are classified as exempt from apportionment, while all other significant balances in GSA's funds are classified as Category A in accordance with OMB guidelines. 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 which 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's 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 level that the obligation was changed to. 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 133s. However, as the CSBR is being developed, items may be identified that require adjustment to the data originally submitted on the SF 133s. Generally, such items are identified after the deadlines for reporting to the U.S. Treasury, and reflect reclassifications of balances to reflect the proper status of obligations or budgetary resources. For FY 2006, the most significant differences were due to the effect of adjustments made to the CSBR at the end of FY 2005, as a result of statistical samples used to validate balances reportable as Undelivered Orders, Unfilled Customer Orders, and Delivered Orders in the FBF. Projections of such adjustments are based on extrapolations of aggregate amounts which could not readily be determined to the detailed levels that are required to accompany SF 133 reporting. Those FY 2005 differences are also discussed above in Note 12. As actual transactions were recorded in FY 2006 to address improper balances, such activity was wreported on the SF 133s. The FY 2006 CSBR results exclude the impacts of such activity previously reported in FY 2005. Accordingly, the following differences existed between the CSBR and SF 133s for FY 2006 due to increases (decreases) to the CSBR (dollars in millions):

Unobligated Balance, Net – Beginning Balance	$ (200)
Prior Year Recoveries	$ (111)
Change in Unfilled Customer Orders	$ 303
Obligated Balance – Beginning	$ 200

⓮ 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).

Notes to the Financial Statements

GSA's FBF, GSF, ITF, WCF, and FCICF 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 GSF, earnings are retained to cover the cost of replacing the motor vehicle fleet and supply inventory. The ITF retains cumulative results to provide financing for major systems acquisitions and improvements, contract conversion costs, major contingencies, and to maintain sufficient working capital. The WCF retains earnings to finance future operations. The FCICF retains cumulative results to finance future operations, subject to appropriation by Congress.

Cumulative Results of Operations on the Consolidating Balance Sheets include immaterial balances of earmarked funds as defined in FASAB SFFAS No. 27. As further discussed in Notes 1 and 2, earmarked balances are those reported in GSA's Special 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 General 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, 2006 and 2005, balances reported as unexpended appropriations were as follows (dollars in millions):

	2006	2005
Unobligated Balances:		
Available	**$ 35**	$ 24
Unavailable	**26**	22
Undelivered Orders	**68**	80
Unfilled Customer Orders, Net	**(18)**	(21)
Total Unexpended Appropriations	**$ 111**	$ 105

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 from them, 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 SFFAS No. 5, *Accounting for Liabilities of the Federal Government,* 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 Consolidating Statements of Net Cost. While these costs will ultimately be funded out of direct appropriations made to OPM and do not require funding by GSA activities, they are an element of government-wide costs incurred as a result of GSA's operations.

B. Civil Service Retirement System

At the end of FY 2006, 30.4 percent (down from 32.8 percent in FY 2005) of GSA employees were covered by the CSRS, a defined benefit plan. Total GSA (employer) contributions (9.01 percent of base pay for law enforcement employees, and 8.51 percent for all others) to CSRS for all employees in FYs 2006 and 2005 amounted to $22 million and $25 million, respectively.

C. Federal Employees Retirement System

On January 1, 1987, the FERS, a defined contribution plan, 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 prior to

January 1, 1984 elected to either join FERS and Social Security or remain in CSRS. As of September 30, 2006, 69.1 percent (up from 66.9 percent in FY 2005) of GSA's 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. Under CSRS, employees can invest up to 10 percent of their base pay in the TSP. Employees under FERS can invest up to 15 percent of base pay, plus GSA will automatically contribute one percent of base pay and then match employee contributions up to an additional four percent of base pay. During FYs 2006 and 2005, GSA (employer) contributions to FERS (23.3 percent of base pay for law enforcement employees and 10.7 percent for all others) totaled $64 million and $65 million, respectively. Additional GSA contributions to the TSP totaled $25 million in both years.

D. Social Security System

GSA also makes matching contributions to the Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA). For employees covered by FERS, GSA contributed matching amounts of 6.2 percent of gross pay (up to $94,200 in calendar year 2006, and $90,000 in calendar year 2005) to SSA's Old-Age, Survivors, and Disability Insurance (OASDI) program in calendar year 2006. Additionally, GSA makes matching contributions for all employees of 1.45 percent of gross pay to the Medicare Hospital Insurance program in calendar year 2006. Only 0.5 percent (up from .03 percent in FY 2005) of GSA's employees are covered exclusively by these FICA programs. Payments to these programs in FYs 2006 and 2005 amounted to $49 million and $50 million, respectively.

E. Schedule of Unfunded Benefit Costs

Amounts recorded in FYs 2006 and 2005, in accordance with SFFAS Number 5 for imputed post-employment benefits are as follows (dollars in millions):

	PENSION BENEFITS	HEALTH/LIFE INSURANCE	TOTAL
2006			
FBF	$ 13	$ 25	$ 38
GSF	8	12	20
ITF	4	6	10
Other Funds	8	9	17
Total	$ 33	$ 52	$ 85
2005			
FBF	$ 15	$ 26	$ 41
GSF	9	12	21
ITF	5	6	11
Other Funds	9	10	19
Total	$ 38	$ 54	$ 92

Required Supplementary Information

Deferred Maintenance

As of the end of FY 2006, GSA had no material amounts of deferred maintenance cost to report. GSA administers the Building Maintenance Management Program that, on an ongoing basis, maintains the Building Class inventory in acceptable condition, as defined by GSA management. GSA utilizes a condition assessment survey methodology, applied at the overall portfolio level, for determining reportable levels of deferred maintenance. Under this methodology, GSA defines "acceptable condition" and "acceptable level of service" in terms of certain National Performance Measures, formulated under the provisions of the Government Performance and Results Act (GPRA) of 1993.

GSA expenses normal repair and maintenance costs as incurred. Although GSA has no substantive backlog of deferred maintenance tasks, the average building in the GSA inventory is 44-years-old, and only 29 percent of these buildings have had extensive modernization. This has led to a large inventory of capital Repairs and Alterations (R&A) work items of which approximately $6.6 billion has not yet been addressed by an ongoing PBS R&A project. As this backlog is related to capitalizable improvements and modernization, it is not considered deferred maintenance in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment,* which is intended to report only maintenance items that would be expensed through the normal course of business. For FY 2006, GSA has requested new obligational authority of approximately $866 million for the R&A program.

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Office of Inspector General's Updated Assessment of GSA's Major Management Challenges

October 2006

ACQUISITION PROGRAMS

On October 6, 2006, the President signed the General Services Administration Modernization Act, which authorizes the creation of the Federal Acquisition Service (FAS). On October 12, 2006, the Administrator signed the order finalizing the FAS organizational structure, merging the Federal Supply Service (FSS) and Federal Technology Service (FTS) into the new Federal Acquisition Service (FAS). The goal of the reorganization is to streamline organizational structures and strengthen GSA's capability to provide excellent acquisition services to customer agencies at the best value, and to make it easier for contractors to understand and participate in GSA's acquisition processes. FAS will operate on a cost recovery basis and will provide clear lines of accountability for business lines. The approximately 2,900 full-time equivalent employees from FSS and 1,300 from FTS will staff FAS. The annual value of contract actions is between \$40 - \$50 billion with revenues exceeding \$11 billion. The two Services have had their own fee structures, information systems, policies, procedures, and management controls. Combining FSS and FTS operations into a new organization will create management challenges in these areas.

At the same time GSA is combining its two procurement organizations, cash-strapped customer agencies are following the advice of the Office of Management and Budget (OMB) and are developing strategic sourcing procurement programs. Under this approach, agencies amass their common goods and services, consolidating their requirements into one or a few awards, with the expectation of suppliers substantially lowering prices. This practice is being used more frequently and presents a new dynamic that GSA must factor into its business lines.

As part of the reorganization, the Office of the Chief Financial Officer (OCFO) is merging the Information Technology and General Supply Funds into the Acquisition Services Fund. In merging these two revolving funds, management will be faced with the significant challenge of ensuring that the transition process does not impact operations and that sufficient controls are in place over the new fund. Throughout the FTS/FSS reorganization process, GSA has relied on Steering Teams to promote a seamless merger. The OCFO Steering Team has been addressing the requirements for merging the ITF and the GSF utilizing a team comprised of employees with expertise in the areas of financial policy, financial systems, and budgetary policy. A discussion of the more significant issues follows.

ISSUE: GSA provides Federal agencies with products and services valued in the billions of dollars through various types of contracts it establishes and administers. Among other contracting programs and vehicles, GSA is responsible for the Multiple Award Schedules (MAS) program, a significant number of Multiple Award Contracts (MACs), Governmentwide Acquisition Contracts (GWACs), and the Airline City Pairs Program. Although our specific concerns vary somewhat depending on the contracting program or vehicle, management challenges in this area generally center on the contract evaluation and award process, and involve the often-related issues of 1) competition, 2) pricing, and 3) implementation of statutory or regulatory compliance-type requirements.

THE MAS PROGRAM provides Federal agencies with a simplified procurement process for the purchase of a diverse range of commercial supplies and services from multiple vendors at prices associated with volume buying. MAS contracts are awarded to contractors supplying the same generic types

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of items or services at varying prices for delivery within the same geographic areas. Federal agencies then simply order supplies or services from the schedules (or catalogs) at the prenegotiated prices and pay the contractors directly for their purchase. GSA administers 43 schedules that produced sales of $33 billion in FY 2005, and the business volume continues to grow.

Our Office is concerned that, as the MAS program has grown, the importance of certain program fundamentals – including pricing objectives and other pricing tools – has diminished. These fundamentals, which are set out by regulation, include the mandate for most-favored customer (MFC) pricing, the requirement to perform meaningful price analysis when awarding or extending contracts, and the use of preaward audits to assist in negotiating contracts. MFC pricing ensures that MAS contract pricing harnesses the Federal Government's collective buying power for pricing purposes. Price analysis is the key substantive step a contracting officer performs for the purpose of arriving at fair and reasonable prices. Preaward audits are the main tool by which a contracting officer can be assured that a vendor's pricing is appropriate. Such audits also provide contracting officers with additional details regarding a vendor's pricing and sales practices in anticipation of negotiations.

In past reviews, we reported that FSS was not consistently negotiating most favored customer prices, many MAS contract extensions were accomplished without adequate price analysis, and available tools were not being used effectively to negotiate better MAS prices. Contracting officials have expressed concern that because of an extremely heavy workload they often feel pressure to award contracts even though price analysis has not been done. In a February 2005 report, the Government Accountability Office, (GAO) found that, although FSS had developed a postaward quality review of contracts– a process that has identified deficiencies in contract file documentation–the underlying causes of these deficiencies and the actions needed to address them have not been determined. GAO concluded that as a result, GSA cannot be assured that fair and reasonable prices have been negotiated for its MAS contracts.

In past years, with the support and endorsement of OMB, GSA has provided to us additional financial support enabling us to markedly increase the number of preaward contract reviews we perform. Acquisition officials have agreed to support the efforts of the OIG auditors by ensuring that vendors submit the data necessary for adequate evaluation so that our results can be reported timely. An MAS Working Group, comprised of Agency and OIG representatives, has developed guidance for contracting officers regarding the performance and use of preaward MAS contract reviews.

The Administrator's explicit effort to discontinue funding for OIG-performed MAS preaward audits out of GSA funds, in FY 2007, is a matter of great concern to us. In comments to our 2007 draft Audit Plan, the Administrator stated that she plans to utilize third party auditors to perform preaward surveys of contracts awarded by GSA. The OIG has been performing preaward audits for the past 20 years and has an extensive staff of auditors experienced in this work. Over the past two years, the OIG has found material flaws in 65% of the proposals audited that amounted to over $2 billion in proposed contract price reductions, and tens of millions in recoveries, such as a recent $98.5 million settlement with Oracle Corporation for PeopleSoft's defective pricing of sales. We have found that vendors can go to great lengths to conceal their actual selling prices, making it difficult for auditors lacking experience in this work to identify the misstatements.

The Agency has established a program for pre-negotiation clearances to ensure the quality of its most significant contract negotiations. In this process, the contract negotiator presents to a panel a summary of his or her actions in developing negotiation objectives including market research, contractor responsibilities, and price analysis. The panel may include individuals with substantial contracting experience, auditors, product or service experts, legal counsel, and other acquisition staff, and will provide comments or suggestions as necessary.

MACs are appropriate when the Government cannot predetermine, above a specified minimum, the precise quantities of supplies or specific services that will be required during the contract period. Using source selection procedures, GSA competitively awards multiple contracts covering the same scope of work and then, as needs are identified for specific tasks and products, agencies compete the task/delivery orders among the contract holders. The use of multiple award contracts is encouraged by the Federal Acquisition Streamlining Act of 1994 to promote best value and the fair opportunity for contract awardees to compete among themselves. The competition is intended to lower prices, obtain better quality, reduce delivery time, and improve customer service. However, at times the opportunity to be considered for task orders has been unnecessarily limited.

GWACs are multiple award contracts for information technology. GSA is preparing to award two GWACs for IT services with a total ceiling of $65 billion over 10 years. Based on experience with awarding past GWACs, GSA can expect a significant drain on its acquisition resources. These contracts are coming into existence at the same time that GSA is reorganizing its acquisition services and responding to the deficiencies identified in our Client Support Center audits, with special emphasis on 'Get It Right'. GWACs are awarded to a limited number of vendors. Once the contract is awarded, solicitation of proposals for task orders are limited to those vendors.

AIRLINE CITY PAIRS PROGRAM contracts are awarded annually. The $1.9 billion program provides Federal travelers with below market fares and provides advantages over commercial restricted coach fares, including unrestricted and fully refundable fares, no penalties for cancellations or schedule changes, and stable fare prices.

CLIENT SUPPORT CENTERS In recent years, we have identified improper contracting practices at the FTS Client Support Centers (CSCs) in several regions. In making these contract awards, CSC officials breached government procurement laws and regulations, and, on a number of occasions, processed procurement transactions totaling more than $100 million through the Information Technology Fund for goods and services that were well outside the fund's legislatively authorized purposes. Inappropriate contracting practices included: improper sole source awards, misuse of small business contracts, allowing work outside the contract scope, improper order modifications, frequent inappropriate use of time and materials task orders, and not enforcing contract provisions. Several factors contributed to these problems—an ineffective system of internal management controls, personnel sacrificing adherence to proper procurement procedures in order to accommodate customers' preferences, and a culture that emphasized revenue growth. Our reports have received the attention of senior management, several congressional committees, OMB, and the media. In addition, other Federal agencies, particularly the Department of Defense, have initiated analyses of contract actions since these questionable procurement actions were done on behalf of work requests from other agencies. Because of these concerns, Congress, in the 2005 Defense Authorization Act, directed that the GSA and DoD IG offices review each CSC to determine if they are compliant with Federal and DoD specific procurement regulations. We reported in our June 2005 reviews that GSA had made significant progress toward becoming compliant with procurement regulations, although more needed to be done. In our 2006 review of the CSCs, while we did find some minor procurement deficiencies in several of the CSCs, they were isolated cases, were not pervasive, and did not indicate a pattern of non-compliance. Thus we determined the CSCs are now compliant with procurement regulations. We note that GSA and DoD procurement officials are continuing to work on the development of consistent policies and procedures for GSA and DoD interagency contracting, including the use of funds across fiscal years and the format for interagency agreements.

OTHER ISSUES: Ensuring competition under the GWACs will be a challenge. During the reviews of the CSCs, we concluded that often bids are received from only one vendor, although the solicitation was sent to all the contract holders. This could occur because the incumbent has a competitive advantage in its knowledge of the task. GSA needs to focus on ensuring that the government receives competition and best value on its procurements.

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Another challenge is ensuring that MAS, GWACs and other contract vehicles are used for their intended purposes. Our review of the depot modernization showed that service contracts were also being used to procure large quantities of products/materials. However, the price of products/materials is not pre-established and must be determined on a case-by-case basis. As a result, there is little assurance that the government receives best value for products/materials.

In addition, the broad scope of the FAR definition of a commercial item is a management challenge for GSA. Under the current definition, a commercial item is any item and many services "of a type" customarily used by the general public. Thus, the current FAR definition of a commercial item does not require a vendor to have any commercial, competitive sales of a product or service. The MAS Policy operates under the premise that: (1) GSA vendors would routinely sell their commercial products and services to the general public in a competitive open market; (2) this competitive process would establish "market prices" (fair and reasonable prices); and (3) GSA COs could use market prices as a starting point in negotiations to establish a government price that was equal to a like buyer in the private sector.

Based on this expanded definition of a commercial item, it has been our experience that many MAS vendors have only Federal Government sales and sometimes only MAS sales. There are also vendors who have commercial sales but who organizationally segregate units that do commercial business from those that do government business. We have also seen commercial items that are actually special purpose items that are only purchased by specific government customers. An example is a weapon system tool kit. In addition, we have found that, although a commercial market exists for a vendor's services, its commercial contracts are typically awarded on a firm fixed price basis, while its GSA schedule clients have been mainly doing business on a time and materials basis. All of these scenarios present difficult challenges in terms of comparability and impact a contracting officer's ability to do valid price analyses.

PROCUREMENT TEAM EXPERTISE: During audits of procurements made by GSA's Customer Service Centers, we found that frequently, neither GSA nor its customer agencies had the expertise to prepare statements of work, evaluate vendor proposals, or prepare independent government cost estimates for many service task orders.

The ordering contracting officers (OCOs) who place orders for "commercial" items against the MAS, MACs, and GWACs are, in many cases at an even greater disadvantage than the COs awarding MASs, MACs, and GWACs. OCOs are expected to get even better prices and rates on large orders and are to obtain competition for the orders they award. Our experience has been that many of the largest tasks are awarded to the same vendor time after time and often, no other vendors bid on the task.

In addition, OCOs frequently have to negotiate costs for items that are not included in a MAS, a MAC, or a GWAC but are ancillary to accomplishing the purpose of the task/delivery order. Unfortunately, the OCOs often do not know if they are paying twice for some costs – costs that may already be included in a fully burdened labor rate.

COs usually establish commercial item prices and rates by comparing proposed prices and rates to those previously negotiated for other MAS vendors' contracts, which can result in price and rate creep. The FAR discourages COs from analyzing vendor cost data underlying prices for commercial products and services.

E-TRAVEL CONTRACTS GSA has awarded e-Travel contracts worth an estimated $450 million to three vendors. All civilian agencies were expected to complete migration to e-Travel by September 30, 2006. In a recent review, we reported that although the Program Management Office (PMO) has achieved some success in their oversight and management of the E-Gov Travel Initiative, cost, schedule, and performance risks exist. The PMO has faced challenges in supporting agencies to meet established milestones and timeframes. Many agencies have experienced significant deployment schedule slippage, resulting in GSA fee revenue shortfalls and the inability to meet E-Gov Travel Initiative performance measures. Various factors affecting the ability of e-Travel vendors and agencies to remain on schedule have impacted the PMO's effectiveness in managing the initiative. In order for the PMO to successfully provide adequate management and oversight, realistic GSA revenue estimates with a contingency plan to address revenue shortfalls, better estimation and substantiation of deployment timeframes, and more effective issue resolution are needed to help mitigate cost, schedule, and performance risks.

AGENCY ACTIONS:

The President's Management Agenda calls on Federal agencies to meet twin goals of reducing government spending and improving performance. With these outcomes in mind, GSA's Administrator announced the Agency's plan to restructure some of its primary functions. Many factors led to the planned reorganization, including shifting customer needs, an evolution in how agencies acquire technology products and services, and a greater emphasis on GSA's role in Federal procurement.

The FAS Acquisition Management team, led by GSA's Chief Acquisition Officer (CAO), has been working to create an organization that will partner with the CAO's office to enhance the GSA workforce by fostering acquisition excellence in training and work environments. The team is also focused on ensuring consistency among the GSA schedules contracts. This team must create an organization that optimizes GSA processes, while ensuring that customers and suppliers have a positive and consistent FAS experience.

On July 13, 2004, GSA unveiled a comprehensive plan designed to ensure improved contracting operations and proper use of GSA's contracting vehicles. The "Get It Right" plan aims to make acquisition policies, regulations, and procedures clear and explicit and improve the education/training of the Federal acquisition workforce on the proper use of GSA contracting vehicles and services. GSA continues to work closely with other Federal agencies, particularly the Department of Defense, in identifying actions necessary to clarify guidance and ensure proper use of GSA contracting vehicles by GSA and other agencies.

Many of the problems identified in the CSC audits related to OCO, vendor, and user agency misuse of GSA contract vehicles. As a result, GSA is also challenged with ensuring its overall contracts are properly used by OCOs. GWAC centers have been incorporating OCO, vendor, and user agency requirements into their GWACs. In addition, the GWAC centers will train OCOs, delegate procurement authority to OCOs, and monitor use of the GWACs.

We continue to participate with FAS on a working group to review current MAS procurement practices, and analyze potential enhancements to program pricing activities. The group is comprised of representatives from the Office of Acquisition Policy, General Counsel, FAS acquisition, and the Office of Inspector General. On April 29, 2005, FSS issued a revised Procurement Information Bulletin (PIB) to update guidance and instructions to contracting officers in requesting audit assistance from the OIG when exercising options to extend the term of a contract. The principles in the PIB also apply to audits of new MAS offers. The PIB should help contracting officers take better advantage of the assistance that can be provided by the OIG.

FAS is supporting Federal Acquisition Regulation changes that will require agencies acquiring services using the MAS services schedules to attempt to obtain better-than-negotiated pricing on large procurements. On June 18, 2004, the Federal Acquisition Regulation Council issued a final ruling regarding ordering procedures under GSA's MAS contracting program. Among other things, the final rule requires ordering agencies to seek competition among MAS vendors, document their award decisions, and seek additional price reductions under Blanket Purchase Agreements (BPAs).

GSA worked with an interagency committee to develop a best practices guide, "Seven Steps to Performance-Based Services Acquisition." Additionally, a Center of Expertise has

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been established to gather sample statements of work and develop a template for performance-based service contracting solicitations.

In June 2004, GSA established a new Office of the Chief Acquisition Officer (CAO), aimed at ensuring compliance with Federal contracting rules, fostering full and open competition for contracts, and strengthening accountability in contracting. The office absorbed many of the functions formerly in the Office of Governmentwide Policy. On May 5, 2005, the CAO issued policy guidance to the CSCs based on information gleaned from the CSC audits.

EMERGENCY CONTRACTING: Under the National Response Plan, GSA provides procurement support to the Federal Emergency Management Agency (FEMA) during national emergencies. In responding to Hurricane Katrina, issues in GSA's emergency contracting processes were exposed. As reported by GAO, GSA contracting personnel needed better coordination with FEMA personnel who were responsible for monitoring contractor performance. In addition, many GSA contracting personnel did not have emergency contracting guidance or training and many did not have knowledge of the products and services or the sourcing capabilities needed to ensure price reasonableness. Finally, the manual tracking of contract information led to inaccurate and incomplete reporting.

In the aftermath, GSA has taken a number of actions to address this situation. To improve coordination with FEMA personnel, GSA has been working to update the memorandum of understanding with FEMA and revising its emergency policies and procedures. GSA is also working with FEMA to put contract vehicles in place in advance of future disasters.

CONTRACT MANAGEMENT

ISSUE: GSA increasingly accomplishes its mission by using contractors to provide client services and products. In recent years, GSA added over $13 billion in new procurements to its active contract inventory. In October 2004, GSA awarded a new National Broker Contract with the intention of transitioning, over time, the majority of its lease acquisitions to four broker contractors. In FY 2005, PBS had over 7,300 private sector leases that generated over $4.1 billion in direct revenue. While GSA gains tremendous advantage by leveraging its human capital to manage and arrange for work to be performed by contractors, the corporate skill base necessary to effectively manage contracts is not keeping pace with the growth and complexity of this important activity.

Through various audits performed over recent years, we have observed certain trends that cause us to be concerned with contract management. Some points we have noted are:

- Weak selection criteria permit poor performing contractors to win awards, or projects were awarded to contractors with no expertise in the services needed. Task objectives were poorly crafted, milestone plans were missing, and unauthorized personnel issued some task orders. In addition, contracts were awarded without appropriate clauses to hold contractors responsible for protecting sensitive data from unauthorized release.
- Use of contract formats that offer no incentives to keep projects moving or control costs. Contractors neglect to establish required quality control programs, or do not submit firm construction schedules meaning that delays are unknown until they become significant.
- GSA personnel providing limited project oversight, acting too slowly in making project-critical decisions, and at times not inspecting completed work projects prior to payment. Also, not all services paid for were provided, and approvals to pay for services invoiced often lacked supporting documentation.
- GSA leasing officials did not monitor receipt of services required under leases and relied on tenant complaints for identifying service deficiencies rather than taking a proactive approach to ensuring required services are provided. We also noted a lack of documentation supporting whether identified fire and other safety conditions in leased facilities were corrected.

- Leasing project files lacked strong support for the price reasonableness of tenant improvements, contained limited documentation of active project management during the build-out process, and the level of project cost tracking and reconciliation varied significantly.

In our briefings to GSA senior management, we have emphasized that effective contract management starts with complete acquisition planning; relies on sound source selection criteria to select only the best contractors; requires clear and concise contract language; demands well trained contract administrators; and needs well defined work or task order requirements, including milestone plans with positive and negative incentives, and more importantly, assertive action to get wayward contracts promptly on track. There is a heightened need for improvement efforts as GSA's contracting workload continues to increase at a rapid rate. While many GSA contracts are well crafted and properly administered, we continue to find weaknesses.

In October 2004, GSA awarded the National Broker Contract to provide leasing services for up to 3.2 million square feet of space throughout the country. GSA predicts that much of the real property contracting process will be done by personnel from one of four national commercial property management firms, which will handle about 50% of the new leasing workload in the first year of the contract. PBS found it necessary to contract for these services because the number of realty specialists is shrinking while the amount of space they are responsible for is growing. Turning over such a large part of the workload will create a new demand on PBS realty specialists who will now have major contract oversight responsibilities. Our greatest concern is turning over such an important part of PBS workload (both in size and dollars) to contractors who will be paid by the lessor. The 'no cost' aspect of the contracts allow for brokers to collect payment from landlords in the form of commissions. Consequently, the incentives to keep costs down and the controls to prevent collusion or (in cases where they may have a relationship with the potential lessor) to prevent steering the award to a preferred lessor are key to the success of the contract. There may also be proprietary data issues where one GSA contractor seeking a lease award may be required to provide proprietary data to a competitor that, is overseeing the award. This may lead to impaired competition. Moreover, the implementation of the Broker contract is very dependent on post award oversight, which has been a weakness at GSA in the past.

AGENCY ACTIONS:

GSA has provided training in source selection and related procurement issues for property development personnel. It has also established an on-line folder to post source selection best practices. Contracting officers are receiving classes in advanced source selection and refresher training on aspects of construction project administration such as critical path analysis, enforcement of clauses and scheduling, claims management, processing change orders, and linking the indirect costs of client directed changes back to clients.

In developing the new National Broker Contract, the agency took into consideration several of our concerns from the prior national broker contracts by including controls for oversight and follow up. PBS established a certification training plan for PBS realty personnel involved with the Broker Contract. Key personnel will be required to hold a Leasing Warrant. PBS has put in place processes and procedures to ensure tight monitoring and control is administered over the contractor's negotiations and properties.

INFORMATION TECHNOLOGY

ISSUE: Designing, building, and implementing cost-effective, customer-focused, and secure information technology (IT) in support of GSA's evolving business lines and various missions has never been more important. GSA faces management challenges related to systems' requirements and performance at all phases of development, implementation, and operation. Many of the Agency's systems also store and process sensitive data, including personally identifiable information, financial data, and contractors' proprietary information. It is critical that the IT Security Program adequately manage

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all IT security risks. Additionally, GSA is the lead agency for five E-Government initiatives; two of the initiatives address Government to Business or Government to Citizen services and three initiatives are to provide services to other government departments and agencies. These IT applications, developed to better manage operations and interface with the public, also give rise to complex integration and security issues that must be addressed. Success is dependent upon breaking development into short-term manageable segments with performance-based deliverables consistent with system objectives.

SYSTEMS DEVELOPMENT: GSA is in the process of replacing a number of its old systems, in keeping with technological advances and to meet current regulations. Many of the IT projects are designed to go beyond automating current business functions and create real change in the way that GSA does business. However, GSA has experienced recurring difficulty in deploying and maintaining structured system development practices that ensure the proper development of requirements as well as implementation of prescribed system processes. As a result, GSA systems commonly experience development schedule delays and cost overruns, need frequent redesign, and have difficulty providing basic functionality and sharing usable data between systems.

Many GSA IT projects attempt to minimize development cost and deployment schedules by developing systems based on existing commercial-off-the-shelf (COTS) software packages. COTS solutions offer agencies the ability to forgo lengthy development of core system functionality and the ability to adhere to industry information processing standards. However, changing business processes before the Agency invests in a COTS product has been a challenge for GSA. The majority of COTS solutions require modifications to meet unique Federal requirements. Moreover, new systems require interfaces with existing systems that are difficult to implement. Reviews by our office have shown this to be the case with GSA's new accounting system, Pegasys, and with GSA Preferred (GSAP), both of which are based on COTS products. On October 1, 2002, Pegasys became the Agency's official system for accounting records. While this is a key accomplishment, numerous challenges remain before completing full implementation of an integrated financial management system, and completely replacing the aging legacy National Electronic Accounting and Reporting (NEAR) system. Pegasys also faces high risks due to its high annual maintenance costs and reported security weaknesses. During FY 2004, the Federal Technology Service (FTS) attempted implementation of GSAP in two regions to replace four legacy systems and provide "cradle to grave" activities for a more efficient and effective process to identify and deliver technology solutions and services. GSA expected this system to provide FTS employees and Federal clients with real time access to acquisition, financial, project, program, and contracting information. However, the system and its interfaces did not function as intended, and the project faced budget and schedule overruns. GSAP has now been terminated, and FTS is reverting to the legacy systems GSAP was intended to replace. Two of these systems, Tracking and Ordering System (TOS) and the Order Management Information System (OMIS), lack a number of important controls.

GSA faces another critical challenge to change its business processes and system capabilities to better enable the Agency to focus on and make improvements in providing for its customers. A recent high-risk project to develop an enterprise-wide Customer Relationship Management system, a system crucial to help the Agency with its mission of helping Federal agencies better serve their public by offering best value workplaces, expert solutions, and acquisition services, was halted July 2006. It remains critical for GSA to have a strong focus on information systems that provide insight into customer needs to improve services the Agency provides, generate revenue, and improve customer satisfaction.

GSA also faces systems development challenges in aligning its applications, IT infrastructure, and services to government-wide goals and new Lines of Business. GSA is the lead agency for the E-Authentication initiative to provide online identity verification and authentication services that serve as the foundation for secure E-Government under the President's Management Agenda. GSA faces technical and management challenges in building the infrastructure necessary for successful rollout of E-Authentication, such as developing system interfaces that allow for sharing of authentication credentials, developing trust and business models that include common business rules that define roles and responsibilities, working with the private sector to recruit credential service providers, and implementing privacy requirements for Personally Identifiable Information (PII). While the Agency has developed an E-Authentication risk assessment tool to model transaction risk, it is important to ensure that transaction risks have been consistently assessed. Once users have been authenticated by the E-Authentication service, meaning that they have had their identity proven, GSA system owners face challenges in ensuring proper authorization, which refers to the appropriate level of access to grant to users.

GSA's first implementation of E-Authentication is through the eOffer/eMod web-based application that allows vendors to electronically prepare and submit their Multiple Award Schedule contract proposals. It is important that this system creates an interactive, secure electronic environment that simplifies the contracting process from submission of proposal to awards and enables a seamless transmission of data from the vendor community to contracting offices. While E-Authentication provides more rigor in verifying users are who they say they are it does not provide application security to ensure that users have appropriate access to system functionality or data. An overall risk-based approach to security is important to ensure both authentication and authorization controls are in place.

INFORMATION TECHNOLOGY SECURITY: The Federal Information Security Management Act (FISMA) requires Federal agencies to develop, document, and implement an agency wide information security program to secure Federal information systems. While the GSA's overall IT Security Program is improving in a number of areas, we continue to identify deficiencies similar to those reported in prior years resulting from ineffective implementation by system security officials. Effective implementation of GSA's IT Security Program is dependent upon accountability, with a focus on standardized performance goals and measures for system security officials. The GSA-CIO needs to provide more specific guidance and direction in fulfilling those IT security roles and responsibilities as a basis for measuring the effectiveness of security officials. GSA's IT Security Program would also benefit from a more proactive approach to addressing emerging risks. More consistent implementation of GSA's IT Security Program and increased system monitoring is needed to adequately secure GSA's systems and data. Attention must also be placed on securing small components of larger major applications and general support systems to ensure that all applications within defined system boundaries are secured. Greater emphasis is also required for security of privacy information and the use of unencrypted data stored outside GSA's secured facilities. The GSA IT Security program must incorporate requirements for contractor provided data system solutions where GSA owns, and is responsible for, the data, but does not own the hardware, software, facility, or provide system security. Completion of required background checks before contractors are granted access to GSA systems remains a challenge.

The importance of web application security is increasing as applications move to this expanded form of connectivity. Over 70 percent of attacks against web sites or web applications come at the application layer, not the network or system layer. Attacks on web applications, both internal and external, bypass traditional network firewall and password access controls and may not be monitored. Attackers are increasingly targeting web applications, which have traditionally not been secured as well as network perimeters. As part of the annual FY 2006 FISMA technical control review, we tested technical controls for several of GSA's public facing and intranet web applications, and found two significant areas of risk that need to be more comprehensively addressed. There is a critical need to sufficiently validate data fields input into GSA's web-based applications, and several GSA public facing web servers were running unpatched or unsupported software versions.

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AGENCY ACTIONS:

The GSA-CIO has updated the GSA Information Technology Security Policy, GSA Order CIO P 2100.1C, issued February 17, 2006. This order issues and transmits the GSA Information Technology Security Handbook. Instructional Letter (IL) 05-03, containing training requirements for persons with significant security responsibilities was issued on April 21, 2005. The GSA-CIO also updated a number of technical and procedural guides and added the Oracle technical guide. The CIO is maintaining contractor support for:

- Procedural and Technical Guide development and maintenance
- Vulnerability scanning of over 1,800 devices each quarter
- Incident handling response and investigation
- E-authentication risk assessment preparation
- Security training for persons with significant security responsibilities
- Certification and Accreditation and Plans of Actions and Milestones reviews for consistency with procedural and technical guides
- Annual FISMA reporting

MANAGEMENT CONTROLS

ISSUE: Multiple management controls have been replaced, through reinvention initiatives, by fewer and broader controls, making it essential that the remaining controls be emphasized and consistently followed. The matter of weak internal controls underlies several of the other management challenges discussed elsewhere in this paper.

Many agencies have availed themselves of the services available under GSA's governmentwide charge card program, yet some have failed to adequately implement controls over the use of the cards by their employees. While it is the responsibility of individual agencies to establish controls for their own cardholders, OMB and the Congress still look to GSA to take a leadership role in development of effective charge card program controls across the government. Within GSA, steps taken to strengthen controls over vehicle and travel cards appear to be effective since we seldom find instances of misuse by GSA cardholders. Although the key control over purchase cards, supervisory review of cardholders' transactions, is now more consistently followed, we do occasionally identify problems. The Fleet is very concerned about misuse of Voyager charge cards. These cards are primarily used to charge for gas. It is a management challenge to filter through the thousands of transactions to identify potential misuse of cards.

In the past year, GSA provided us additional funding support to markedly increase the number of reviews of questionable Voyager charge card transactions, and the amount of inappropriate charges we identified more than covered the funding provided.

Many of the problems identified in the Client Support Center (CSC) audits related to Ordering Contracting Officer (OCO), vendor, and user agency misuse of GSA contract vehicles. As a result, GSA is also challenged with ensuring its overall contracts are properly used. GWAC centers have tried to develop OCO, vendor, and user agency requirements in their GWACs. In addition, these centers will train OCOs, delegate procurement authority to OCOs, and monitor use of the GWACs.

DATA INTEGRITY: In passing the Government Performance and Results Act of 1993, Congress emphasized that the usefulness of agencies' performance data depends, to a large degree, on the reliability and validity of those data. Past audit work has shown that the absence of controls or the non-compliance with existing controls has resulted in poor quality data at the operational levels of many GSA programs.

In FY 2006, PBS was challenged with the data integrity of its rental rates. According to PBS' pricing policy, the rental rates for GSA-owned buildings are supposed to be based on independent appraisals of the buildings. However, we identified a problem with courthouse appraisals, which was confirmed in a subsequent PBS review, where it was found that GSA personnel were extensively modifying some appraisals and as a result, the rental rates were being called into question. Due to these and other issues, PBS is putting controls in place to ensure the data integrity of appraisals, as well as for lease and other building information.

SECURITY OF DATA: The GSA SmartPay® program provides Federal agencies with a streamlined approach to pay for commercial goods and services, as well as travel and fleet-related expenses. The program supports more than $24 billion in Federal spending. In FY 2005, the Bank of America lost computer tapes on the GSA SmartPay® program affecting 1.2 million account holders. Data lost included social security numbers, addresses and account numbers. Since the incident, FSS has worked with the service providers to identify their security controls.

In FY2006 several incidents of loss of privacy data were reported across the government. This has resulted in a spotlight on the issue of protecting personally identifiable information. Poor physical security and a lack of training and enforcement of current security policies and procedures caused most of the reported incidents.

Section 522 of the 2005 Transportation, Treasury, Independent Agencies, and General Government Appropriations Act required each agency to designate a Chief Privacy Officer responsible for establishing and implementing privacy and data protection procedures for personally identifiable data. This law was put in place to assign responsibility for a privacy program at a high level in all agencies. This position is usually assigned to the Chief Information Officer (CIO) but, in GSA, has been assigned to the Chief Human Capital Officer (CHCO), formerly the Chief People Officer. It is imperative that the CHCO work closely with the CIO, the Chief Acquisition Officer (CAO), the Office of the General Counsel (OGC), and the Office of Communication (OC) to successfully manage privacy data. Some examples of the types of roles these other offices need to play are:

- CIO can provide technical reviews to ensure system data is properly protected
- CAO could review contracts for the appropriate FAR clauses related to privacy
- OGC could review policies to ensure they meet the spirit of the privacy laws while not violating any other relevant laws
- OC could develop a plan to handle the media in case there was an inadvertent leak of privacy data

A critical dual role the GSA CHCO plays is in the formulation of telework procedures as they relate to the protection of personally identifiable information. This is an area of concern that has been repeatedly highlighted in the press. Establishing procedures and training for protecting privacy data while teleworking is especially significant for GSA since GSA is the lead agency for the telework program.

Identity theft continues to be a rapidly growing category of crime facilitated by use of the Internet to obtain personal information without the consent of the individual. As such, additional controls for electronic files, including those that may contain sensitive personnel information, should be carefully considered to help manage increasing risks in this area. To stress the importance of strengthening controls in this area, the OIG conducted two reviews and made recommendations to management to improve controls for Privacy Act systems, including close collaboration across the Agency. Additionally, a review of the Agency's privacy controls is required with the General Government Appropriations Act. OMB has also recommended Federal agencies take specific actions to improve awareness and overall controls for sensitive data, including personally identifiable information. We will continue to review risks in this area in FY 2007.

During fiscal year 2005, OMB issued the revised Circular No. A-123, *Management's Responsibility for Internal Control*. The revised Circular became effective in Fiscal Year 2006 and requires Federal agencies and individual managers to develop

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and implement internal controls sufficient for results-oriented management, assess the adequacy of those internal controls, separately assess and document the internal controls over financial reporting consistent with Appendix A of the Circular, identify needed improvements and take corrective action to address them, and report annually on internal control through the management assurance statements. These changes require management to focus a much higher portion of their resources on internal controls, particularly in its efforts to assess and document these controls.

AGENCY ACTIONS:

GSA's Chief Financial Officer (CFO) has worked with our office to strengthen controls for charge card transactions. Processes are in place that require reviewing officials to examine purchase transactions monthly. Cards are withdrawn from those who do not comply. GSA purchase cardholders and approving officials are required to complete refresher training every two years. In addition, the CFO periodically issues E-mail reminders to cardholders stressing their responsibilities for proper use of the cards. As a result, we have seen a substantial reduction of fraud stemming from card use. GSA is also a key participant in an OMB sponsored Federal committee on identifying ways to improve the overall charge card control systems governmentwide.

The PBS Commissioner has taken action to improve the integrity of the data in the Inventory Reporting Information System (IRIS). Because this system is used to manage the Repair and Alterations Program, it is imperative that data in IRIS be reliable since PBS management decisions regarding the investment, repair, or disposal of assets could be significantly impaired. An IRIS-based measure for the basic Repair and Alteration Program has been put in place and a contract was awarded for system modification to import key financial project data from the Financial Management System.

In an effort to rein in the cost growth and bid busts on new construction projects, the Commissioner has directed the national office to expand and strengthen its participation in the oversight of major projects and the development of the project teams working on them; develop a comprehensive project management manual; require senior management involvement where technical evaluation of project plans find unresolved deficiencies and missing requirements, before projects are advanced to OMB; and establish a design management evaluation process that includes an independent cost estimate at various design phase submissions.

PBS, to address customer concerns regarding the accuracy and consistency of the rent bills, in May 2006 began a national review to verify that the rates on the customers' rent bills are supported by the appropriate source document, such as a Lease for leased space or an Appraisal for owned space. The intent of the review is to identify financial inaccuracies on rent bills as well as administrative issues related to the Occupancy Agreements PBS has with its customers. As a result of concerns expressed to us by the Courts regarding rental rates, we have begun a review of this area.

Several steps have been taken within GSA to address the revised requirements of A-123. The Controller's office has worked to address the revised Circular by extending training to GSA's Services and Staff Offices nationwide on the Management Control Improvement Program. Additionally, the OCFO has developed internal control assessment documents for the major financial line items for each Service and Staff Office. The Management Control and Oversight Council also continues to be heavily involved in this process.

ACCELERATED REPORTING. In FY 2004, GSA met OMB's accelerated financial reporting deadline of November 15. However, this deadline was only met through a resource intensive process for the preparation and audit of the Agency financial statements. Accelerated reporting, therefore, remains a significant challenge, requiring the OCFO to continue to take steps to implement changes to the financial statement preparation process that will support on-going financial management and timely and reliable financial reporting.

In its efforts to address this challenge, the OCFO established, and continues to work with, its Accelerated Reporting Steering Committee. Additionally, the OCFO, OIG, and Independent Public Accounting firm hold regular status meetings throughout the financial statement audit process to ensure that the audit is meeting established time frames and is completed within OMB's accelerated due dates.

AGING FEDERAL BUILDINGS

ISSUE: GSA, as one of the core real estate agencies in the Federal Government, faces challenges in providing quality space to Federal agencies with an aging, deteriorating inventory of buildings and critical budgetary limitations. The average age of buildings in GSA's portfolio is 44 years, and many are facing functional obsolescence due to changing agency mandates, new technology, and security requirements. With an average funding level of about $500 million in recent years for prospectus level repair and alteration and an estimated $6.5 billion in needed projects, GSA is challenged to reduce the growing workload.

GSA's funding for building repairs and alterations is made available from the Federal Buildings Fund (FBF). The rent that is collected from customer agencies in GSA-owned space is used to replenish the FBF. However, as agencies face increasing budget constraints, some are examining their rental payments as a means to lower their costs. For example, in 2004 the Administrative Office of the U.S. Courts requested a $483 million annual rent exemption, which GSA denied. If customer agencies succeed in reducing their rental payments significantly, the decrease in funding will impact the FBF by reducing the funds available to repair and restore Federal buildings.

To make the best use of the funds that are available, GSA needs to determine which buildings represent the greatest risk from a safety and operational perspective, which will yield the best return on investment, what the Government's future space requirements are, and how to fund the highest priority projects in a timely manner. GSA needs a comprehensive strategy to enable an evaluation of its building projects nationwide.

Prior reviews have shown a need for PBS to improve the administrative aspects of asbestos management, develop a more comprehensive fire safety management system that focuses on a national fire safety strategy, evaluate the formula used to measure a building's net income, and improve profit and loss information to facilitate better property management decisions.

This problem exists governmentwide. Federal real property was designated a high-risk area by the GAO because of the many long-standing and complex issues surrounding it. As further recognition of the significance of these issues, the President signed Executive Order 13327 and added the Federal Asset Management Initiative to the President's Management Agenda in February 2004.

AGENCY ACTIONS:

PBS has developed a strategy for restructuring the owned building inventory. The strategy envisions a combination of actions including disposals, exchanges, public/private partnerships, outleases, and new construction. With the Portfolio Restructuring Initiative, PBS has proposed a three-tiered approach in prioritizing the inventory, using a series of asset diagnostic tests or measures, each with a performance target or threshold that will assist in categorizing individual buildings. The first test simply seeks to determine whether the property produces sufficient income to meet both operating expenses and a reserve for replacement. The second test measures an asset's financial performance in terms of return on investment. Other tests address operating efficiency, customer satisfaction, rental rate and vacancy levels, and current repair and replacement needs. After this performance review, each asset will be categorized as either performing, under-performing, or non-performing. GSA will consult with affected agencies on appropriate resolution strategies for each troubled asset. GSA has briefed congressional subcommittees

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with jurisdiction over GSA, and they are very supportive of this effort, as are OMB and GAO. Since beginning this portfolio initiative, PBS has disposed of 99 assets valued at $70 million. An additional 50 assets have been demolished.

Management has developed a PBS-wide environmental system to become more proactive in how it views and acts on environmental issues and to address issues such as property contamination, compliance with Federal and state environmental laws and regulations, and liability for tenant activities. PBS also developed a more comprehensive fire safety strategy, which endeavors to provide a functional, safe, and healthful work environment, protect property, and promote client agency mission continuity.

PBS redesigned its policy for charging rent to customer agencies in FY 1997. The largest source of income to the Federal Buildings Fund is the rent charged by PBS to its customer agencies for the space they occupy in GSA controlled space. In FY 2005 this amount was approximately $7.4 billion.

On August 10, 2006, PBS announced that effective in FY 2008, it is reducing the fee it charges customer agencies to acquire and administer leased space. PBS credits the new efficiencies to implementation of the National Broker Contract, use of new web-based technology, such as an electronic lease system, and an enhanced role for reality specialists to be that of a project manager and strategic partner with the customer.

The construction excellence program was established to help PBS improve the management of its construction program and to complete new construction and major repair and alteration projects timely and with minimal changes.

HUMAN CAPITAL

ISSUE: Like many Federal agencies, GSA has an aging workforce and faces significant potential loss of institutional knowledge in the coming years. Since 1993, GSA has been downsizing and has focused on restructuring its financial and business efforts. The Agency workforce was reduced from 20,000 to 14,000 between 1993 and 1999. Much of the downsizing was accomplished through early retirement and buyout authority, and by filling job vacancies sparingly. In March 2003, a mass transfer of 1,268 employees to the Department of Homeland Security further reduced the workforce to approximately 12,800, and with early out and buyouts offered to FSS and FTS employees impacted by the new reorganization, the workforce now stands at about 12,350.

Since 1998, the OIG has consistently cited human capital management as one of the major management challenges facing GSA. GAO added this issue to its list of major management challenges facing Federal agencies. Human capital planning and organizational alignment, leadership continuity and succession planning, and recruitment and retention of staff with the right skills were identified as key areas needing attention. GSA has recently seen a significant loss of key management staff. Coupled with the FSS/FTS reorganization and the ripple effect of changes, many staff find themselves in unfamiliar positions and uncertain as to their reporting role in the organization.

The President's Management Agenda identifies competitive sourcing as a major Government-wide initiative. Procedures for conducting these competitive sourcing studies are contained in OMB Circular A-76. GSA faces a significant challenge in its efforts to determine the activities within the organization that should be studied to meet the goals of OMB. At the same time, GSA must maintain a stable work environment and address employees' concerns inherent to the competitive sourcing process. GSA also needs to post its lessons learned or best practices to OMB's SHARE A-76! Website for completed competitions, most of which were conducted by PBS. As the competitive sourcing process focus shifts from PBS to other parts of the Agency, GSA needs to ensure that the experienced PBS officials are available to share their expertise on future competitions.

With Government procurement as GSA's primary mission and the act of issuing contracts "an inherent government responsibility," we foresee a continuing need for competent contracting officers. There is a question as to whether GSA has enough qualified trained contracting officers with the product knowledge, education, and negotiating skills to deal with the complex MAS contracts in place, especially service contracts pricing. A challenge is that many contracting officers have responsibility for over 100 contracts, many of which are in the services area. Some contracts, especially in the computer equipment and supplies area, require substantial effort to administer due to constant changes to products and prices that have to be added or deleted to the contract via contract modifications, which for some contracts number in the hundreds. We are concerned that GSA is contracting out for temporary services to support the contracting effort and not developing from within a sufficient number of talented people who can eventually become contracting officers.

New top agency management presents a new category of management challenges. The tone that top management sets for an agency has an important impact on performance at all levels. We will carefully monitor how top management conveys the importance of respect for the law, good stewardship of taxpayer funds, and recognition of the need for independent scrutiny of government operations and accountability.

AGENCY ACTIONS:

GSA has moved on several fronts to meet identified human capital challenges. The Agency completed an agency-level workforce analysis that parallels GSA's Human Capital Strategic Goals that were developed as part of the strategic plan in August 2002. The report will assist management in making informed human capital decisions. Identified mission critical occupations are particularly emphasized in recruitment and retention strategies. The Office of the Human Capital Officer selectively uses human resources flexibilities to compete for employees. It has developed recruitment and retention strategies with the help of the Office of Personnel Management and employee focus groups, and uses the "compelling job offer" technique to convince potential employees of the importance of the position.

GSA has a number of initiatives regarding employee orientation, engaging existing employees, and developing leaders within GSA. New employees are provided the opportunity to attend an intensive introduction to the Agency and orientation to the individual's specific organization.

As part of its human capital strategy, and to address planning needs, the Office of the Human Capital Officer launched the GSA Leadership Institute in February 2002 and has continued to add programs and training opportunities to develop new supervisors and managers and equip them for senior level positions in the Agency.

In its efforts to more accurately and consistently inventory its activities under the FAIR Act, GSA's competitive sourcing team oversees each Service's inventory and reports on any discrepancies or variances, and established the Office of Performance Improvement that oversees the competitive sourcing initiatives for GSA.

In order to address the President's Management Agenda and comply with OMB Circular No.A-76, the Office of Performance Improvement is taking steps to review current methods of performing commercial activities in a variety of areas. The goal of these efforts is to assess programs and activities to determine whether internal or external changes would yield a better value for customer agencies and the taxpayer.

PROTECTION OF FEDERAL FACILITIES AND PERSONNEL

ISSUE: Providing a safe, healthful, and secure environment for over 1 million workers and visitors to about 8,900 owned and leased Federal facilities nationwide is a major multifaceted responsibility of GSA. Increased risks from terrorism have greatly expanded the range of vulnerabilities traditionally faced by building operations personnel. In March 2003, the Federal Protective Service (FPS) was transferred from GSA to

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the Department of Homeland Security (DHS). While FPS is no longer part of GSA, the Agency will have a continual need to closely interact with security personnel due to GSA's mission of housing Federal agencies. GSA and FPS/DHS operate under a Memorandum of Agreement (MOA) for obtaining services such as basic security for buildings, contract guards, law enforcement, background suitability determinations for contractors (including Child Care), pre-lease security checks, occupant emergency plan support and continuity of operations plan activation support. Ensuring that Federal employees have a secure work environment and that building assets are adequately safeguarded must remain a primary concern of GSA.

An additional concern relates to how to pay for the upgrades and replacement of the security countermeasure equipment that was initially obtained with $140 million in funds provided directly by Congress. As equipment ages and technology advances, the cost to maintain the security of GSA's buildings could significantly impact availability of funds for other building needs, and could result in higher rent costs to tenants resulting from upgraded security.

AGENCY ACTIONS:

Effective June 1, 2006, GSA and FPS entered into a new, more comprehensive, MOA that more clearly addresses the roles, responsibilities and operational relationships between FPS and GSA concerning the security of GSA-controlled space. FPS will continue to provide law enforcement services, conduct Building Security Assessments and identify security countermeasures that can be implemented to reduce vulnerabilities and potential threats to Federal facilities. Building specific security measures will include contract guards, security equipment and security fixtures. With the exception of prospectus-level equipment or projects, security equipment determined by FPS to be a mandatory countermeasure will be funded by DHS or tenant agencies through Security Work Authorizations, on a prioritized, funds-available basis. Security fixtures and mandatory security equipment countermeasures valued above the prospectus-level, or installed in prospectus-level projects, will be purchased and installed by GSA on a prioritized, funds available basis, with PBS Assistant Regional Administrators reserving the right not to implement mandatory measures, after consulting with DHS. We are concerned about this MOA and will be monitoring it closely.

In addition, as part of the increased focus on security, GSA is adopting a nationwide uniform credential based on Smart Card technology. The credential with an embedded smart chip will identify each employee visually and electronically for both identification and physical access purposes. GSA is adopting this credential as part of the Federal Government's implementation of Homeland Security Presidential Directive –12 (HSPD-12), which mandates a common identification standard for Federal employees and contractors.

MEMORANDUM FOR BRIAN D. MILLER
INSPECTOR GENERAL (J)

FROM: LURITA DOAN
ADMINISTRATOR (A)

SUBJECT: IG ASSESSMENT OF GSA'S MAJOR CHALLENGES

DATE: 6 NOVEMBER 2006

Thank you for providing me with the opportunity to review your assessment of the major challenges currently facing GSA, and the agency's progress in addressing those challenges, so that I can append comments to the document before it is included in GSA's Performance and Accountability Report. My comments refer to the revised assessment that you sent to me on October 28, 2006.

The leaders and employees of this agency have worked very hard over the past year to increase the effectiveness of management controls in longstanding business lines such as acquisition and real property management, and put in place new management controls over rapidly-evolving areas such as e-government, IT security and privacy. Although many business challenges remain, I think you will agree that GSA is in a better position today than it was at the end of FY2005, due, in part, to the complementary efforts of GSA leaders and your staff.

In light of that, I was surprised that this year's assessment of major challenges was so similar – and in many cases identical – to the document that was prepared last year. This was true for the sections entitled "Issues" as well as the sections entitled "Agency Actions." To ensure that appropriate recognition is given to some of the key actions that were not referenced in your assessment, I am including them as an attachment.

While I have the utmost respect for your opinion and the independent role of the IG, I recognize that there will be subjects on which we will disagree, so I am compelled to address two specific matters in this memorandum.

- The section entitled "Acquisition Programs" implies that I am opposed to the use of pre-award audits. This is not the case; however, I believe that GSA can achieve more efficient and effective results through alternative methods. I have exercised my authority as the Administrator of GSA by introducing a robust, pre-award survey that is focused on accurate pricing determinations that can be resolved in a reasonable period of time, and that provides sufficient information for contracting officers to make sound and timely business decisions. In addition, by using the auditing services of small, minority, women-owned, HUBZone or Service Disabled Veteran businesses to perform these tasks, GSA will move closer to achieving its targets in these procurement categories. This initiative does not diminish the independent role of the Inspector General in performing pre-award audits where audit policy dictates it is appropriate. It does, however, remove the IG from the

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business decision process, consistent with the limited mission of your organization. I firmly reject the suggestion that I am jeopardizing GSA's procurement process, or that I am in any way interfering with your responsibilities.

- The section entitled "Human Capital" identifies "new top agency management" as a "new category of management challenges." Indeed, there are several new members of the GSA top management team. But, given their stellar qualifications and exemplary track records in previous positions, I consider GSA very fortunate to have attracted executives of such high caliber.

Leadership matters. The tone that top management sets for GSA – including respect for the law, good stewardship of taxpayer funds, and recognition of the need for independent review – will have an impact upon performance at all levels. In fact, I am counting on it, and will consider that an excellent indicator of success.

Attachment

Agency Management Comments on the Inspector General's Updated Assessment of GSA's Major Management Challenges

October 2006

ACQUISITION PROGRAMS

The Multiple Award Schedule (MAS) Program

Pre-award surveys, in addition to pre-award audits, are tools by which a contracting officer can determine whether a vendor's pricing is appropriate. In many cases what is needed is to verify that systems of records exist in the vendors' books, that the prices are recorded in those records, and that they match prices offered to the customer(s) most similar to the government.

The assessment suggest(s) that the Administrator is opposed to the use of pre-award audits. This is not the case. Most of the actions described as "pre-award audits" take place after a contract has been in place for at least five years, but prior to the exercise of options. Auditors require "cost build up information" that, in many cases, may be deceptive in terms of establishing market prices and the prices that the government should pay. Furthermore, the bulk of these audits are not completed within the period of time that would allow contracting officers to make determinations of price reasonableness and also meet business objectives. Accordingly, the Administrator has decided to exercise her authority as the Administrator of GSA to facilitate accurate pricing determinations by introducing a robust pre-award survey that is focused on pricing issues that can be resolved in a reasonable period of time, and that provides sufficient information for contracting officers to make sound and timely business decisions. This refocus does not diminish the role of the Inspector General (IG) in performing pre-award audits where audit policy dictates it is appropriate, but it does take the IG out of the business decision process.

Multiple Award Contracts (MACs)

The statement that "opportunity to be considered for task orders has been unnecessarily limited" is unsupported by evidence. Competition cannot be measured solely by the number of offers received. If the statement addresses the number of offers received in response to fair opportunity under FAR Part 16, then GSA management and the Office of the Inspector General have a fundamental disagreement about the measure of compliance with fair opportunity, or what constitutes fair and open competition. If it addresses decisions to make logical follow-on awards under fair opportunity as specifically provided for under FAR Part 16, or the number of offers received where fair opportunity is used in accordance with FAR Part 16, then it should have been clarified to address that specific issue.

Government Wide Acquisition Contracts (GWACs)

A bid can be received from only one vendor for a variety of reasons, and not necessarily because the incumbent has a competitive advantage. GSA management is unaware of any findings by the Inspector General or the Govrnment Accountability Office that GSA-managed GWACs have failed to comply with the requirements of fair opportunity under FAR Part 16.

FAR Definition of a Commercial Item

If the broad scope of the FAR definition of a commercial item is a management challenge for GSA," then it is a similar challenge

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for the rest of the Federal government. The definition in the FAR of "commercial item" has been through the rulemaking process, and has been reviewed almost annually since it was first published in October 1995. This language has been reviewed by the 1423 panel, and will be reviewed again this year by the Office of Federal Procurement Policy and the Congress. The definition is intentionally broad in the area of services because services and goods are different, and almost all services are tailored to the buyer in the commercial marketplace.

INFORMATION TECHNOLOGY

Systems Development

GSA employs conventional project management processes, including earned value management systems for tracking cost and schedule, for all systems development activities. In September 2006 agency policy was revised by CIO Order 2135.2A to require an Integrated Baseline Review (IBR) after contract award to ensure contractor and GSA have a clear understanding of project goals, expectations, and scope.

The basis for the following statement is not clear: *"Pegasys also faces high risks due to its high annual maintenance costs and reported security weaknesses."* It has not, to our knowledge, been supported by recent audit findings and was not reflected in last year's assessment. As to reported security weaknesses, during FY 2006 the Office of the Chief Financial Officer (OCFO) devoted significant attention to improving systems change controls and security. FY2006 preliminary audit results from PwC indicate that OCFO has resolved or partially resolved all findings on systems security identified during the FY 2005 audit.

Information Security

GSA is taking action to further strengthen Web application security to mitigate the risks inherent to exposure of business applications to the Internet. Web application hacking is becoming one of the biggest IT security threats worldwide today. Among many efforts to defend GSA Web applications, in March 2006 GSA updated the certification and accreditation process to include Web application security scanning. In May 2006, GSA trained 10 IT security professionals and developers in Web application security. And in July 2006, GSA awarded a contract to perform Web application vulnerability scanning across the agency. We believe that these activities will effectively mitigate Web application security risks across GSA.

MANAGEMENT CONTROLS

Security of Controls

The designation of Chief Privacy Officer was given to GSA's Chief Human Capital Officer (CHCO) because a large portion of personally identifiable information is contained in GSA human resource records, and also because many of these records continue to exist in paper form. The CHCO has worked closely with the Chief Information Officer, Chief Acquisition Officer, General Counsel and Office of Communications to publish and disseminate clear and unambiguous policy and procedures governing the protection of personally identifiable information. This information has been "pushed" to GSA managers and employees in GSA directives, email messages and the *GSA Today* electronic newsletter, and is available at all times on GSA's *InSite* intranet. In addition, during the summer of 2006 all employees and contractors were required to successfully complete mandatory online training entitled "Privacy 101."

Accelerated Reporting

While the first year of accelerated reporting (FY2004) was a challenge, GSA is now in the third year of meeting the November 15th deadline, and it is now part of normal business. OCFO utilizes project planning tools to monitor the schedule and deliverables in order to ensure complete, timely and reliable reporting.

HUMAN CAPITAL

Acquisition Workforce

Attracting, developing and retaining a skilled and productive acquisition workforce, including but not limited to contracting officers, is one of GSA's key human capital objectives. The acquisition workforce was designated as one of GSA's four mission-critical occupations, along with information technology, realty, and financial management. The Chief Human Capital Officer partnered with the Chief Acquisition Officer and other GSA leaders to create an Acquisition Steering Committee, and this body is focused on guiding GSA in its achievement of this key objective.

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Debt Management

GSA reported $127 million of outstanding debt from non-Federal sources and $16.6 million of delinquent debt at the end of FY 2006. The amount of delinquent debt decreased from $29.7 million to $16.6 million for the same period. 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 Debt Collection Improvement Act of 1996, GSA transmits delinquent claims each month to the U.S. Department of the Treasury (Treasury) Financial Management Service (FMS) for collection cross-servicing. From October 1, 2005 to September 30, 2006, the GSA Finance Centers referred approximately $34.6 million of delinquent non-Federal claims to the Treasury for cross-servicing collection activities. Collections on non-Federal claims during this period exceeded $275.6 million. Administrative offsets resulted in additional collections of $12.7 million. GSA also collects non-Federal claims using Pre-Authorized Debits (PAD). From October 1, 2005 to September 30, 2006, 240 PADs totaling $95,326 were processed. Also, during this period, $4.1 million was received as a result of a fraud case against Office Depot.

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. Through an outside contract arrangement, GSA actively reviews and pursues overpayments, in conjunction with its Public Buildings Service (PBS), Federal Supply Service (FSS), and Federal Technology Service (FTS) Accounts Payable Divisions. GSA is continuing to remove all non-paying claims over two-years old from its accounts receivable subsidiaries. All two-year-old claims without collection activity are researched and either collected or written off.

Cash and Payments Management

The Prompt Payment Act, along with the Debt Collection Improvement Act of 1996, requires the timely payment of commercial obligations for supplies and services using electronic funds transfer (EFT). GSA reviews and modifies, if needed, its procedures continuously to ensure prompt payment utilizing EFT. The percentage of invoices paid on time increased slightly from FY 2005. GSA paid significantly less in interest penalties during FY 2006. The statistics for the current and preceding two fiscal years are as follows:

	FY 2004	FY 2005	FY 2006
Total Number of Invoices Paid	1,390,406	1,483,040	1,285,710
Total Dollars Disbursed	$20.8 Billion	$18.7 Billion	$16.2 Billion
Total Dollars of Interest Penalties	$779,835	$981,111	$575,461
Interest Paid per Million Disbursed	$39.00	$44.87	$30.84
Percentage of Invoices Paid On Time	98%	98%	98.7%
Percentage of Invoices Paid Late	1%	2%	1.3%
Percentage of Invoices Paid Electronically	92%	91%	94%