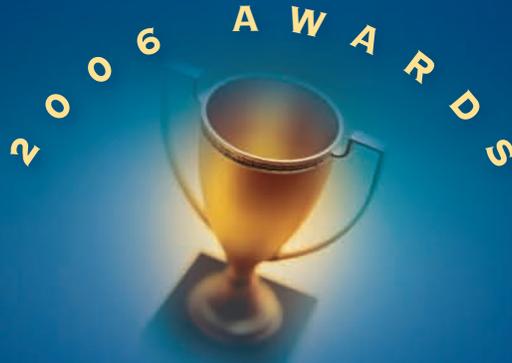


Management's Discussion and Analysis





AWARDS GSA HAS WON IN 2006

Knoxville-Knox Commission Honors Baker Courthouse With 2006 Silver Excellence Award

On August 18, the Howard H. Baker Jr. U.S. Courthouse received the 2006 Silver Anniversary Excellence Award from the Knoxville-Knox County Metropolitan Planning Commission. As part of their Silver Anniversary celebration, the Commission reviewed over 180 projects, each having a significant impact within the City of Knoxville or Knox County over the past 25 years. The Commission then selected 12 projects as being the “best of the best.” The U.S. Courthouse was cited as having a significant impact on the downtown economy, for its architectural design and its contribution to the revitalization of downtown. The Courthouse is managed by the Knoxville Office of the NashvilleTN Service Center

Southeast Sunbelt Region Receives Safety Award from Protecting People First Foundation

The Southeast Sunbelt Region accepted a Safety Award from the Protecting People First Foundation May 10, in Miami, FL. The award was presented for use of blast-resistant glass, which was installed in Miami’s new Wilkie D. Ferguson Courthouse. Regional Administrator accepted the award from Aren Almon-Kok, the mother of a child killed in the Oklahoma City bombing.

Great Lakes Region Receives Presidential Award

The Great Lakes Region won its first Presidential Award for Leadership in Federal Energy Management for a 2004 conservation program that cut consumption nearly 107 billion Btus and saved taxpayers an estimated \$460,000. The program included purchasing renewable energy contracts, conducting facility energy audits, accomplishing energy conservation projects, and partnering with the Department of Energy (DOE) for training and technical assistance. GSA was the only civilian agency to receive the award this year.



MISSION, VALUES, AND GOALS

GSA As the government's premier procurement agency, GSA continues to assist its customers with procuring various goods and services cheaper, faster, and in compliance with laws and regulations. This saves money for the taxpayers. GSA brings best practices to procurements and harnesses the full purchasing power of the Federal government. At the same time, GSA is helping other Federal agencies to concentrate their efforts and limited contracting resources onto agency specific procurements, which only they can do.

GSA MISSION STATEMENT

GSA HELPS FEDERAL AGENCIES BETTER SERVE THE PUBLIC BY OFFERING, AT BEST VALUE, SUPERIOR WORKPLACES, EXPERT SOLUTIONS, ACQUISITION SERVICES, AND MANAGEMENT POLICIES.

The Agency's mission is derived from GSA's original authorizing legislation, the Property and Administrative Services Act of 1949. This law consolidated the Federal government's real estate, supply, and other management support functions so that agencies would run more efficiently. Today for the great majority of functions, agencies are able to determine for themselves whether GSA's centralized services serve their needs as these are no longer mandatory. GSA also seeks efficiencies through joint management policy-making with departments and other agencies.

A major change to the delivery of GSA's mission is currently being implemented through the consolidation of the former Federal Supply Service (FSS) and the Federal Technology Service (FTS). The evolution of technology and the

marketplace has blurred the distinctions between information technology (IT) and other products and services. Thus the separation between FSS and FTS that served the government well for decades no longer makes sense. GSA customers require a blended delivery model that integrates products and services in a manner that is transparent to the customer with GSA providing end-to-end customer service.

The reorganization of the FSS and FTS is the best opportunity that GSA has to significantly improve, simplify, and facilitate the way agencies buy products and services. The new Federal Acquisition Service (FAS) will generate value to the taxpayer by lowering the cost of government by efficiently leveraging the government's buying power to obtain the best value in products and services from suppliers at the lowest total transaction cost. One means of doing this will be the strategic sourcing approach through which FAS will concentrate its buying of a commodity through the most advantageous suppliers. The new organization will also strive to better serve government agency customers by creating efficient and effective processes to save customers' time, help them negotiate better terms and prices, offer easy and manageable access to thousands of suppliers, and enable them to focus on their own core missions. And lastly, the new FAS will increase value to commercial suppliers of all types and sizes by creating consistent and innovative processes to offer their products and services to the government more efficiently.

GSA VALUES

ETHICS AND INTEGRITY IN EVERYTHING WE DO

RESPECT FOR FELLOW ASSOCIATES

RESULTS ORIENTATION

TEAMWORK

PROFESSIONALISM

A crucial aspect of GSA's mission is to promote unified planning and coordination of disaster mitigation, preparedness, response, and recovery. These responsibilities relate to both natural and manmade incidents that threaten lives and property before, during, and after a major emergency or disaster. In addition to making certain that GSA's operations respond to these crises, GSA provides other agencies with the space, supplies, telecommunications, and policies they need to do their jobs. This means, for example, going to the site of disasters and finding suitable space for the Federal Emergency Management Agency (FEMA) to set up operations or providing equipment and vehicles to the U.S. Forest Service to fight wildfires.

The use of the Internet and other new electronic tools touches every aspect of GSA's mission. GSA's primary Web site GSA.gov (www.gsa.gov) is the electronic gateway to the Agency. Recently, GSA launched the improved FirstGov.gov Search (www.firstgovsearch.gov/) which provides citizens with a single point of access to the vast index of official government information, including more than 50 million Federal, state, local, tribal, and territorial documents. Through this initiative, GSA successfully meets the President's E-Gov directive, which is to provide citizens with accurate, timely, and consistent information about government programs and services. FirstGov.gov has been rated the number one Web site in the Federal government for quality and e-government readiness.



The GSA OCHCO's focus is to attract, motivate, develop, retain, and reward its most valuable asset: GSA's employees.

ORGANIZATION

The basic framework of any enterprise is its organizational structure. GSA has a network of 11 regional offices, including a central office in Washington, D.C. The central office consists of two services responsible for coordinating nationwide programs, 11 staff offices that support the Agency, and the Office of Inspector General (OIG) and the Board of Contract Appeals (BOCA).

The Agency's regional and staff offices are critical to GSA's ability to deliver services to customers in a cost-effective manner. GSA's 11 geographic regions acquire office space, equipment, supplies, telecommunications, and IT to support Federal agencies throughout the 50 states, U.S. territories, and overseas.

■ **PUBLIC BUILDINGS SERVICE (PBS):** PBS is the largest public real estate organization in the nation providing workspace and workplace solutions to more than 100 Federal agencies. It aims to provide a superior workplace for the Federal worker and superior value for the U.S. taxpayer. Balancing these two objectives is PBS's greatest management challenge.

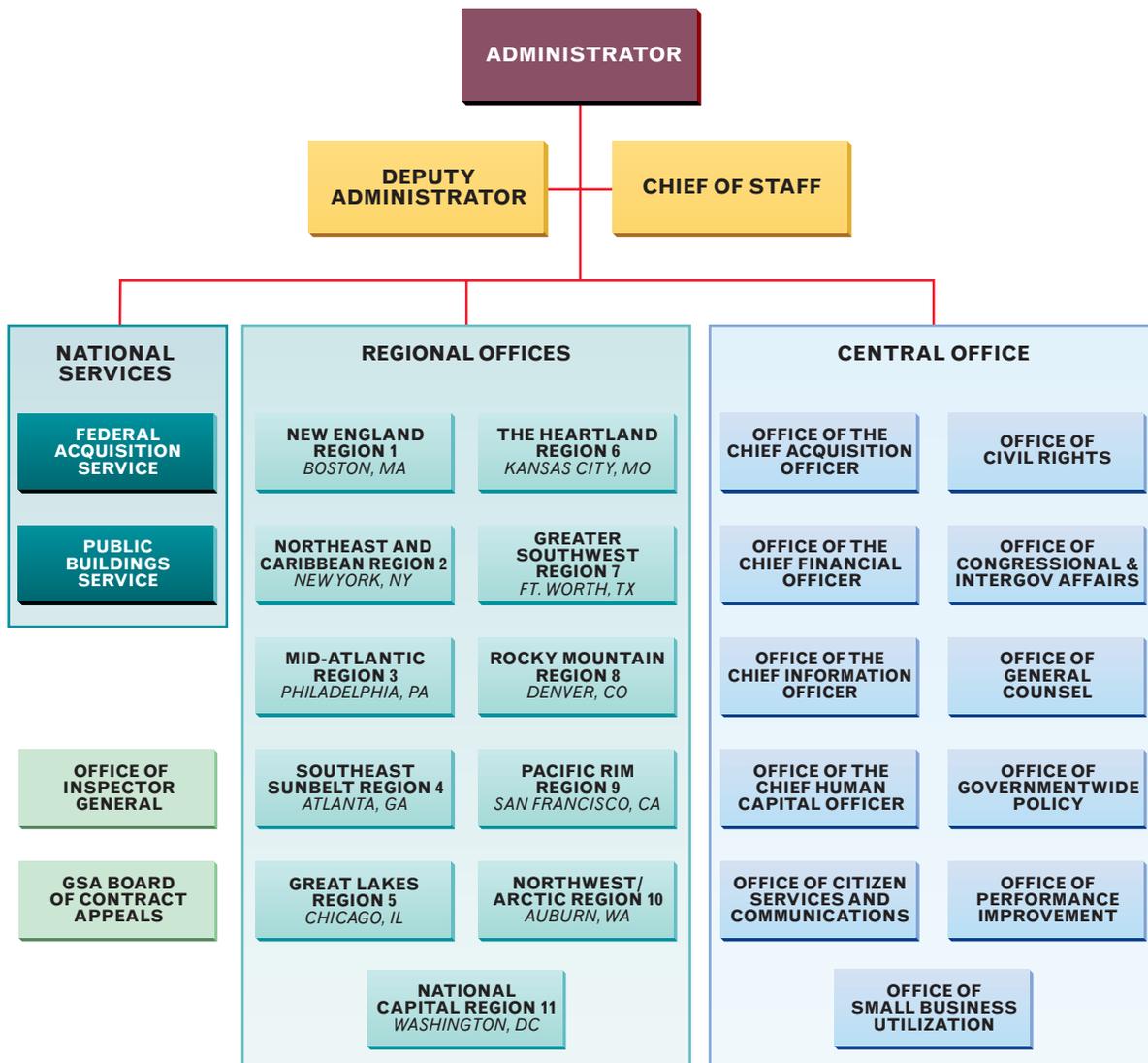
PBS's activities fall into two broad areas. The first is space acquisition through both lease and construction. It translates general needs into discrete requirements, marshals the

STRATEGIC GOALS
PROVIDE BEST VALUE FOR CUSTOMER AGENCIES AND TAXPAYERS
ACHIEVE RESPONSIBLE ASSET MANAGEMENT
OPERATE EFFICIENTLY AND EFFECTIVELY
ENSURE FINANCIAL ACCOUNTABILITY
MAINTAIN A WORLD-CLASS WORKFORCE AND A WORLD-CLASS WORKPLACE
CARRY OUT SOCIAL, ENVIRONMENTAL, AND OTHER RESPONSIBILITIES AS A FEDERAL AGENCY

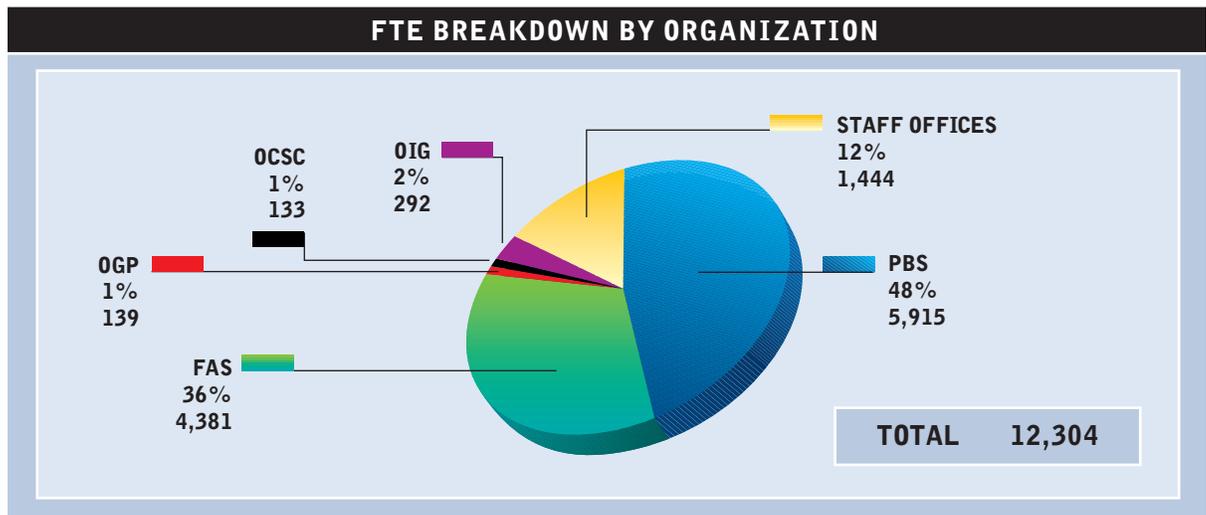
necessary resources, and sees that space is delivered. The second area is management of space. This involves making decisions on maintenance, servicing tenants, and ultimately, deciding when and how to dispose of a property at the end of its useful life.

Within PBS, the **OFFICE OF EMERGENCY MANAGEMENT (OEM)**¹ coordinates emergency management services throughout GSA. Emergency management includes all aspects of disaster and emergency program development and implementation, such as response operations, training, drills, exercises, continuity, and recovery.

■ **FEDERAL ACQUISITION SERVICE (FAS):** The new FAS resulted from the consolidation of the former Federal Supply Service (FSS) and the Federal Technology Service (FTS). Many factors led to this 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 new organization will be a premier acquisition corps in the areas of contracting, technology, and program management. FAS is organized into three major business portfolios: Integrated Technology Services (ITS); General Supplies and Services (GSS); and Travel, Motor Vehicles, and Card Services (TMVCS).



¹ During FY 2007, GSA will reemphasize the importance of these functions by establishing the Office of Emergency Response and Recovery.



■ The **OFFICE OF GOVERNMENTWIDE POLICY (OGP)** improves government-wide management. Its responsibilities span personal and real property, travel and transportation, IT, regulatory information, and the use of Federal advisory committees. The work of OGP is accomplished through collaboration with Federal agencies and other stakeholders.

■ The **OFFICE OF CITIZEN SERVICES AND COMMUNICATIONS (OCSC)** creates a more citizen-centric, results-oriented Federal government. OCSC has helped citizens to interact with government by creating a single electronic front door to the services and information they require in the medium they prefer: the Web, e-mail, telephone, fax, or print. OCSC also provides in-house communication support to the rest of GSA.

■ The **OFFICE OF THE CHIEF HUMAN CAPITAL OFFICER (OCHCO)** develops and delivers programs, policies, and services that promote GSA's strategic management of human capital. A capable and well-managed workforce is essential to GSA's success.

■ The **OFFICE OF THE CHIEF INFORMATION OFFICER (OCIO)** provides high quality, enterprise IT services and solutions at best value by leveraging IT resources to support GSA business needs. Additionally, the OCIO is GSA's lead for the seven President's Management Agenda (PMA) E-Gov and Line of Business (LoB) initiatives (eAuthentication, ETravel,

Integrated Acquisition, Federal Asset Sales, USA Services, Financial Management LoB (FMLoB), and Infrastructure Optimization Initiative LoB).

■ The **OFFICE OF THE CHIEF ACQUISITION OFFICER (OCAO)** manages a broad range of acquisition activities for both GSA internal operations and the government as a whole. These include ensuring compliance with applicable laws, regulations, and policies; fostering full and open competition for contract awards; developing the acquisition workforce; and maintaining accountability for acquisition decision-making.

■ The **OFFICE OF THE GENERAL COUNSEL (OGC)** provides legal advice and representation to GSA clients to enhance their ability to help Federal agencies. The OGC carries out all legal activities of GSA, ensures full and proper implementation of GSA's statutory responsibilities, and provides legal counsel to GSA officials except for the OIG and BOCA.

■ The **OFFICE OF PERFORMANCE IMPROVEMENT (OPI)** provides advice to the Administrator and Deputy Administrator on major policies and procedures related to GSA performance. OPI is also responsible for coordinating GSA's efforts to accomplish the PMA and competitive sourcing activities.

■ The **OFFICE OF SMALL BUSINESS UTILIZATION (OSBU)** advocates for small, minority, veteran, HUBZone, and women

business owners. OSBU promotes the increased access to GSA's nationwide procurement opportunities by nurturing entrepreneurial opportunities, outreach, and training.

- The **OFFICE OF CONGRESSIONAL AND INTERGOVERNMENTAL AFFAIRS (OCIA)** maintains Agency liaison with Congress. OCIA prepares and coordinates GSA's annual legislative program; communicates this program to the Office of Management and Budget (OMB), Congress, and other interested parties; and works closely with OMB in the coordination and clearance of all proposed legislation impacting GSA.

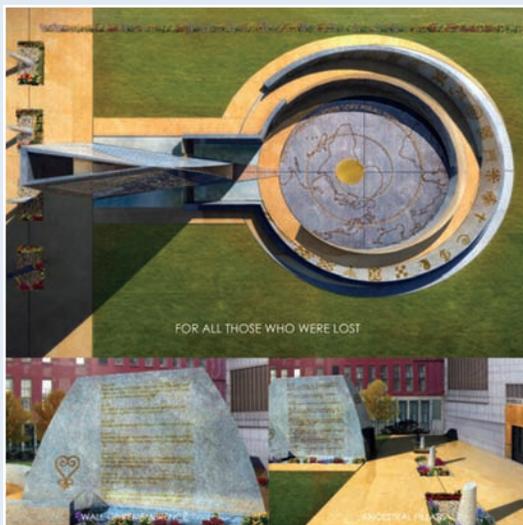
- The **OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO)** provides corporate shared services and full service financial management for all of GSA and more than 40 external customers. The OCFO conducts the performance process, including strategic planning, budgeting, and the performance management cycle within GSA; manages GSA's core accounting system; and prepares financial statements and reports.

- The **OFFICE OF CIVIL RIGHTS (OCR)** implements both the internal and external civil rights programs at GSA. The internal civil rights program ensures equal employment opportunity (EEO) for all GSA associates and applicants for employment on the basis of sex, race, color, national origin, religion, disability, and age, and retaliation for protected EEO activity. The external civil rights program ensures nondiscrimination on the basis of race, color, sex, age, national origin, and disability by recipients of GSA's Federal Financial Assistance and federally conducted programs.

- The **BOARD OF CONTRACT APPEALS (BOCA)** serves as an independent and objective tribunal in hearing and deciding contract disputes between government contractors and GSA, and contractors and other Executive agencies. The Board provides alternative dispute resolution services to all Federal agencies and contractors. The Board also hears and decides claims involving transportation rate determinations, Federal employee travel and relocation and expense claims, and a small number of other types of claims.

- The **OFFICE OF INSPECTOR GENERAL (OIG)** promotes economy, efficiency, and effectiveness within GSA, and prevents and detects fraud in the Agency's programs and operations.

In FY 2006, GSA had 12,304 full-time equivalent employees (FTE). Staffing levels have been consistent since 1998, adjusting for the FY 2003 transfer of the Federal Protective Service (FPS) and the Federal Computer Incident Response Center to the Department of Homeland Security (DHS). The chart on page 18 reflects the FTE breakdown by organization.



African Burial Ground Memorial.



In 1991, the remains of more than 400 17th and 18th century Africans were discovered during pre-construction work for a Federal building in New York City. The finding deeply impacted the descendants and broader community and, at the same time, renewed awareness in cultural significance and historic preservation. The African Burial Ground was designated a National Monument in February 2006.

PERFORMANCE SUMMARY AND HIGHLIGHTS

During FY 2006, GSA's activities advanced the Agency towards achievement of the six strategic goals. Specific long-term outcome and performance goals were set in the FY 2006 Performance Plan which also serves as the Agency's Congressional Budget Justification. GSA uses performance measures extensively to chart its progress and establish accountability.

This section highlights the most significant GSA-wide FY 2006 performance measures identified by GSA management and related performance results. A chart of Key Performance Measures follows the discussion and detailed performance information is contained in the Performance Section.

Here are a few accomplishments for each strategic goal that illustrate GSA's commitment to excellence in FY 2006:

Provide Best Value for Customer Agencies and Taxpayers

With GSA's diverse mission, "best value" can take many forms. For example, GSA rededicated the Pioneer Courthouse in Portland, OR in FY 2006. That ceremony capped over 15 years of planning and a two-year construction effort for the complete seismic upgrade, rehabilitation, and renovation project of this National Landmark historic property. Pioneer Courthouse is the oldest surviving Federal structure in the Pacific Northwest and the second oldest courthouse west of the Mississippi River. Constructed between 1869 and 1875, for the last 35 years it has been home to the U.S. Court of Appeals. The project for seismic base isolation and historic preservation was awarded the "Platinum Reconstruction/Renovation Award" from Building Design and Construction Magazine.

"Best value" can be responding to a disaster. In addition, GSA successfully responded to the flooding caused by a

severe storm in the Washington, DC area. The floods affected several Federal buildings and the connected steam tunnels which resulted in lost power and air conditioning and interruption of hot water service. Teams of employees and contractors responded immediately and worked with tenants to remove water, restore power, and correct damage caused by the horrific storm. Through their efforts, only 15 of the 189 GSA-owned buildings were closed after the floods.

"Best value" can also mean providing steady reliable service. GSA is continuing to rebuild relationships with former IT assisted-service customers located at major Department of Defense (DoD) installations. These include Scott Air Force Base in Illinois and Wright-Patterson Air Force Base in Ohio. By providing these customers needed acquisition support, they in turn can focus their human capital on their core missions.

Achieve Responsible Asset Management

Creativity and innovation are crucial to GSA's management of billions of dollars worth of real property and other assets. GSA operates the Denver Federal Center (DFC), a 630 acre campus located in the city of Lakewood six miles west of Denver with four million square feet of office, laboratory, and warehouse space, and home to approximately 6,000 tenants from 28 different government agencies. The DFC faces significant challenges with a portfolio of industrial buildings constructed during World War II that are in need of major repair and replacement. Currently, GSA is selling 65 acres of vacant land to the city of Lakewood with the intent that a major level one trauma hospital and a bus and light rail station will be built on the site. The hospital will be the first in Lakewood and will bring a host of services to the community. The station will improve public transportation for both DFC tenants and the surrounding community. The proceeds from this sale will be used to repair and replace failing water and sewer lines on the Federal Center and reduce the needed funding for infrastructure.

In 2006, GSA worked with the Air Force to accomplish one of the most complicated real estate and environmental transactions in a timely manner. The National Imagery and Mapping Agency team conveyed 39.1 acres of environmentally contaminated and formerly flooded property to the St. Louis County Port Authority. The productive use of this property is projected to result in an initial investment of approximately \$375 million in entertainment and retail economic development and clean up of contamination ahead of schedule.

Operate Efficiently and Effectively

GSA is constantly striving to improve its operations. For example, GSA, working cooperatively with U.S. and Canadian border inspection agencies and others, significantly reduced transit times at two of the busiest border crossings in North America. These crossings are the Ambassador Bridge in Detroit, MI and the Blue Water Bridge in Port Huron, MI. GSA took the lead on developing, designing, and implementing infrastructure improvements that contributed to reduction of transit times by 62 percent at the Ambassador Bridge and over 25 percent at the Port Huron Bridge.

Improvements often help agencies better achieve their own missions. GSA's Eastern Distribution Center in New Jersey continues to provide the primary Global Supply support for Operation Enduring Freedom and Operation Iraqi Freedom. For FY 2006, shipped sales were over \$145 million. The Eastern Distribution Center provides the troops many items that they need to fulfill their missions, including tools and hardware, safety items, industrial supplies, as well as office supplies and furniture.

Ensure Financial Accountability

GSA fully implemented OMB Circular A-123, "Management's Responsibility for Internal Control" by promoting and ensuring Agency-wide responsibility for management and internal controls. This effort included documenting, evaluating, and testing key GSA's financial controls.

The GSA core financial system was successfully upgraded in FY 2006 and now includes a cost allocation module.

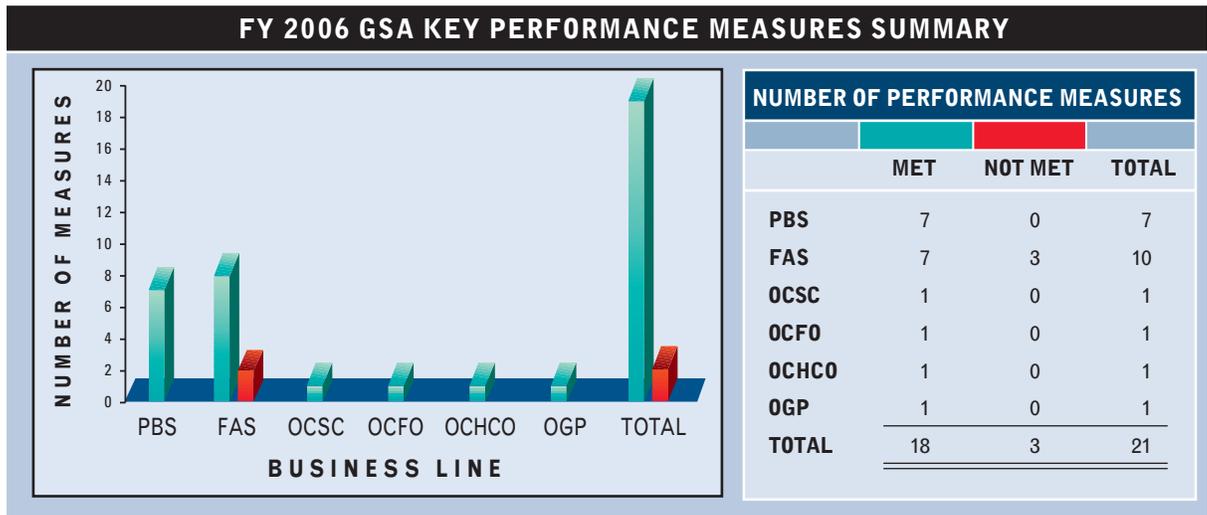
This module provides GSA services with a tool to distribute centrally charged costs or centrally collected revenues to the object (i.e., program, organization, or activity) that benefits from or drives the particular cost or revenue.

Maintain a World-Class Workforce and a World-Class Workplace

The Office of Personnel Management (OPM) rated GSA as one of the ten best places to work in the Federal government during FY 2006. The Partnership for Public Service and the Institute for the Study of Public Policy Implementation at American University compiled the rankings based on OPM's Federal Human Capital Survey of 150,000 Executive branch employees. The good results indicate that in GSA, good leaders are the linchpins of a successful work environment. Good managers provide open lines of communication with employees, offer honest feedback in an ongoing fashion, clearly outline performance goals and rewards, and empower employees to make key decisions.

Carry Out Social, Environmental, and Other Responsibilities as a Federal Agency

This goal covers a broad range of activities ranging from energy conservation to fine art. For example, GSA successfully completed two build-to-suit leased buildings for the Environmental Protection Agency (EPA) in 2006. One and Two Potomac Yard in Northern Virginia with over 400,000 square feet of office space is the new home for EPA's Office of Solid Waste and Emergency Response and the Office of Pollution Prevention and Toxic Substances. These buildings have been designed to reflect EPA's mission to protect human health and the environment. They represent 20 percent energy savings and 40 percent water use reduction. Their features demonstrate several environmental sensitivities, including a "green roof" building connector, environmentally friendly fixtures and finishes, and the use of recycled content. Through "daylight harvesting" the perimeter overhead lighting will dim automatically based on ambient daylight. The buildings have achieved Leadership in Energy and Environmental Design (LEED) Gold Certification, the first new construction in the Washington, DC metro area to do so.



As part of the Art-in-Architecture program, GSA included significant artwork in the recently completed repairs and alterations (R&A) project at the Pittsburgh Post Office and U.S. Courthouse during 2006. Lia Cook's oversized woven tapestries of childhood snapshots convey a shared emotional experience, capturing fleeting human expressions. Brian Shure's three oil on linen paintings capture the essence of the city's past and present, revealing the diverse urban fabric of Pittsburgh.

Overview of Key Performance Measures

The chart above demonstrates that overall GSA met or exceeded expectations for 86 percent of its FY 2006 Key Performance Measures. A detailed discussion regarding the unmet targets and alternative plans for accomplishing them can be found in the Performance Section. The use of the Performance Measurement Tool (PMT) and greater experience with the Performance Management Process (PMP) has contributed to this sustained level of success. GSA fully incorporates performance measures into the individual Associate Performance Plan and Appraisal Process (APPAS) documents for each associate.

Program Assessment Rating Tool

The President's Management Agenda's (PMA) emphasis on results led to GSA's commitment to the Program Assessment Rating Tool (PART), which was used to critically evaluate the performance of GSA programs. By the end of FY 2006, 92 percent of GSA's program dollars have been rated. The PART process has helped GSA define long-term outcome goals that focus on how GSA meets customer agency needs quickly and has reinforced its efforts to link budget to performance, to set ambitious goals, and to improve its efficiency measures.



Photo Courtesy of Timothy Hursley

A joint U.S.-Canadian port of entry, the design of the 100,000-square-foot facility, which process more than one million travelers and more than 400,000 commercial shipments annually, evokes the materials and forms of the silos and barns that rise across the northern prairie.

FY 2006 KEY PERFORMANCE MEASURES WITHIN STRATEGIC GOALS

STRATEGIC GOAL/ SERVICE OR OFFICE	MEASURES	FY 2006 TARGET	FY 2006 ACTUAL	RESULT
PROVIDE BEST VALUE FOR CUSTOMER AGENCIES AND TAXPAYERS				
PBS - Leasing	Cost of leased space relative to industry market	-8.5%	-9.2%	Met
FAS - Vehicle Acquisition	Percentage discount from invoice price	≥ 28%	39%	Met
FAS - Vehicle Leasing (Fleet)	Percentage GSA Fleet leasing rates below commercial rates on the GSA Vehicle Leasing Schedule	≥ 29%	39%	Met
FAS - Travel Management and Transportation Management	Percentage of vouchers serviced through the E-Gov Travel system (percent of total voucher population)	12.9%	6.7%	Not Met
FAS - IT Solutions (National)	Percentage of negotiated award dates for services and commodities that are met or bettered	> 95%	89%	Not Met
FAS - Network Services	Savings provided to customers	\$550M	\$620M	Met
FAS - Regional Telecommunications	Percentage (by dollar value) of eligible service orders awarded with performance-based statements of work	50%	89%	Met
Office of Citizen Services and Communications	Total number of multi-channel contacts with the public (citizens, business, government) per year	235M	235.1M	Met
ACHIEVE RESPONSIBLE ASSET MANAGEMENT				
PBS - Asset Management	Percentage of vacant and committed space in the government-owned inventory	7.0%	7.0%	Met
PBS - Real Property Disposal	Percentage of U&D property awarded with 240 days	90%	97%	Met
PBS - Real Property Disposal	Percent of public sales awarded within 170 days	95%	100%	Met
OPERATE EFFICIENTLY AND EFFECTIVELY				
PBS - Asset Management	Percent below private sector benchmarks for cleaning, maintenance and utility costs in office and similarly serviced space	-3.0%	-4.2%	Met
PBS - New Construction	Percent of newly constructed buildings independently verified for achievement of established operational requirements (Commissioning)	30%	100%	Met
FAS - Global Supply	Percentage of global supply mark-up on stocked items	40.1%	44.23%	Not Met
FAS - Personal Property	Cycle time for disposal process (days)	56	52	Met
FAS - IT Solutions (Professional Services)	Percentage of schedule task orders solicited using e-Buy	90%	93%	Met

Continued on following page

STRATEGIC GOAL/ SERVICE OR OFFICE	MEASURES	FY 2006 TARGET	FY 2006 ACTUAL	RESULT
ENSURE FINANCIAL ACCOUNTABILITY				
Office of Chief Financial Officer	Percent of vendor invoices received electronically	68%	71%	Met
FAS - Travel management and Transportation management	Direct cost as a percentage of revenue	52%	48%	Met
MAINTAIN A WORLD-CLASS WORKFORCE AND WORLD-CLASS WORKPLACE				
Office of the Chief Human Capital Officer	Number of days to fill a vacancy	45	30.1	Met
CARRY OUT SOCIAL, ENVIRONMENTAL, AND OTHER RESPONSIBILITIES AS A FEDERAL AGENCY				
PBS - Asset Management	Percent reduction in energy consumption over the FY 2003 baseline	-2%	-4.4%	Met
Office of Governmentwide Policy	Percentage of agencies whose work demonstrates the use of Section 508 tools	30%	42%	Met



Photo Courtesy of Regina Kosicki

Administrator Doan (blue sweater) joined FBI Director Robert S. Mueller (immediately right of lectern) along with Chicago Mayor Richard M. Daley (next to Mueller) and other officials to snip a 20-foot-long blue ribbon on September 12, 2006, at the dedication of the FBI field office in Chicago. The new facility, developed at a cost of \$125 million, has a gross area of 800,000 square feet and is the largest complex thus far built in GSA's lease-construction program to provide the FBI with new field offices in major cities nationwide.

THE PRESIDENT'S MANAGEMENT AGENDA

GSA'S STATUS AND PROGRESS		
INITIATIVE	CURRENT STATUS	PROGRESS
HUMAN CAPITAL		
COMPETITIVE SOURCING		
FINANCIAL PERFORMANCE		
E-GOVERNMENT		
BUDGET AND PERFORMANCE INTEGRATION		
REAL PROPERTY		

The President's Management Agenda (PMA) has helped GSA focus on achieving results based upon clear goals and challenging expectations. GSA is pleased with its progress in each of the initiatives under the PMA. The following pages provide a brief description of each initiative, provide the current status of the management program, and describe GSA's progress to "get to green" as GSA implements the PMA with the ultimate goal of improving government performance and providing better service to citizens.

WHAT PROGRESS INDICATES

The Office of Management and Budget (OMB) assesses agency "progress" on a case-by-case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency as follows:



GREEN

Implementation is proceeding according to plans agreed upon with the agencies.



YELLOW

Some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis.



RED

Initiative in serious jeopardy. Unlikely to realize objectives absent significant management intervention.

PMA



STATUS

Strategic Management of Human Capital



PROGRESS

BACKGROUND: The Human Capital Initiative requires Federal agencies to develop both a vision and a roadmap for strategically managing their workforces so they can better accomplish their missions on behalf of the American people. Agencies are required to build, sustain, and effectively deploy a skilled, knowledgeable, diverse workforce to meet the current and emerging needs of the Federal government.

STATUS: GSA maintained its “yellow” status through FY 2006 completing all but one critical success factor to “get to green.” The Agency continued to implement improvements to its performance management system for all employees. The Agency also engaged in restructuring activities in establishing the Federal Acquisition Service (FAS). In the second quarter of FY 2007, GSA plans to submit documentation of FAS mapping results to secure Office of Personnel Management/Office of Management and Budget (OPM/OMB) approval of mission critical workforce skills gap closures. FY 2007 priorities include the stand up of FAS to comply with newly created critical success standards and to continue to address GSA’s short and longer term business needs.

PROGRESS: GSA continues to be “green” in progress for Strategic Management of Human Capital. GSA verified its current human capital strategic goals and developed the FY 2006 - 2007 Action Plan through improvements made in the FY 2008 Strategic Assessment and Budget Process. GSA continued to work with internal stakeholders to implement the FAS Human Capital Implementation Plan to facilitate a successful transition to the new organization. GSA updated its Executive Leadership Succession Plan and received approval for its overall Leadership Succession Plan, as well as its identification of Leadership Bench Strength targets.

GSA continues to deploy efforts to improve GSA’s results-oriented performance culture. Several managerial and employee guides were developed to reinforce performance management policy and objectives. Improvements were made to GSA’s Comprehensive Human Resources Integrated System (CHRIS) to improve user input and access to a fully automated performance management and recognition system. The performance recognition system was moved from FedDesk to CHRIS with an enhanced automated system of checks and balances designed to conform to GSA performance management and recognition policy. GSA’s Southwest Region received OPM’s highest government score for its performance management efforts and results. An accountability review of GSA’s first year of the performance management system was completed and improvement strategies were identified and implemented. Talent management strategies and skills gap reduction reports were completed for GSA’s mission critical workforces. OMB noted that GSA had resolved all high risk information technology (IT) skill gaps. GSA successfully demonstrated continuous skill and competency gap progress for these workforces. In addition to skills and competency efforts, GSA reviewed recruitment and hiring strategies within mission critical workforces to improve overall effectiveness and diversity. GSA continued to improve its hiring process through the Staff Acquisition Business Process Re-engineering effort. A GSA-wide review on Delegated Examining (DE), which assessed effectiveness, efficiency, and regulatory compliance, was completed and GSA completed 100 percent of its DE reviews. GSA also achieved both Senior Executive Service (SES) and non-SES hiring timeline targets. GSA received OPM approval for its Human Resources Management Accountability System (HRMAS).

PMA



STATUS

Competitive Sourcing



PROGRESS

BACKGROUND: The goal of competitive sourcing, one of President Bush's Management Agenda initiatives, is to improve agency performance by using the A-76 process to conduct public/private competitions of an agency's commercial activities or functions. GSA has established an infrastructure to accomplish this goal and continues to build on this infrastructure.

STATUS: Since the establishment of the competitive sourcing goals by the President in FY 2001, GSA has moved from "red" to "green" on the President's quarterly Executive scorecard for "Current Status." This score was achieved during the fourth quarter of FY 2004. Additionally, GSA has completed 84 Streamlined Competitions and one Standard Competition under the revised Circular, and has completed one Standard Competition under the old Circular. During FY 2006, GSA conducted 12 Streamlined Competitions on the Agency's Administrative Support Function encompassing 178 full-time equivalent employees (FTE) in the Public Buildings Service (PBS) and the General Management and Administration (GM&A) organizations. Of the 12 competitions, nine were awarded to the Most Efficient Organization (MEO), two were awarded to the "as is" organization, and one was awarded to the private sector. PBS completed six Streamlined Competitions of their Craft and Trade Functions involving 69 FTE. Four of the competitions were announced in FY 2005 and completed during the first quarter of FY 2006.

The Performance Decision for all of the PBS Competitions was to award the function to the Agency Provider. The estimated savings and cost avoidance of these competitions is in excess of \$40 million over five years. Finally, GSA submitted its FY 2006 Federal Activities Inventory Reform (FAIR) Act Inventory to OMB, with justifications, on June 30, 2006, and is also currently revising GSA's Competitive Sourcing Strategic "Green" Plan that covers planned competitions through FY 2011 and the FY 2006 Report to Congress covering GSA FY 2006 Competitive Sourcing accomplishments.

PROGRESS: GSA completed 18 Streamlined Competitions in FY 2006. There were 12 Competitions of the Agency's Administrative Support Function involving 178 FTE and another six Competitions of the PBS Craft and Trade Functions covering a total of 69 FTE throughout FY 2006. The Office of Performance Improvement (OPI) continues to provide training on Competitive Sourcing to GSA associates as needed. During FY 2006, GSA completed the transition to a Web-based FAIR Act Inventory Tool (FIT) with the implementation of the Federal Supply Service (FSS) (now part of the Federal Acquisition Service [FAS]) and the GM&A organizations. GSA also began the development of a post-competition accountability system. GSA is modifying the Activity Cost Tracking Tool (ACTT) System developed by the Air Force to be used in conjunction with GSA's Competitive Sourcing reporting requirements

PMA


STATUS

Improved Financial Performance


PROGRESS

BACKGROUND: This initiative is intended to improve the quality of the Federal government's financial information so agencies can improve the integrity and efficiency of their operations. The goal is to improve financial performance by ensuring that Federal financial systems produce accurate and timely information critical to Federal managers for managing cost and making decisions.

STATUS: Previously GSA had successfully met the criteria for "green" status. As a result of the GSA FY 2005 material weakness concerning inadequate controls over the monitoring, accounting, and reporting of budgetary transactions, and the loss of an unqualified audit opinion, the GSA status rating moved to "red" for FY 2006. The Office of the Chief Financial Officer (OCFO) has led a successful GSA-wide effort to address the weakness in internal control and issues in financial performance as evidenced by the unqualified opinion on GSA's FY 2006 financial statements. Although the PMA status as of September 30 is "red," GSA is confident that the clean opinion and removal of its material weakness will result in "green" status in FY 2007.

PROGRESS: As of September 30, 2006, GSA continues to be "green" in progress. GSA's financial performance consistently produces a payment error rate below government standards. The Agency implemented a comprehensive program of the assessment of internal control over financial reporting, and continues to improve the reporting of intragovernmental accounting transactions. GSA has resolved its material weakness by establishing policies and procedures, creating and monitoring aging reports, as well as effectively monitoring and reducing unfilled customer orders and undelivered obligations. There have been substantial gains in achieving progress toward goals and objectives in policy, financial analysis, financial systems lifecycle management, and the management control process. GSA continues to progress toward its goal of providing accurate and timely financial data so programs can operate efficiently and effectively and provide the best value to customer agencies and taxpayers.

PMA



STATUS

Expanded Electronic Government



PROGRESS

BACKGROUND: This initiative supports specific goals to reduce redundancy of IT investments, increase the effectiveness of outreach to citizens, and improve the efficiency of IT investment management. This initiative provides collaborative development of the expanded e-government areas of E-Gov implementation, IT Capital Planning, Enterprise Architecture (EA), Earned Value Management, and IT Security.

The Presidential E-Gov initiatives have entered the adoption, utilization, and institutionalization phase. One aspect of this is that the E-Gov initiatives should be integrated in the normal day-to-day operations of the Federal government, including business, IT, and budgetary processes. As the E-Gov programs continue to identify IT opportunities for collaboration and consolidation, increased Agency adoption and customer utilization will be the primary measures of success.

GSA's goals include helping the government become more citizen-centric, assisting individuals and businesses to complete government transactions online, and working with other agencies on government-wide initiatives. GSA is also focused on its internal IT management to ensure the projects are well managed and that IT spending and IT acquisitions are not duplicative of the President's 24 E-Gov and Lines of Business (LoB) initiatives.

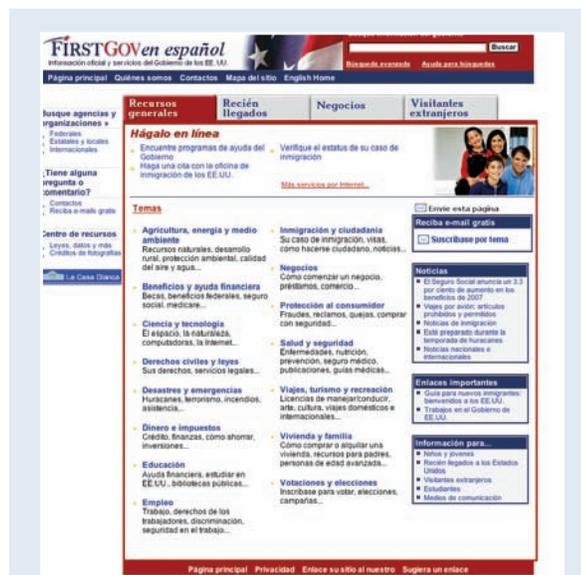
GSA's IT team will continue to identify redundant IT systems and determine when to retire them, and ensure GSA associates have the technology needed to do their jobs and that GSA systems are secure.

STATUS: GSA maintained its "yellow" status in FY 2006. The Agency's EA received a satisfaction assessment from OMB in Completion and Results. All 27 IT business cases were rated by OMB as acceptable. GSA's IT investment portfolio remained within the 10 percent cost and schedule variance meeting the ANSI/EIA (American National Standards Institute/ Electronics Industry Alliance) Standard 748A for Earned Value Management. GSA certified and accredited 100 percent of its IT systems and the Inspector General (IG) verified the

effectiveness of the Department-wide IT Security remediation process. The Agency has an OMB approved and accepted E-Gov Implementation plan and has successfully completed all the FY 2006 milestones.

GSA continues to make progress toward a status rating of "green" by continuing to work with OMB to demonstrate its use of Earned Value Management data and analysis to make IT portfolio management decisions.

PROGRESS: GSA progress rating remains "green." GSA continues to deliver on the PMA goals, quarterly E-Gov implementation milestones, and scorecard planned actions. The progress rating is based on the submission of several Agency program plans such as the EA milestone plan; a quarterly Federal Information Security Management Act (FISMA) plan of action; milestone report demonstrating that GSA's IT system certification and accreditation (C&A) percentage increased to about 100 percent; updated and tested IT contingency plans; and a quarterly Earned Value Management (EVM) variance and high risk report.



The electronic "front door" for the Federal government.

PMA

●
STATUS

Budget and Performance Integration

●
PROGRESS

BACKGROUND: This initiative is aimed at providing greater focus on performance. It is enhancing the quality of information on program results so that the government can make better informed resource allocations decisions. The outcome will be better control over resources and accountability for results by program managers.

STATUS: GSA has moved from “yellow” to “green” on the President’s quarterly scorecard for “current status.” This score was achieved during the fourth quarter of FY 2006. GSA worked hard to complete all outstanding criteria for green, specifically removing all but one program from the Results Not Demonstrated (RND) list, having efficiency measures for all PARTed programs, and reporting marginal costs that were satisfactory to OMB.

In this year’s rescores, the Travel Management Program, Transportation Management Program, and the Office of Governmentwide Policy (OGP) Program were all rated “Moderately Effective.” The Charge Card Service Program was rated “Effective,” which is the highest rating that a program can receive. Each program area developed long-term outcome goals with attainable targets and efficiency measures. Most notably, OGP developed the Policy Portfolio Performance System (3PS), which measures and reports on the effectiveness of policy-related activities.

The Agency also PARTed two new programs this year; the National Furniture Center Program, rated “Moderately Effective” and USA Services rated “Effective”. The USA Services, managed by the Office of Citizens Services and Communications (OCSC), serves as a model program for other government agencies desiring to become more citizen-centric. This rating is achieved by only a small percentage of programs government-wide. GSA now maintains a “green” status by having over 90 percent of its programs successfully PARTed.

PROGRESS: The Agency continues to be “green” in progress. GSA successfully completed all of its fourth quarter deliverables. Through the Agency’s internal Performance Management Process (PMP), GSA has made great strides in identifying long-term outcome goals and efficiency measures for its programs. GSA continues to work with OMB on establishing goals and measures for the remaining programs. Quarterly reviews of each organization’s financial and performance results continue to be conducted. GSA is developing a Green Plan that includes specific actions the Agency will complete to achieve performance and efficiency improvements.

PMA

●
STATUS

Real Property

●
PROGRESS

BACKGROUND: On February 4, 2004, the President signed Executive Order 13227 addressing Federal Real Property Asset Management. Real Property was added to the PMA in August 2004. The goal of the Executive Order and this initiative is to promote the efficient and economical use of U.S. real property assets and to assure management accountability for implementing Federal real property management reforms.

STATUS: GSA was the first agency to achieve “green” on the President’s quarterly Executive scorecard for “Current Status.” This score was attained at the end of the first quarter of FY 2006 by providing evidence that GSA’s asset management plan is being implemented to achieve improved real property asset management.

GSA was able to demonstrate to OMB results in implementing the right-sizing initiatives:

- Improved utilization by increasing occupancy by 3.2 percent over the past seven years
- Over 75 percent of GSA’s inventory meets or exceeds Federal Real Property Council (FRPC) standards for facility condition
- Maintained operating costs at approximately 4.2 percent below market
- Since FY 2002, 245 assets have been accepted into the disposal process.

PROGRESS: GSA maintained “green” in progress for real property. GSA completed all deliverables and all milestones identified in the three-year timeline. Specifically of note, GSA reviewed and updated its asset level strategies, completed 21 major capital reinvestment projects reoccupying over 586,000 rentable square feet (RSF), disposed of over 495,000 RSF reducing GSA’s reinvestment liability by over \$26 million, received proceeds from the sale of vacant and underutilized property in excess of \$51 million, and targeted 4.2 percent of capital investment dollars on energy projects.

GSA will continue to play a leadership role in advancing real property asset management.



The Census Bureau Headquarters Building was dedicated in 2006.

FINANCIAL STATEMENTS ANALYSIS AND SUMMARY

THE ROAD TO ACCOUNTABILITY – FINANCIAL HIGHLIGHTS

For FY 2006, the independent accounting firm of PricewaterhouseCoopers, LLP (PwC) expressed an unqualified (clean) opinion on GSA's comparative proprietary financial statements, the Statements of Net Cost, Balance Sheets, and Statements of Changes in Net Position. GSA has regained an unqualified opinion on the budgetary statements, the Statements of Budgetary Resources, and Statements of Financing for the FY 2006 financial statements. The Federal Buildings Fund (FBF) received a clean opinion on the comparative FY 2005 budgetary statements. For the Information Technology Fund (ITF), General Supply Fund (GSF), and the GSA Consolidated FY 2005 budgetary statements, PwC was not able to express an opinion due to material weaknesses found in reporting unfilled customer orders and undelivered orders in the ITF and GSF. Throughout FY 2006 GSA's management significantly increased attention and control regarding budgetary reporting as part of its goal in ensuring accountability over resources that are entrusted to it as well as to provide accurate and reliable information. Agency management is accountable for the integrity of the financial information presented in the financial statements.

The financial statements and financial data presented in this report have been prepared from GSA's accounting records in conformity with generally accepted accounting principles (GAAP) in the United States. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

OVERVIEW OF FINANCIAL POSITION

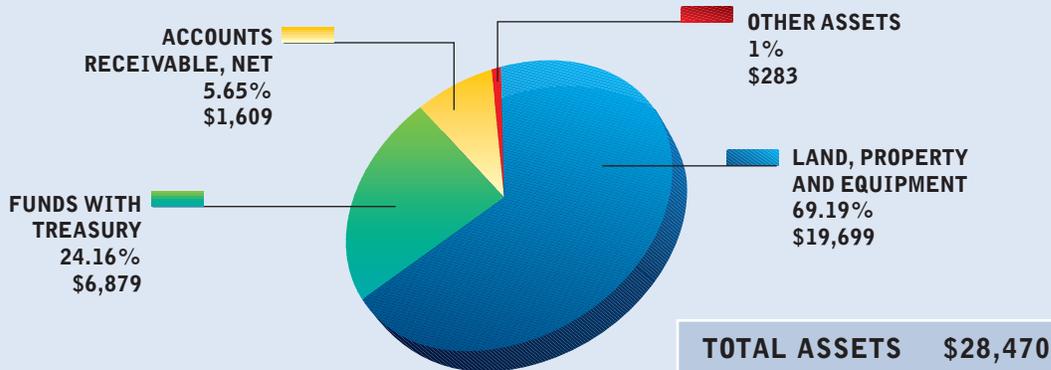
ASSETS: Total assets were \$28,470 million at the end of FY 2006. This represents an increase of \$636 million (2.28 percent) over the previous year's total assets of \$27,834 million. This increase is largely attributable to continued growth in GSA's FBF primary business operations, which is reflected in capital asset purchases and alterations and increases in earnings that provided cash (Funds with U.S. Treasury) from operations.

Taken together, Property and Equipment combined with Funds with U.S. Treasury comprise 93.35 percent of the total assets for FY 2006. The \$101 million increase in Funds with U.S. Treasury was primarily due to resources exceeding the capital needs of the program in the FBF. The \$6,879 million of Funds with U.S. Treasury is generally available to GSA to liquidate outstanding commitments and to provide working capital to the revolving fund programs, and contains balances that will fund future needs. While the majority of these balances (\$5,920 million) are available for such future needs, \$2,407 million of the available balance is committed to funding of building construction and alteration projects provided for in legislation. Amounts totaling \$382 million were unavailable for spending as of September 30, 2006 and would require future authorization or even legislation to be used.

GSA's assets reflected in the Consolidating Balance Sheets are summarized in the table below:

ASSETS (Dollars in Millions)	FY 2005	FY 2006
LAND, PROPERTY AND EQUIPMENT, NET	\$ 18,915	\$ 19,699
FUNDS WITH U.S. TREASURY	6,778	6,879
ACCOUNTS RECEIVABLE, NET	1,885	1,609
OTHER ASSETS	256	283
TOTAL ASSETS	\$ 27,834	\$ 28,470

ASSETS BY TYPE (Dollars in Millions)



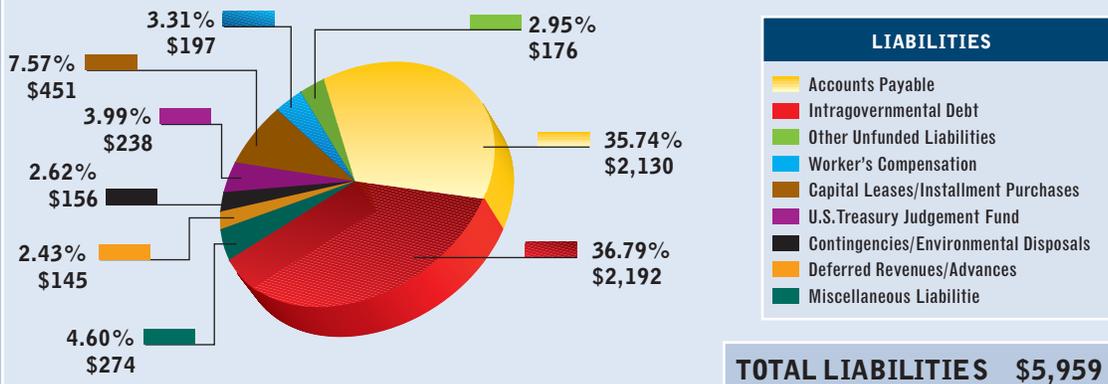
LIABILITIES (Dollars in Millions)

FY 2005

FY 2006

ACCOUNTS PAYABLE	\$ 2,269	\$ 2,130
INTRAGOVERNMENTAL DEBT	2,201	2,192
OTHER UNFUNDED LIABILITIES	177	176
WORKERS' COMPENSATION	203	197
CAPITAL LEASES/INSTALLMENT PURCHASES	445	451
U.S. TREASURY JUDGEMENT FUND	244	238
CONTINGENCIES/ENVIRONMENTAL DISPOSALS	119	156
DEFERRED REVENUES/ADVANCES	184	145
MISCELLANEOUS LIABILITIES	212	274
TOTAL LIABILITIES	\$ 6,054	\$ 5,959

LIABILITIES BY TYPE (Dollars in Millions)



Property and Equipment increased by \$784 million (four percent) from FY 2005. Property acquisitions of \$2,548 million during the year, net of the recorded depreciation expense of \$1,356 million and \$408 million in property disposals and write-offs, account for most of this increase. For the total amount of property acquisitions in FY 2006 \$1,690 million were comprised of construction, modernization, and alterations to buildings.

LIABILITIES: In FY 2006, total Agency liabilities decreased by \$95 million (1.57 percent) to \$5,959 million from \$6,054 million in FY 2005. Liabilities reported on the Consolidating Balance Sheet are summarized in the table on the adjoining page.

For FY 2006 GSA's largest liability balance is Intragovernmental Debt. The \$2,192 million of Intragovernmental Debt is 36.78 percent of total liabilities, of which \$48 million is unfunded. Periodically, in lieu of direct appropriations, GSA receives authority in its FBF to finance construction of buildings. Borrowings have been obtained from the U.S. Treasury's Federal Financing Bank, with the expenditure of the funds amortized over a 30-year period. GSA has almost depleted its authority to borrow and is currently paying off more debt than it is taking on.

Accounts payable makes up 35.74 percent of total liabilities. These balances decreased \$139 million (6.13 percent) in FY 2006 primarily due to the ITF's decrease in business activity. The decrease in business activity for the ITF is further explained in the section on Results of Operations.

Liabilities totaling \$1,244 million, or 20.88 percent of total liabilities, were unfunded, i.e., budgetary resources are not yet available. For most unfunded liabilities, budgetary resources will be made available in the years balances are due, in accordance with Office of Management and Budget (OMB) funding guidelines. The major elements of unfunded liabilities are \$197 million for Workers' Compensation, \$451 million for capital leases and installment purchases, \$238 million for reimbursements due the U.S. Treasury Judgment Fund for costs from past litigation, and \$156 million for contingencies and environmental/disposal liabilities.

ENDING NET POSITION: GSA's Net Position at the end of 2006 on the Consolidating Balance Sheet and the Consolidating Statement of Changes in Net Position was \$22,511 million, a \$731 million (3.36 percent) increase from the prior fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations at the end of 2006.

The increase in Cumulative Results of Operations resulted primarily from the Net Results of Operations in GSA's FBF (results of \$814 million) which mostly funds the capital needs of those programs. The FBF's Net Results of Operations is offset by decreases in earnings of the GSF and ITF totaling \$101 million.

RESULTS OF OPERATIONS

The results of operations are reported in the Consolidated Statements of Net Cost and the Consolidated Statements of Changes in Net Position.

The Consolidated Statements of Net Cost presents the cost (net of any earned revenue) of operating the FBF, GSF, ITF, the GSA Working Capital Fund (WCF) and other operating funds in reporting the Agency's Net Cost.

GSA's total Net Revenue from Operations at the end of FY 2006, after intra-agency eliminations, was \$409 million, a \$429 million (51.19 percent) decrease from the prior fiscal year. The Net Revenue from Operations is presented as Total Revenues less Total Expenses at the end of FY 2006. The decrease in Net Revenue from Operations is primarily due to the activity of the FBF. The FBF reported a decrease in net results of operations of \$367 million for FY 2006, representing a 37.68 percent decline. While total FBF revenue increased by \$264 million (3.2 percent), total expenses for the FBF increased by \$631 million (8.68 percent), mainly due to rising utility costs and inflation in rent costs.

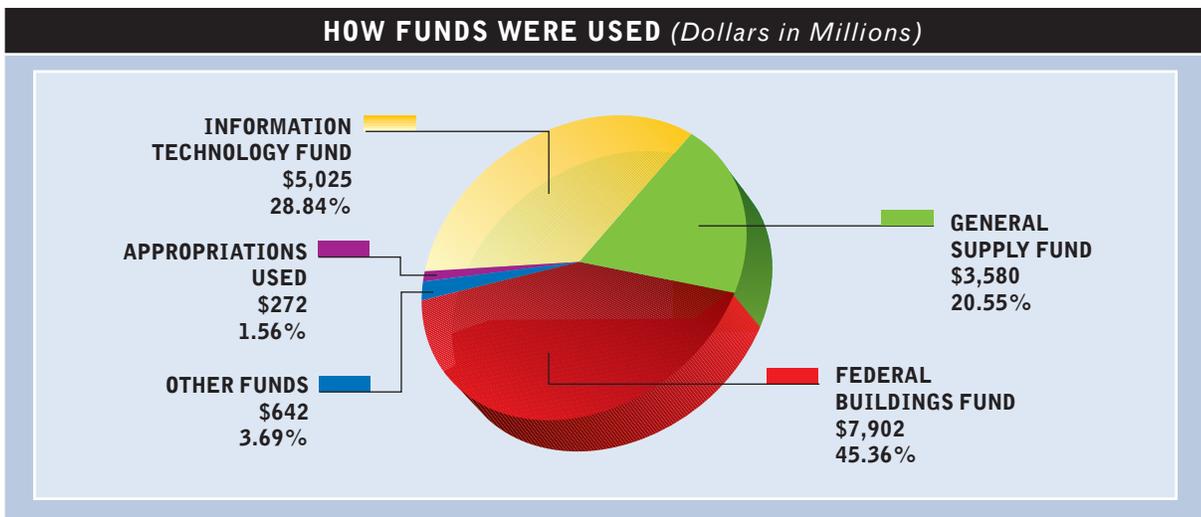
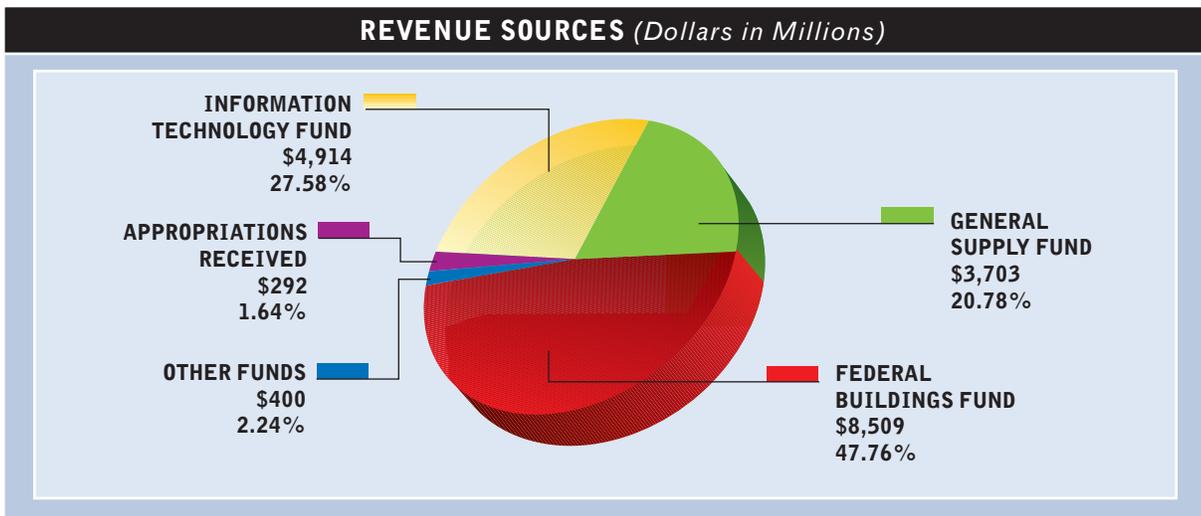
Other significant declines in GSA's Net Operating Results pertain to the decrease in ITF net revenue of \$100 million by the end of FY 2006 compared to FY 2005. This extreme drop in ITF's net operating results is due to management's decision to discontinue a major information system development

project, referred to as GSA Preferred (GSAP), which was initially implemented in FY 2004. Serious deficiencies in the new system could not be corrected without considerable additional investment, which would not have been in the best interest of the government. As a result, a loss of \$71 million was charged to the ITF.

In addition to the write-off of GSAP, the ITF experienced a decline in business volume as GSA's larger customers chose other procurement sources outside of GSA, some of which

was related to internal control weaknesses found in prior audits. Current OIG audits show that GSA has made great strides strengthening the procurement process and correcting internal control weaknesses.

The charts below summarize the activity on GSA's Consolidated Statements of Net Cost (before intra-GSA eliminations) and the Consolidated Statements of Changes in Net Position by showing the funds available to GSA in FY 2006 and how these funds were used.



BUDGETARY ISSUES

The decline in ITF business volume discussed in the sections above also had a large effect on the budgetary statements, as Unfilled Customer Orders decreased by \$861 million and Obligations incurred decreased by \$1,238 million. In addition, Uncollected Customer Payments decreased by \$1,062 million and Collections decreased by a total of \$1,742 million. Total Budgetary Resources in the ITF declined \$1,773 million (22.18 percent).

With the merger of the Federal Supply Service (FSS) and the Federal Technology Service (FTS) into the Federal Acquisition Service (FAS), FAS has been operating under two revolving funds with varying legislative authorities. In October of 2006, the President signed passed the funding legislation for FAS allowing the new organization to operate under one revolving fund, the Acquisition Services Fund (ASF). GSA expects the merger to allow FAS to operate more efficiently and effectively under the new legislation.

Funding for capital investment in real property remains a significant challenge. The current funding level of the FBF is inadequate to meet the demand for new construction, particularly new courthouses and facilities with stringent security requirements, and the need to reinvest in the existing inventory of government-owned buildings. Public Buildings Service's (PBS) Strategy for Restructuring and Reinvesting in the Owned Inventory has brought new emphasis to addressing the non-performing assets in the PBS inventory. This effort, along with asset management reform legislation and continued support for Repairs and Alterations (R&A) funding, is essential to reducing the \$6.6 billion backlog of building R&A work and providing quality space for GSA's Federal customers and the visiting public.



Photo Courtesy of Tim Griffith

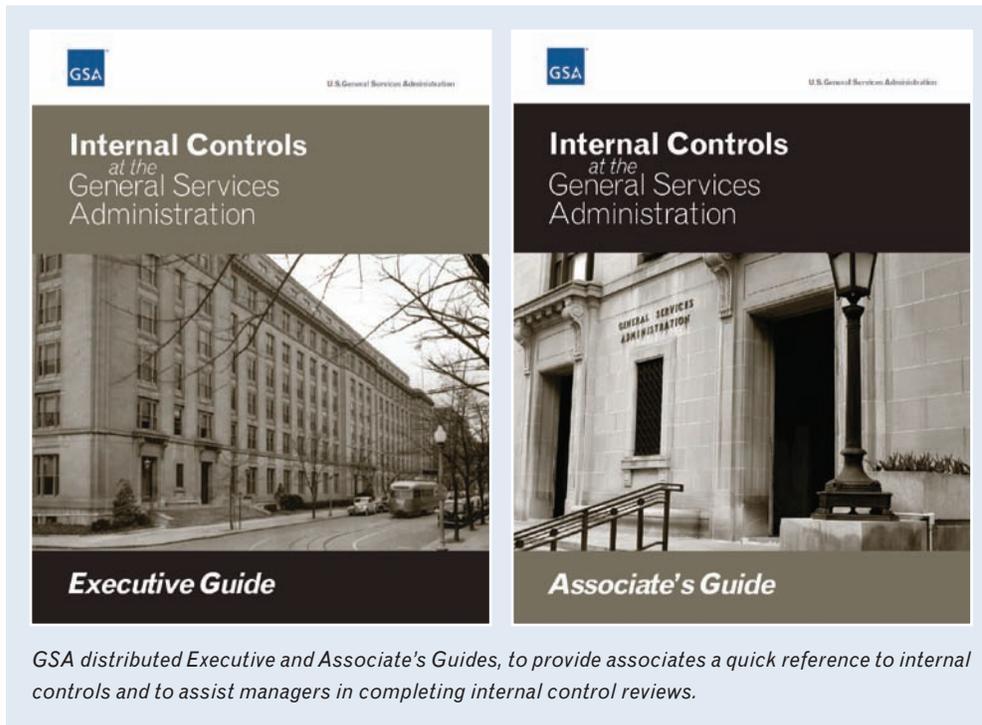
Fresno, CA's richly textured character finds its eloquent expression in the new U.S. Courthouse. The building is at once rational and rugged, responding gracefully to its urban context while telling a story about the natural history of the region.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

INTRODUCTION TO MANAGEMENT ASSURANCES

GSA is pleased to provide the following assurances as to the status and effectiveness of the internal controls and management systems that support the preparation of the financial statements. GSA exceeded expectations by reaching its overarching goal in delivering excellent service to its customers while maintaining internal control as a result of the

passion and dedication of Agency employees. GSA balanced its focus on well-trained Agency experts and customer satisfaction and developing customized solutions to meet the ever-changing needs and challenges within the Federal community. GSA continued to build strong relationships and improve service to retain its customers.



STATEMENT OF ASSURANCE

GSA management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). GSA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, GSA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, GSA conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, GSA identified one material weakness and a related system non-conformance in its internal control over financial reporting as of June 30, 2006. The material weakness related to reporting of unfilled customer orders and obligations. The related system non-conformance pertained to the lack of reconciling certain business systems to the Agency general ledger and primary accounting system.

Corrective actions were taken during FY 2006 to resolve these conditions as follows:

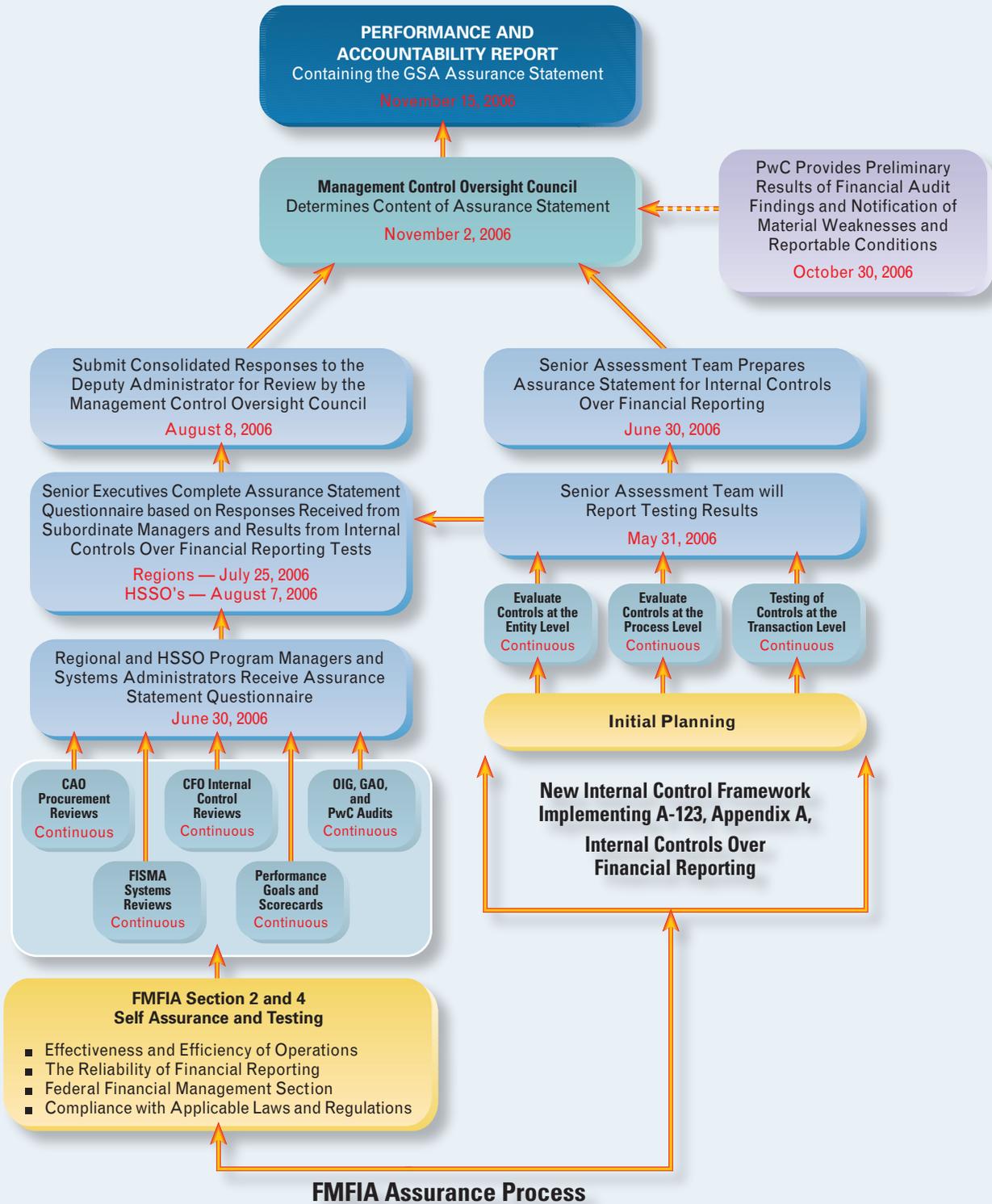
- 1 Substantially implemented the budgetary functionality of the current financial accounting system to ensure financial activity was completed and accurately recorded.
- 2 Designed processes and controls effectively so that budgetary and accrual-based accounting concepts were applied continuously and consistently throughout the year when recording financial transactions.
- 3 Developed and documented policies and procedures to prepare and monitor the Statement of Budgetary Resources (SBR) reporting, which included supervisory review, analytical procedures, data validation, and ensured that activities were in compliance with applicable guidance.
- 4 Improved internal control quality reviews and maintained documentary 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 SBR and the financial statements.
- 5 Tested the design and operating effectiveness of corrective actions during the annual assessment of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A.

Based on a review of the corrective actions completed, GSA can provide reasonable assurance that its internal control over financial reporting as of September 30, 2006, was operating effectively and no material weaknesses and non-conformance were found in the design or operation of the internal control over financial reporting.



Lurita Doan
Administrator
November 10, 2006

GENERAL SERVICES ADMINISTRATION FY 2006 — YEAR OF THE INTERNAL CONTROLS



MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL (A-123)

GSA successfully implemented the requirements of revised Office of Management and Budget (OMB) Circular A-123, Appendix A, during FY 2006. The revisions to the circular serve to emphasize management's focus on ensuring that effective internal control over financial reporting is established and maintained throughout the Agency. Under the leadership of the Chief Financial Officer (CFO), GSA implemented a comprehensive program to complete its assessment of internal control over financial reporting. The CFO established the Senior Assessment Team (SAT) comprised of senior executives to provide leadership, oversight, and accountability for GSA's internal control over financial reporting. The SAT conducted its assessment based on the five-step process used in the Implementation Guide developed by the CFO's Council. The five steps are: Planning; Evaluate Internal Control at the Entity Level; Evaluate Internal Control at the Process Level; Testing at the Transaction Level; and Concluding, Reporting, and Correcting Deficiencies and Weaknesses.

GSA determined the scope of financial reports to be included in the assessment and established materiality. The scope included: all material line items on the Balance Sheet; Statement of Net Cost; Statement of Changes in Net Position; Statement of Budgetary Resources (SBR); Statement of Financing; Notes to the Financial Statements; and SF 133, Report on Budget Execution and Budgetary Resources.

GSA management identified the key processes feeding into material line items by reviewing financial statements and related disclosures, cycle memoranda, flowcharts, and other information for the three revolving funds at GSA and other combined funds. Key processes feeding into the financial statement line items include: Unfilled Customer Orders, Obligations, Fund Balance with Treasury, Cash Receipts, Cash Disbursements, Financial Reporting, Budget (Administrative Control of Funds), Revenue Accruals, and Estimates.

Using a risk-based approach, a rotational plan was developed for financial and information technology (IT) controls to ensure that controls are assessed in each Region within GSA, including the central offices, within a three-year period. As part of the rotation plan, some systems will undergo full general and application controls testing in a given year and

the others will undergo limited general and application controls testing for the year.

The SAT conducted a comprehensive review of test results considering the likelihood and degree of the potential for misstatements and determined whether the consolidations of deficiencies are incidental, create a reportable condition, or rise to the level of material weakness for reporting in the assurance statement. Based on the exceptions noted and the impact on the financial statements, the SAT concluded that one material weakness related to monitoring, accounting, and reporting of budgetary transactions existed as of June 30, 2006. Specifically, the material weakness existed in the controls over monitoring, accounting, and reporting of budgetary transactions, which includes unfilled customer orders as well as undelivered and delivered orders. Corrective actions were taken throughout the fiscal year but were not fully implemented as of June 30, 2006. Corrective actions have now been implemented and the material weakness has been resolved. Based upon the results of its corrective actions, GSA can provide reasonable assurance that its internal control over financial reporting as of September 30, 2006, was operating effectively and no material weaknesses existed in the design or operation of the internal control over financial reporting.

In addition, during GSA's testing of internal controls over financial reporting, it noted that one of its business feeder systems, FSS-19, does not transmit budget year information to FEDPAY; therefore, when an order that has been established with prior year funds is cancelled or modified, FEDPAY does not generate a prior year recovery as required by the U.S. Standard General Ledger (USSGL). FEDPAY is a financial system used by the Office of the Chief Financial Officer (OCFO) that transmits information to Pegasys. In response to this issue, management developed manual processes and controls that prevented any material misstatement in its FY 2006 financial statements. Through further inquiries, management was able to determine that this problem exists in other business feeder systems. However, mitigating controls exist which reduce the risk to a low level and ensure the integrity of the financial statements. Action plans will be developed during the next fiscal year to correct the deficiencies in GSA's business feeder systems so that GSA is in conformance with the USSGL.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) — SECTION 2

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires that agencies establish management control and financial systems to provide reasonable assurance that the integrity of Federal programs and operations are protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist.

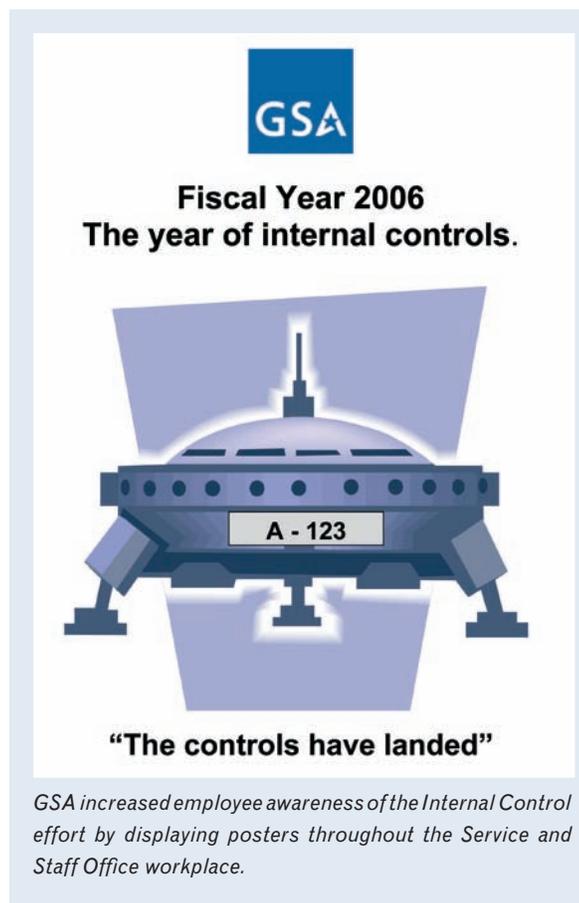
In response to the FMFIA, GSA developed an internal control program which holds managers accountable for the performance, productivity, operations, and integrity of their programs through the use of internal controls. Annually, senior managers at the Agency are responsible for evaluating the adequacy of the internal controls surrounding their activities and determining whether they conform to the principles and standards established by OMB and the Government Accountability Office (GAO). The results of these evaluations and other senior management information are used to determine whether there are any internal control problems to be reported as material weaknesses. The Agency's Management Control Oversight Council, the organization responsible for oversight of the Internal Control Program, makes the final assessment and decision for the Agency.

Accomplishments

GSA continues to provide updated OMB Circular A-123 guidance and training to Agency managers at all levels to ensure awareness of management's responsibility for establishing and maintaining internal control. Significant effort was directed at informing and training Agency managers on the impact and effect of the new OMB Circular A-123, with a focus on financial controls, system controls and system certification, and accreditation reviews. Additionally, Agency managers performed risk assessments and internal control reviews for their program areas and conducted evaluations.

In FY 2006, GSA improved the Web-based Assurance Statement Questionnaire that was launched in FY 2005. Managers at all levels were able to enter, update, and view assurance statement information and electronically forward completed statements to the next level supervisor.

In FY 2006, GSA addressed the FY 2005 identified Section 2 material weakness and Section 4 system nonconformance related to budgetary controls and reporting processing. Agency managers completed the actions addressing the material weakness by developing aging reports, implementing A-123 requirements, issuing policy on review and certification, and reconciling business systems to Pegasys.



In addition to the above improvements, the SAT reviewed internal control over financial reporting. The review identified the proper fund for each unassigned funding citation, reconciled monthly business systems, implemented a successful income and expense accruals national program, developed business system enhancements to ensure the validity of assigned funding and undelivered orders moving forward, and archiving historical open orders.

GSA is committed to ongoing efforts to integrate and improve the Agency's financial systems and will continue to work with external auditors to strengthen fiscal management and accountability.

Statistical Summary of Performance

Section 2, Internal Control Systems — Material Weaknesses

GSA reported one in FY 2005. No new material weakness identified in FY 2006.

NUMBER OF MATERIAL WEAKNESSES				
	NUMBER AT BEGINNING OF FISCAL YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING END OF FISCAL YEAR
2002 REPORT	0	0	0	0
2003 REPORT	3	2	0	0
2004 REPORT	0	0	0	0
2005 REPORT	0	0	1	1
2006 Report	1	1	0	0

Material Weakness Remediation

GSA completed all of the milestones related to the material weakness.



REMEDIATION OF MATERIAL WEAKNESS AND SYSTEM NON-CONFORMANCE				
MATERIAL WEAKNESS	MILESTONES	ORIGINAL TARGET CORRECTION DATE	REVISED TARGET DATE	ACTUAL DATE OF COMPLETION
Controls over monitoring, accounting, and reporting of budgetary transactions are inadequate.	Summary of the action plans from OCFO operations divisions and Service offices.			
OCFO – OFFICE OF THE CHIEF FINANCIAL OFFICER				
	(1) Develop and document policies and procedures for open items cancellation, streamlined closeout and setting thresholds on unfilled customer orders.	May 2006		May 2006
	(2) Implement the A-123 process.	September 2006		June 2006
	(3) Resolve issues encountered during reconciliation.	October 2006		August 2006
FAS – FEDERAL TECHNOLOGY SERVICE				
	(1) Reconcile OMIS, GSAP, and CODB to Pegasys.	October 2006		September 2006
	(2) Define process and validate unassigned funds.	October 2006		September 2006
	(3) Define process and validate undelivered orders for Assisted Acquisition Services.	October 2006		September 2006
FAS – FEDERAL SUPPLY SERVICE				
	(1) FAS/FSS and the OCFO will reconcile the UDO and DO in the FAS/FSS feeder systems to the OCFO payment system, FEDPAY. The FSS-19 systems included orders originating in FSS-19, ROADS, and Customer Service Center including Expanded Direct Delivery (EDD), Inventory Replenishment, and CPSA.	July 2006		September 2006
	(2) Develop aging reports.	July 2006	August 2006	June 2006
PBS – PUBLIC BUILDINGS SERVICE				
	(1) Obtain certifications, including certifications for 75 percent of open items, excluding orders with known comfort levels, including statistical sample to validate accuracy.	October 2006		September 2006
	(2) Ensure that unfilled customer orders for projects, contracts and RWA balances are periodically monitored and reviewed for validity, including statistical samples.	October 2006		September 2006

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) — SECTION 4

As required by law, GSA evaluates its financial management systems annually for compliance with Federal financial management systems requirements, applicable Federal accounting standards, and USSGL recording and reporting requirements at the transactional level. GSA evaluated its financial management systems controls and compliance by using a consolidated A-123 and A-127 questionnaire and by completing independent systems certification and accreditation reviews, Statement on Auditing Standards (SAS) 70 reviews, A-123 reviews, and other systems assessments. As in prior years, additional compliance review steps included a review of pertinent audit reports issued during FY 2006, a review of the current status of prior year systems-related issues, and discussions with senior managers and auditors regarding the details of pertinent systems-related control issues. Taken as a whole, GSA is confident that these systems-related review activities provide a sufficient basis for assessing Agency compliance with Section 4, FMFIA and FFMIA requirements for FY 2006.

Based on all review work performed during FY 2006, Agency management believes that GSA is in substantial compliance with the requirements referred to in Section 4 of FMFIA. This conclusion is supported by actions completed during the past year to enhance financial reporting controls for budgetary accounting and resolve and remediate prior year audit findings relating to system change management controls. For example, during FY 2006 more than 100 action steps were completed to fully or partially resolve financial systems-related issues and findings. These conditions related to network and application security controls, system change controls,

and other financial systems' general and applications-related internal controls.

No Entity-wide System Non-Conformances Noted

No entity-wide system non-conformances are reported for GSA systems in FY 2006 (see page 43). GSA management is proud of this accomplishment and attributes it to a renewed emphasis on the importance of systems-related internal controls and the collective set of actions successfully completed by managers and associates to improve the systems control environment at GSA. These completed actions served to significantly enhance managerial, operational, and technical systems controls for many of GSA's critical program and financial management systems.

Reportable Conditions

During FY 2006, significant progress was achieved in addressing both prior year reportable conditions related to systems. These conditions involved system change controls for GSA's financial applications and technical information security controls. As a result of actions taken, the independent auditors have determined one of these issues is no longer considered to be a reportable condition. The remaining reportable condition is related to the need to improve certain system controls.

Improvements needed include access controls, segregation of duties, and systems monitoring. To address these findings, new corrective action plans will be developed to ensure management takes appropriate corrective actions.

STATUS OF SYSTEM NON-CONFORMANCES				
	NUMBER AT BEGINNING OF FISCAL YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING END OF FISCAL YEAR
2003 REPORT	2	0	1	3
2004 REPORT	3	3	0	0
2005 REPORT	0	0	1	1
2006 Report	1	1	0	0

Additional Improvements Planned for FY 2007

To ensure that GSA remains properly focused on being proactive in improving the effectiveness of its financial reporting and systems controls, several initiatives are planned for FY 2007. Major initiatives will involve taking various actions to improve financial reporting; strengthening systems-related policies, procedures, and system life-cycle management for program and financial systems.

Additional actions are planned to improve the quality and documentation of systems-related policies, procedures, and system life-cycle management so that best practices can be more uniformly institutionalized and implemented within GSA. Areas of focus for these efforts will include access, configuration management, separation of duties, and technical systems controls.

Finally, action is planned during FY 2007 to more effectively integrate and streamline GSA review and assessment activities pertaining to FMFIA, FFMIA, FISMA, and OMB Circular A-123 and OMB Circular A-127 compliance. During the past two years, significant progress has been achieved in integrating GSA's internal processes for assessing the sufficiency of management and systems-related internal controls via one survey instrument. During FY 2007, the challenge will be to devise and implement an improved and more fully-integrated process to streamline and document the conduct of various reviews relating to internal controls and compliance with OMB Circular A-123 and the new National Institute of Standards and Technology (NIST) requirements pertaining to system-related internal controls. Currently, these activities require considerable efforts on the part of several different groups within GSA. By more effectively coordinating and consolidating these review activities, more comprehensive and meaningful reviews and assessments will be able to be completed in a more timely manner at less cost.

All planned FY 2007 improvement actions should serve to significantly improve systems controls and thereby improve the extent of GSA's overall compliance with pertinent laws and regulations.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

The FFMIA of 1996 requires Federal agencies to implement and maintain financial management systems that comply substantially with: (1) Federal financial management systems requirements; (2) applicable Federal accounting standards; and (3) the USSGL at the transaction level. Under law, Agency heads are required to assess and report on whether these systems comply with FFMIA on an annual basis.

In assessing compliance with FFMIA, GSA adheres to the revised FFMIA implementation guidance provided by OMB and considers the results of the Office of Inspector General (OIG) and GAO audit reports, annual financial statement audits, FISMA-related and other questionnaire results, FISMA compliance reviews, and other systems-related activities.

Based on all information assessed, the GSA Administrator has determined that GSA's financial management systems are in substantial compliance with FFMIA for FY 2006.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

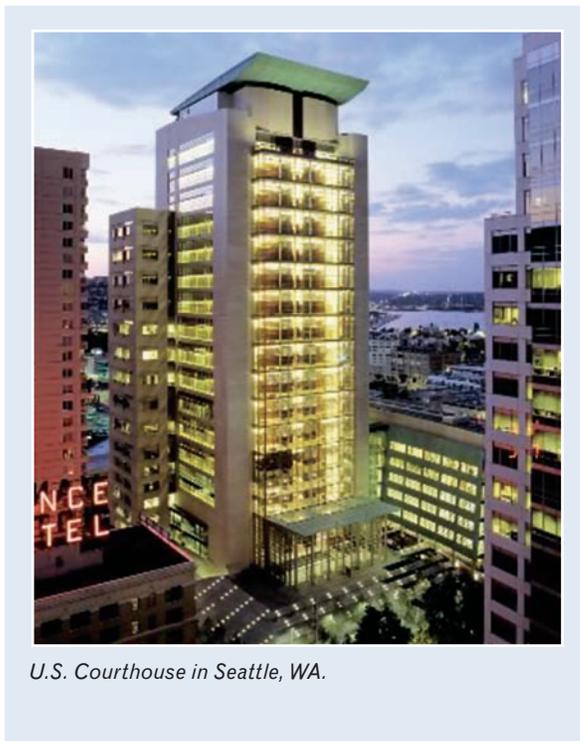
The FISMA of 2002 requires Federal agencies to implement a mandatory set of processes and system controls in order to ensure the confidentiality, integrity, and availability of system-related information and information resources. Processes implemented within each Federal agency must follow a set of established Federal Information Processing Standards (FIPS), NIST and other legislative requirements pertaining to Federal information systems, such as the Privacy Act of 1974.

To ensure compliance with FISMA requirements, GSA maintains a formalized program for information security management that is focused on meeting FISMA requirements, protecting GSA's information resources, and supporting GSA's mission.

This program is supported by a set of established policies, procedures, and processes to mitigate new threats and

anticipate risks posed by new technologies. Designated GSA information security managers and system security officers ensure that information security requirements are being implemented in accordance with FISMA requirements and GSA's policies.

During FY 2006, GSA continued to strengthen its system controls by addressing weaknesses identified within its Plan of Action and Milestones (POA&M) and completing many FISMA-related system control initiatives. Significant accomplishments included completing system certifications and accreditations (C&A), planned systems tests, and contingency plan tests for all of GSA's 79 systems during FY 2006. More than 15,000 Agency employees and contractors completed IT security awareness training and 99.7 percent of Agency employees with significant security responsibilities also completed specialized role based training during the past year. Privacy Impact Assessments (PIA) were completed on all applicable systems. Additionally, GSA completed the required OMB privacy review of its systems pursuant to OMB's memorandum pertaining to the safeguarding of personally identifiable information.



U.S. Courthouse in Seattle, WA.

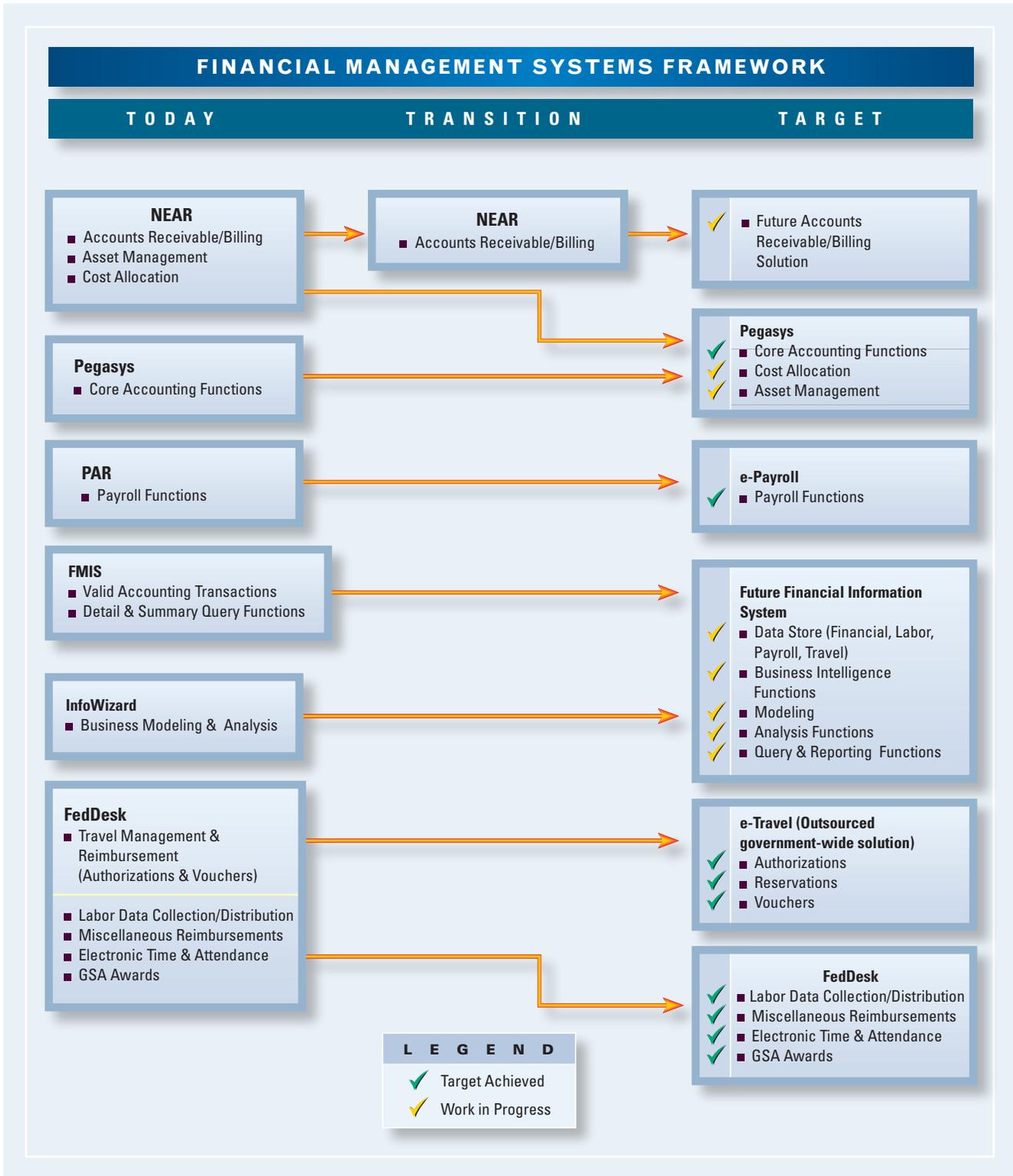
No major system control findings were identified as a result of all FISMA compliance efforts. Accordingly, management believes that GSA remains compliant with FISMA requirements and will maintain or improve upon its OMB scorecard grade of A- for 2006.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

Financial Management Systems

The Chief Financial Officers (CFO) Act assigns clear responsibilities for planning, developing, maintaining, and integrating all accounting and financial management systems within an agency. During FY 2006, significant progress was achieved by GSA in developing and implementing its planned "to be" financial systems framework. This framework is designed to fully integrate and streamline all of GSA's financial system applications in accordance with applicable systems requirements, Federal accounting standards, and other related mandates.

Considerable progress was achieved related to maintaining and expanding the use of GSA's core accounting system, Pegasys. Pegasys is a commercial off-the-shelf (COTS) system solution that integrates several of GSA's financial accounting applications, processes more than 40 million transactions per year, and complies fully with Federal accounting standards and external financial reporting requirements. Pegasys also holds the most current Joint Financial Management Improvement Program (JFMIP) certification concerning its functional design and performance capabilities. In addition to serving as GSA's current financial accounting system of record, Pegasys currently provides GSA with the functionality to meet new requirements to interface with the Central Contractor Registration (CCR) component of the President's integrated acquisition environment E-Gov initiative, as well as support the e-Payroll and e-Travel system initiatives. In keeping with plans to upgrade GSA's core accounting system biennially, during FY 2006 Pegasys was upgraded to an HTML format. In addition, E-Gov Travel, Vendor Self-Service, and cost allocation functionality have been or are being added to GSA's financial management system capabilities.



Significant progress was also made in FY 2006 to review and improve internal controls regarding GSA financial systems (see page 46). For the second consecutive year, SAS 70 reviews were completed for both GSA's Payroll and Pegasys systems. These reviews provide needed feedback to the client agencies on GSA's internal accounting and system controls in relation to established internal control objectives. The conduct of these reviews helps to ensure that GSA maintains an effective system of internal controls and saves GSA's client agencies and their auditors the additional costs of having to periodically test and review GSA's financial systems.

Due in part to the effectiveness and efficiency of GSA's financial management system and its related internal controls environment, GSA was one of four Federal agencies selected by OMB to cross-service other Federal agencies as a Financial Management Line of Business (FMLoB). During FY 2007, GSA will continue with its ongoing efforts to refine its existing financial management system capabilities so that it remains well-positioned to service others as a leading and cost-effective service provider of choice for financial management services.

ANTI-DEFICIENCY ACT

In their FY 2005 and FY 2006 reports, the Department of Defense (DoD) OIG identified potential Anti-Deficiency Act violations in DoD purchases made through GSA. GSA's Office of General Counsel (OGC) reviewed the circumstances of these procurements and determined there were fourteen actions that potentially pose an Anti-Deficiency Act violation at GSA.

Since that time, GSA officials have taken aggressive action to work with DoD in order to resolve each of these actions. GSA is currently determining whether appropriate funds are available within other DoD projects at GSA that could be used to correct these potential violations. The IT Solutions Regional Service Center, working with the IT Solutions Financial Services Center, the Office of Budget, and the OGC will make that determination. If proper funds are found within other projects, customer service representatives from the Regions will contact DoD, and with their permission, GSA would use that budget authority to correct the potential violation(s). If GSA cannot find sufficient budget authority associated with other DoD projects on its books, GSA will request DoD assistance in ascertaining whether they have other proper budget authority that could be applied. These reviews are currently underway and depending on the results, will assist GSA in further enhancing and improving acquisition quality and integrity across the organization. GSA is highly confident that, working together, DoD and GSA will correct this problem and no Anti-Deficiency Act violations will be reported.

IMPROPER PAYMENTS INFORMATION ACT

FY 2006 ANNUAL RISK ASSESSMENT

GSA conducted the erroneous payment risk assessment review during FY 2006 in accordance with Public Law 107-300, The Improper Payments Information Act (IPIA) of 2002. The erroneous payment risk assessment is reported one year in arrears. The assessment consisted of reviewing all GSA business line/program erroneous payment information that was identified by the Regional Finance Centers and the Recovery Audit Contractor, as well as reviewing other audit findings. The risk assessment included such factors as prior audit reports, internal control reviews, complexity of payment calculations, complexity of laws and regulations, and other risk factors.

The review indicates that no GSA program was highly susceptible to erroneous payments according to the threshold amounts established by OMB (\$10 million and 2.5 percent of program disbursements)¹.

GSA continues to demonstrate a strong commitment to improving financial management and was at the forefront in the Federal government for operation of a recovery audit program. In 2001, prior to the National Defense Authorization Act of 2002 (Public Law 107-107), GSA entered into a contract for recovery audit services. The act requires that agencies that enter into contracts with a total value in excess of \$500 million in a fiscal year carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities.

Payments are only made to the recovery auditor upon identification and successful collection of erroneous payments. While GSA's payment error rate remains low at 0.2384 percent, GSA has benefited substantially from the recovery audit contract. GSA has also benefited from the valuable recommendations made by the recovery audit contractor to strengthen internal controls to prevent and detect erroneous payments.

The GSA Administrator has delegated the authority for implementation of Public Law 107-300 to the Agency's CFO. The CFO has further delegated to Agency program officials the responsibility for reporting any program deemed highly susceptible to erroneous payments, developing a corrective action plan, estimating the annual amount of erroneous payments in programs and activities, and establishing goals to reduce them in accordance with the guidance provided by OMB.

AGENCY PLANS FOR FY 2007 – FY 2008

Effective for FY 2006, Circular A-123, Appendix C, updated the requirement for an annual risk assessment. According to Part I, Section E, a risk assessment is required every three years if agency programs are deemed not risk susceptible. Since GSA does not have any programs deemed risk susceptible, GSA will perform the next risk assessment in FY 2008. If a program in GSA experiences a significant change in legislation and/or a significant increase in funding level, GSA will reassess the program's risk susceptibility during the next annual cycle, even if it is less than three years from the last risk assessment.

¹ *Erroneous or improper payments are any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, and administrative or other legally applicable requirement. These involve overpayments, underpayments, payments to ineligible recipients, payments for ineligible service, duplicate payments, payments for services not received, and payments made without accounting for applicable discounts or credits.*

LIMITATIONS OF FINANCIAL STATEMENTS

Management prepares the accompanying financial statements to report the financial position and results of operations for GSA, pursuant to the requirements of Chapter 31 of the U.S. Code section 3515(b). While these statements have been prepared from GSA's books and records, in accordance with the formats prescribed in OMB Circular A-136, Financial Reporting Requirements, these statements are in addition to

the financial reports used to monitor and control the budgetary resources that are prepared from the same books and records. These statements should be read with the understanding that they are for a component of the U.S. government, a sovereign entity. One implication of this is that unfunded liabilities reported in the statements cannot be liquidated without legislation that provides resources to the Agency.



FAS furnishes wildfire protection equipment to Federal agencies through formal agreements with the Department of Agriculture, Forest Service, and Bureau of Land Management.