

GSA MANAGEMENT AND INTERNAL CONTROL PROGRAM – FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT SECTION 2

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish internal control and financial systems that provide reasonable assurance that the three objectives of internal control are achieved:

- Effectiveness and efficiency of operations;
- Compliance with applicable laws and regulations; and
- Reliability of financial reporting.

FMFIA requires that the head of the agency, based on evaluation, provide an annual Statement of Assurance on whether the agency has met these requirements. Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, implements the FMFIA and defines management's responsibility for internal control in federal agencies. FMFIA also requires agencies to establish internal controls over their programs, financial reporting, and financial management systems. GSA internal control reviews are conducted for agency program components to ensure that all significant risks are identified, tested, evaluated, and mitigated timely and effectively. These reviews also ensure that audit findings are responded to in a timely and effective manner and corrective action plans are implemented. GSA provides assurance on the effectiveness of the internal control over operations, management systems, and financial reporting for FY 2010 with consideration to all internal and external reviews of the agency. The "Summary of GSA's Financial Statement Audit and Management Assurances" table is provided in the Other Accompanying Information section of this report.

In FY 2010, GSA continued to strengthen management practices and internal controls to assure the integrity of its programs, operations, and business and financial management systems. This effort included an increased focus on risk management and risk analysis on all programs. GSA successfully completed all the

requirements of OMB Circular A-123; the Office of Federal Procurement Policy's (OFPP) Memorandum entitled, "Conducting Acquisition Assessments under OMB Circular A-123"; the FMFIA; OMB Circular A-127 *Financial Management Systems*; the Federal Financial Management Improvement Act (FFMIA); and the Federal Information Security Management Act (FISMA) as the foundation of effective management operations and internal controls.



In FY 2010, GSA management emphasized the coordination and leveraging of programmatic internal control reviews, financial reporting and system control reviews, acquisition assessment reviews, programmatic risk assessments and real-time management reviews of Recovery Act internal controls and awards. The Recovery Act authorized the Public Buildings Service to invest \$5.6 billion in federal public building projects. This includes \$4.5 billion to transform federal facilities into high-performance green buildings, \$750 million to renovate and construct new federal offices and courthouses, and \$300 million to construct and renovate border stations. As a result of the Recovery Act funding, GSA developed and implemented risk assessments and internal control methodologies to ensure funds are awarded and distributed in a prompt, fair, reasonable, and legal manner, and that Recovery Act expenditures are transparent to the public. These coordinated, risk-based review efforts

achieved benefits by leveraging existing core competencies, reducing duplicative reviews, increasing compliance with all applicable laws and regulations, and reducing the internal control review burden on all GSA programs and organizational components.

In FY 2010, the Procurement Management Review (PMR) team collaborated with the Office of the Chief Financial Officer A-123 Internal Control Review team to jointly conduct financial and acquisition reviews in several regions. A portion of these PMR reviews assessed the effectiveness of the specific control deficiencies identified by GSA external auditors. By analyzing activities from both an acquisition and financial perspective, GSA addressed control issues that involved financial and acquisition functions. As these reviews are completed, all review results are presented to management through the GSA Management Control and Oversight Committee and Senior Assessment Team, as the basis for determining the state of management assurances. Any identified control deficiencies are tracked through a database application and monitored for timely and accurate implementation of corrective actions.

Based on inputs from external auditor test results, several significant control deficiencies were identified that still need to be remedied by agency management. These significant deficiencies relate to the following areas:

- Controls over accounting and reporting of environmental liabilities;
- Controls over accounting and reporting of general property and equipment;
- Controls over budgetary accounts and transactions;
- Controls over the revenue and expense recognition policies; and
- General and application controls over financial management systems.

Notwithstanding the aforementioned areas that require additional improvement actions, GSA can provide reasonable assurance that its internal control over financial reporting is operating effectively and that there are no material weaknesses relating to the design or operation of internal control over financial reporting.

GSA MANAGEMENT AND INTERNAL CONTROL PROGRAM – FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT – 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 U.S. Standard General Ledger (USSGL) recording and reporting requirements. GSA evaluated its financial management system controls and compliance using a consolidated A-123 and A-127 questionnaire and by completing independent systems certification and accreditation reviews, Statement on Auditing Standards 70 reports, A-123 reviews, and evaluating risk indicators contained in the FFMA Compliance Risk Model. As in prior years, additional compliance review steps included a review of pertinent audit reports issued in FY 2010, 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 FFMA requirements.

Based on all review work performed in FY 2010, 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 in the past year to enhance financial reporting and information technology (IT) system controls. For example, in FY 2010 more than 119 actions were completed to fully or partially resolve financial systems-related issues and findings. These conditions related to general and application controls for several GSA financial management systems.

Several significant improvements were made by GSA in FY 2010 to strengthen GSA IT system controls in the areas of segregation of duties, and logging and monitoring controls. However, despite this significant progress, external audit results indicated that some additional actions are still needed to improve system access and segregation of duty controls for certain IT systems. Accordingly, GSA will focus on taking these additional short-term and longer-term actions to continue to enhance its managerial, operational, and technical systems controls for critical program and financial management systems. Planned improvement actions include the implementation of an automated and centralized Identity Credentialing and Access Management (ICAM) System. This system should streamline, standardize, and enhance the daily management of system access and system monitoring activities on a “least-privileged basis”. In addition, further actions will be taken to improve segregation of responsibilities and logging and monitoring controls.

In assessing compliance with FFMIA, GSA adheres to the revised FFMIA implementation guidance provided by OMB and considers the results of the GSA Office of the Inspector General and Government Accountability Office audit reports, annual financial statement audits, Federal Information Security Management Act (FISMA) compliance reviews, risk assessments, and other systems-related review and monitoring activities.

Based on all information assessed, the Administrator has determined that GSA financial management systems are in substantial compliance with FFMIA requirements for FY 2010.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

FISMA requires federal agencies to implement a mandatory set of processes and system controls 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), and National Institute of Standards and Technology (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 information resources, and thereby, 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 system security managers (ISSMs) and information system security officers (ISSOs) ensure that information security requirements are being implemented in accordance with FISMA requirements and GSA policies.

In FY 2010, GSA continued to strengthen its security posture by addressing weaknesses identified in its Plan of Action and Milestones and FISMA performance measures. For example, by the end of FY 2010, GSA fully certified and accredited 100 percent of its information systems in accordance with NIST requirements. In addition, more than 14,900 GSA employees and contractors completed IT security awareness training and 97 percent of all GSA employees with significant security responsibilities completed specialized role-based training. Also, Privacy Impact Assessments were completed on all applicable systems, and GSA continues to implement the provisions in OMB M-06-15, *Safeguarding Personally Identifiable Information*. In FY 2010, GSA also scanned over 18,000 workstations and servers for vulnerabilities as part of its ongoing IT systems vulnerability scanning program. Hundreds of web servers and databases servers were scanned with special tools designed for these platforms. GSA recently implemented an agent on workstation PCs that can monitor software inventory, workstation configuration and patch levels, and harden and patch systems, as necessary. In FY 2011, GSA plans to improve its continuous monitoring program and its FISMA program performance measures consistent with OMB guidance being developed in this area.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

Strategic Overview

The CFO Act assigns clear responsibilities for planning, developing, maintaining, and integrating financial management systems within federal agencies. As depicted on the Financial Management Systems Framework chart on page 26, GSA currently maintains a core accounting system, Pegasys, in addition to its E-payroll applications, portions of its legacy core accounting system, NEAR, and its general support systems which operate on a variety of hosting platforms to support various feeder and support applications.

GSA financial systems strategies for the future include:

1. retiring its legacy accounting system, NEAR, by transferring its billing and accounts receivable (BAAR) and other remaining functionality to Pegasys;
2. implementing the Common Government-wide Accounting Classification (CGAC) structure;
3. enhancing its E-Payroll system capabilities; and
4. more fully integrating its financial applications while streamlining, consolidating, and modernizing financially-oriented general support systems.

These strategies support GSA financial management system goals of reducing financial system operating and maintenance costs, continuing to enhance compliance and IT security controls, and improve financial management and human resource system service offerings as a shared service provider of Human Resources and Financial Management services to other government agencies.

Ongoing Financial System Initiatives

To achieve these strategic goals, GSA continued to make substantial progress in its financial system modernization and improvement efforts in pursuit of

its targeted financial management systems framework. Major efforts included:

1. Replacing Billing and Accounts Receivable functionality.

The objectives of this project are to retire and replace current NEAR system functionality, which is currently one of the most complex accounting processes, involving \$18.5 billion in billings, 2.4 million records, and 70 different sources of revenue, with BAAR. The current system generates 27 different types of bills to support GSA business lines and billing types.

In FY 2010, significant progress was made to complete the system design and configuration for phase 1 of the BAAR system which includes rent bills for the Public Building Service and fleet bills for the Federal Acquisition Service. The anticipated benefits from BAAR include: increased billing and accounts receivable standardization; increased efficiencies from removing labor-intensive and redundant processes; more secure customer system access for paying bills, accessing billing and discrepancy information, billing history information, and accessing customer bills and statements; and improved capabilities for delinquency management. After NEAR system functionality is transferred to the Pegasys system, NEAR will be retired.

2. Implementing the Common Government-wide Accounting Classification structure.

GSA is implementing the CGAC structure. In FY 2010, GSA made considerable progress in converting its cost elements to the new CGAC-compliant sub-object class coding structure. Remaining implementation efforts will be completed over two remaining project phases.

Once fully implemented, this accounting system change will standardize and streamline data capture, promote a consistent basis to compare and measure performance, and enhance the reliability and efficiency of mandated reporting as well as reporting to support decision making.

3. Enhancing E-Payroll Applications to support the HR Line of Business.

To support its customer needs and the Human Resources Line of Business, GSA is enhancing its electronic time and attendance system (ETAMS) by automating the submission of leave and overtime data and ensuring that all E-payroll applications are fully Section 508 compliant.

4. Streamlining and modernizing financial general support systems.

To realize its targeted systems framework for its financial general support systems, GSA plans to: continue consolidating its hosting platforms and data centers for financial systems; reduce its footprint by consolidating and implementing virtualization technology; reduce the number of servers required to support its financial systems; and continue to decommission several of its smaller and older legacy financial management systems.

In FY 2010, considerable progress was made to bolster hosting platforms, consolidate data centers, decommission 40 Business Object universes and 11 legacy financial support applications, and reduce the footprint of hosting platforms by eliminating the need for 36 servers for a 17 percent reduction in maintenance and energy costs.

The anticipated benefits of these actions include reduced costs, increased efficiency, a smaller environmental footprint, improved customer service, and increased system modernization and integration in a more highly-secured processing environment.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Table 1. Summary of Financial Statement Audit

Audit Opinion:	Unqualified				
Restatement:	No				
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Financial Management Systems, Budgetary Controls, and Financial Reporting	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

Table 2. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance:	Unqualified					
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management Systems, Budgetary Controls, and Financial Reporting	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance:	Unqualified					
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management Systems, Budgetary Controls, and Financial Reporting	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance:	Systems substantially conform to financial management system requirements					
NON-CONFORMANCES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management Systems, Budgetary Controls, and Financial Reporting	0	0	0	0	0	0
Total Non-Conformances	0	0	0	0	0	0
Compliance with Federal Financial Management Improvement Act (FFMIA)						
Overall Substantial Compliance	GSA			AUDITOR		
	Yes			Yes		
1. System Requirements	Yes					
2. Accounting Standards	Yes					
3. USSGL at Transaction Level	Yes					