



U.S. GENERAL SERVICES ADMINISTRATION  
Office of the Inspector General

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NOV 09 2017

MEMORANDUM FOR: Timothy O. Horne  
Acting Administrator (A)

Gerard Badorrek  
Chief Financial Officer (B)

FROM: Carol F. Ochoa   
Inspector General (J)

SUBJECT: Independent Auditors' Report on GSA's Financial  
Statements for Fiscal Year 2017

The Chief Financial Officers Act of 1990 (P.L. 101-576), as amended, requires the GSA Inspector General or an independent external auditor, as determined by the Inspector General, to audit GSA's financial statements. Under a contract monitored by my office, KPMG LLP (KPMG), an independent public accounting firm, performed an audit of GSA's fiscal year 2017 financial statements. KPMG performed the audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on GSA's financial statements or conclusions about the effectiveness of internal control or on whether GSA's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996; or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 8, 2017, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We appreciate the courtesies and cooperation GSA extended to KPMG and our staff during the audit. If you have any questions, please contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachment



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## **Independent Auditors' Report**

Acting Administrator and Inspector General  
United States General Services Administration:

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

We have audited the accompanying consolidated financial statements of the U.S. General Services Administration (GSA), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements"). We have also audited the individual balance sheets of the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF) (hereinafter referred to as the "Funds") as of September 30, 2017 and 2016 and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended (hereinafter referred to as the Funds' "individual financial statements") and the related notes to the Funds' individual financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements and the Funds' individual financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements and Funds' individual financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on these consolidated financial statements and the Funds' individual financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the Funds' individual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Funds' individual financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements and the Funds' individual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements and the Funds' individual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Funds' individual financial statements.



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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GSA as of September 30, 2017 and 2016, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, the Funds' individual financial statements referred to above present fairly, in all material respects, the financial position of each of the individual Funds as of September 30, 2017 and 2016, and the individual Funds' net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

#### *Interactive Data*

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or the Funds' individual financial statements or supplementary information required by the Federal Accounting Standards Advisory Board (FASAB). The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements and the Funds' individual financial statements. Such information, although not a part of the basic consolidated financial statements and the Funds' individual financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements and the Funds' individual financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements and the Funds' individual financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements and the Funds' individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements and on the Funds' individual financial statements as a whole. The information in the Other Funds and Intra-GSA Eliminations sections in the consolidating and combining financial statements in Schedules 1 through 4 (hereinafter referred to as "consolidating information"), and the information in the GSA Historical Highlights, Table of Contents, Letter from the Acting Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information sections of GSA's 2017 *Agency Financial Report* is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements or the Funds' individual financial statements.



The consolidating information in Schedules 1 through 4 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The information in the GSA Historical Highlights, Table of Contents, Letter from the Acting Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information sections of GSA's 2017 *Agency Financial Report* has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and the Funds' individual financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

#### ***Internal Control Over Financial Reporting***

In planning and performing our audits of the consolidated financial statements and the Funds' individual financial statements as of and for the year ended September 30, 2017, we considered GSA's and the individual Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements and the Funds' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA's and the individual Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of GSA's and the individual Funds' internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Exhibit I, as items that we consider to be significant deficiencies.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether GSA's consolidated financial statements and the Funds' individual financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 17-03.



We also performed tests of GSA's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

#### *Potential Instances of Noncompliance*

GSA management notified OMB of a potential Antideficiency Act (ADA) violation that resulted from utilizing the Federal Citizens Services Fund to support search capabilities for state and local government websites. In addition, GSA management is reviewing a potential ADA violation related to the ASF's apportionment for reimbursable activity. A final determination has not yet been made, and therefore, the outcome of these matters is not presently known.

#### ***GSA's and the Funds' Responses to Findings***

GSA's and the Funds' responses to the significant deficiencies identified in our audits are described in Exhibit I. GSA's and the Funds' responses were not subjected to the auditing procedures applied in the audits of the consolidated financial statements and the Funds' individual financial statements and, accordingly, we express no opinion on the responses.

#### ***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of GSA's and the individual Funds' internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Washington, DC  
November 8, 2017



**Independent Auditors' Report**  
**Exhibit I – FY 2017 Significant Deficiencies**

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**I. Budgetary Controls Over Apportionments<sup>1</sup>**

The ASF is a full cost recovery revolving fund that primarily finances operations of the Federal Acquisition Service (FAS). The ASF provides for the acquisition of information technology (IT) solutions, telecommunications, motor vehicles, supplies and a wide range of goods and services for federal agencies. This fund recovers costs through fees charged to federal agencies for services rendered and commodities provided.

ASF's budgetary resources do not result from a direct appropriation, therefore, GSA is required to submit an initial apportionment request for ASF by August 21<sup>st</sup> of the preceding fiscal year (FY) using the Office of Management and Budget's (OMB) Standard Form (SF) 132, *Apportionment and Reapportionment Schedule*. In this initial request, GSA will include amounts for anticipated budgetary resources. When actual budgetary resources are known, GSA will submit a reapportionment request to cover any increase over the apportioned budgetary resources on the SF 132. Actual budgetary resources are reported at fiscal year-end on the OMB SF 133, *Report on Budgetary Execution and Budgetary Resources*.

The Budget Control Division, within the Office of the Chief Financial Officer (OCFO), is responsible for monitoring budget execution against apportionments across all accounts at GSA. In addition, the FAS Budget Division monitors the ASF budget Treasury Account Symbol.

*Condition*

Controls over the monitoring of ASF budgetary resources from reimbursable activity did not operate effectively to allow the Budget Control Division and the FAS Budget Division, in the normal course of their assigned functions, to identify instances where actual budgetary resources from reimbursable activity exceeded apportionments. As a result, the Budget Control Division did not request supplemental apportionments or reapportionments from OMB before September 30, 2017.

*Criteria*

1. OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, Sections 15.4, 120 and 145.
2. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government – Principles 10 and 16 – Design Control Activities and Perform Monitoring Activities*, respectively.

*Cause and Effect*

The Budget Control Division did not monitor ASF apportionments effectively to allow for sufficient time to request reapportionment from OMB before the fiscal year end. In addition, FAS ordering systems do not have built-in functionality to automatically identify and notify budget officers of potential high dollar customer orders or to prevent acceptance of customer orders in excess of apportioned funding levels. As a result, ASF budgetary resources for reimbursable activity exceeded ASF apportioned budget authority by approximately \$705 million. This deficiency did not result in an error on the Combined Statement of Budgetary Resources. However, this deficiency may result in a potential violation of the ADA.

*Recommendations*

We recommend that GSA implement new or refine existing budgetary monitoring controls and procedures to ensure apportionment levels are not exceeded. Specifically, we recommend that GSA:

1. Increase the level of scrutiny applied to ASF budgetary resources for reimbursable activity by developing or refining monthly monitoring controls over apportionment levels, SF 133 execution, and revenue and business volume forecasts to ensure alignment between budgetary and proprietary forecasts.

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<sup>1</sup> This finding applies to the ASF and GSA as a whole.

**Independent Auditors' Report**  
**Exhibit I – FY 2017 Significant Deficiencies**

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2. Design and implement a year-end forecast monitoring control following third quarter reporting and request reapportionment as necessary such that there is a sufficient amount of time between the forecast and reporting to ensure any unexpected activity can be accommodated. Develop and implement controls to properly monitor the reapportionment process.
3. Design and implement preventive controls in FAS ordering systems to alert users of activity increases and to prevent acceptance of orders in excess of apportioned funding levels.

**Management Response**

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies. Additional reporting and monitoring will be implemented in fiscal year 2018 and systems enhancements will be evaluated and implemented as feasible.

**II. Controls Over Access to Financial Management Systems<sup>2</sup>**

In FY 2017, we continued to note weaknesses in IT controls designed to protect GSA's financial management systems as required by OMB Circular No. A-130 (Revised), *Management of Federal Information Resources*. Although GSA made progress in certain areas relating to general controls over financial management systems, deficiencies remain in controls over access to programs and data, as follows.

*Conditions*

Effective controls over access to programs and data are implemented to prevent unauthorized access and users from performing tasks not assigned to them and logging and monitoring the activity performed to detect any unscrupulous, unauthorized, or inappropriate activity that could lead to a compromise of the confidentiality, integrity, and availability of the data residing in the information system. Throughout the period under audit, we identified the following weaknesses in controls over access to programs and data:

1. Controls were not designed properly, consistently implemented, or fully effective over user and administrator accounts included in applications, databases, and operating systems. Specifically, we continued to note control deficiencies over:
  - a. Periodic recertification of access for operating system administrators (in 2 of 6 systems tested) and developers (in 1 of 6 systems tested),
  - b. Timely removal of access for separated operating system administrators (in 1 of 6 systems tested), and
  - c. Timely deactivation of inactive accounts for operating system administrators (in 1 of 6 systems tested).
2. Controls were not designed properly, consistently implemented, or fully effective over logical access to key financial in-scope systems. Specifically, we noted control deficiencies over session lockout and termination, and inactivity for applications and operating systems (in 1 of 6 systems tested).
3. Controls were not designed properly, consistently implemented, or fully effective over audit logs including configuration, review, documentation of review, and access to audit logs for applications and operating systems (in 1 of 6 systems tested).
4. Controls were not designed, consistently implemented, or fully effective over separation of duties. Specifically, we identified an instance where a user had access to both the development environment and access to promote changes to the production environment (in 1 of 6 systems tested).

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<sup>2</sup> This finding applies to the ASF and GSA as a whole.

**Independent Auditors' Report**  
**Exhibit I – FY 2017 Significant Deficiencies**

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*Criteria*

1. GAO *Standards for Internal Control in the Federal Government* – Principles 10 and 11 – *Design Control Activities* and *Design Activities for the Information System*, respectively.
2. The National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* (NIST 800-53, Revision 4): AC-2 *Account Management*, AC-5 *Separation of Duties*, AU-6 *Audit Review, Analysis, and Reporting*, and CM-5 *Access Restrictions for Change*.
3. GSA Order CIO P 2100.1K CHGE 1, *GSA Information Technology Security Policy*.
4. IT Security Procedural Guide: *Audit and Accountability (AU)*, CIO-IT Security-01-08, Revision 4.
5. The CIO-IT Security-03-23, *IT Security Procedural Guide: Termination and Transfer*, Revision 2.

*Cause and Effect*

GSA did not enforce documented system-specific, GSA-wide, and NIST policies and procedures consistently. As a result, certain access to programs and data controls were not designed and implemented properly or operating effectively in FY 2017. In addition, certain GSA system-specific or GSA-wide policies and procedures did not require the documentation and maintenance of supporting control documentation or review evidence. Further, GSA's corrective actions for certain prior year conditions were not applied to all GSA applications and did not address the root causes of the control exceptions identified.

Without implementing effective access to programs and data controls, the risk increases that unauthorized users could perform tasks not assigned to them and activity performed would not be prevented, logged, and monitored, therefore increasing the risk that unscrupulous, unauthorized, or inappropriate activity could be performed and not detected, which could lead to a compromise in data confidentiality, integrity, and availability.

*Recommendations*

We continue to recommend that GSA implement the following:

1. Enforce NIST, GSA-wide, and system-specific access to programs and data policies and procedures to ensure access to programs and data controls are operating effectively.
2. Provide periodic training over NIST, GSA-wide, and system-specific access to programs and data policies and procedures.
3. Develop corrective actions and apply them to all GSA applications to address the root causes of the control exceptions identified.
4. Enhance the process to monitor the completeness of the corrective actions to ensure they address the condition and root cause of the control exceptions identified.
5. Review and maintain documented evidence of timely review for all accounts, roles, and job functions, for employees and contractors.
6. Terminate access in a timely manner, in accordance with entity and system-specific policies and procedures, and maintain documented evidence of timely termination, for employees and contractors.
7. Separate users who have access to promote changes and patches into the production environment from users who have access to develop changes and patches.
8. Review and maintain documented evidence of timely review of users with access to the development environment.
9. Review and maintain documented evidence of timely review of audit logs.
10. Configure the lockout duration and inactivity configuration settings in accordance with NIST, GSA-wide, and system-specific policies and procedures.



**Independent Auditors' Report**  
**Exhibit I – FY 2017 Significant Deficiencies**

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**Management Response**

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

**III. Monitoring Controls Over Financial Reporting<sup>3</sup>**

Internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces. Therefore, monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks. Internal control monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews. Specifically, we noted the following related to GSA's monitoring controls.

*Conditions*

1. GSA did not have or did not consistently and effectively perform monitoring controls over the recording of certain journal entries, apportionments, IT audit logs and vulnerability scans, construction in process transfers, and environmental survey results used in the methodology for estimating asbestos-related environmental cleanup liabilities.
2. GSA does not have formalized policies, procedures, or processes established and in place to properly assess third-party service providers that host or operate GSA financial systems. As a result, GSA did not consistently monitor user controls, as documented in third party service providers' reports, to ensure they are operating effectively.

*Criteria*

1. GAO *Standards for Internal Control in the Federal Government*. Principle 10 – *Design Control Activities*, Principle 12 – *Implement Control Activities*, and Principle 16 – *Perform Monitoring Activities*.

*Cause and Effect*

GSA did not have or did not consistently enforce monitoring controls over financial reporting processes. Without the proper monitoring controls in place and operating effectively, GSA continues to run the risk that misstatements are neither prevented nor detected in the financial records and financial statements in a timely manner.

*Recommendations*

We recommend that GSA management continue to strengthen its monitoring controls, as follows:

1. GSA and its components should design monitoring controls to consistently and effectively monitor financial reporting activities and processes including the recording of journal entries, apportionments, IT audit logs and vulnerability scans, construction in process transfers, and survey results used in estimation methodologies.
2. GSA should continue to refine and strengthen its policies, procedures, and processes to properly assess third-party service providers that host or operate GSA financial systems.

**Management Response**

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

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<sup>3</sup> This finding applies to the ASF, FBF, and GSA as a whole.