



**Office of Audits
Office of Inspector General
U.S. General Services Administration**

**Independent Auditors' Report
U.S. General Services Administration's
Financial Statements - Fiscal Years 2018 and 2017
November 8, 2018**




U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

NOV 8 2018

TO: EMILY W. MURPHY
ADMINISTRATOR (A)

GERARD BADORREK
CHIEF FINANCIAL OFFICER (B)

FROM: CAROL F. OCHOA 
INSPECTOR GENERAL (J)

SUBJECT: Independent Auditors' Report
U.S. General Services Administration's
Financial Statements – Fiscal Years 2018 and 2017
November 8, 2018

The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the U.S. General Services Administration's (GSA's) Inspector General, or an independent external auditor, as determined by the Inspector General, to audit GSA's consolidated financial statements. Under a contract awarded by GSA and monitored by my office, KPMG LLP (KPMG), an independent public accounting firm, audited GSA's consolidated, Acquisition Services Fund (ASF), and the Federal Buildings Fund (FBF) financial statements as of September 30, 2018, and 2017. The contract required KPMG to perform the audit in accordance with U.S. generally accepted government auditing standards; the Office of Management and Budget's Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*; and the U.S. Government Accountability Office *Financial Audit Manual*, which is maintained by the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency.

In its audit of GSA's Fiscal Years 2018 and 2017 financial statements, KPMG reported:

- The consolidated, ASF, and FBF financial statements present fairly, in all material respects, the financial position of GSA, the ASF, and the FBF as of September 30, 2018, and 2017, 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;
- No material weaknesses in internal control over financial reporting; and
- No reportable noncompliance with provisions of laws tested.

KPMG also described two significant deficiencies in internal control, specifically related to controls over access to financial management systems, which has been identified in prior years, and controls over financial reporting.

Details regarding KPMG's conclusions are included in the "Opinions on the Financial Statements," "Internal Control Over Financial Reporting," and "Compliance and Other Matters" sections, as well as in Exhibit I of this report. Within 14 days of this report, KPMG will issue a separate Management Letter to GSA regarding other, less significant matters that came to its attention during the audit.

KPMG is responsible for the attached independent auditors' report and the opinions and conclusions expressed therein. My office is responsible for technical and administrative oversight regarding KPMG's performance under the terms of the contract.

To fulfill our oversight responsibilities under the Inspector General Act of 1978, as amended, to assure that KPMG complied with U.S. generally accepted government auditing standards, we performed a moderate level of review, which included:

- Evaluating the qualifications and independence of the firm and the auditors;
- Reviewing KPMG's audit approach and planning documents;
- Monitoring the progress of the audit at key milestones;
- Performing periodic reviews of KPMG's workpapers;
- Attending key meetings with GSA management and KPMG auditors to discuss audit progress, findings, and recommendations; and
- Performing other procedures that we deemed necessary.

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 of the financial statements in accordance with U.S. 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 over financial reporting, or conclusions on whether GSA's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act, or on compliance with laws and other matters. KPMG is responsible for the attached independent auditor's report dated November 8, 2018, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We provided a draft of KPMG's report to GSA's Chief Financial Officer, who concurred with its findings and agreed to implement the recommendations. The Chief Financial Officer's comments are included in KPMG's report. The Fiscal Year 2019 independent auditors will follow up on any outstanding recommendations and evaluate the adequacy of corrective actions.

I appreciate the courtesies and cooperation your office has extended to KPMG and my staff during the audit. If you have any questions, you may contact me at (202) 501-0450. If your staff needs any additional information, they may also contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachment



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

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, 2018 and 2017, 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 accompanying financial statements of the Acquisition Services Fund (ASF), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended (presented in Schedules 1 – 4), and the related notes to the ASF financial statements.

Further, we have also audited the accompanying financial statements of the Federal Buildings Fund (FBF), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended (presented in Schedules 1 – 4), and the related notes to the FBF financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated, ASF and FBF 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, ASF and FBF financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these consolidated, ASF and FBF 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. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated, ASF and FBF financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated, ASF and FBF financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated, ASF and FBF 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, ASF and FBF 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, ASF and FBF 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 U.S. General Services Administration as of September 30, 2018 and 2017, 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 ASF financial statements referred to above present fairly, in all material respects, the financial position of the Acquisition Services Fund as of September 30, 2018 and 2017, 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 FBF financial statements referred to above present fairly, in all material respects, the financial position of the Federal Buildings Fund as of September 30, 2018 and 2017, 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.

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, ASF and FBF financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. 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, ASF and FBF financial statements. Such information, although not a part of the basic consolidated, ASF and FBF financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated, ASF and FBF 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, ASF and FBF financial statements, and other knowledge we obtained during our audits of the basic consolidated, ASF and FBF 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 opinions on the basic consolidated financial statements as a whole, ASF financial statements as a whole, and FBF 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 Table



of Contents, About this Report, Letter from the 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 2018 *Agency Financial Report* are presented for purposes of additional analysis and are not a required part of the basic consolidated, ASF and FBF financial statements.

The consolidating information 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 Table of Contents, About this Report, Letter from the 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 of GSA's 2018 *Agency Financial Report* has not been subjected to the auditing procedures applied in the audits of the basic consolidated, ASF and FBF 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, ASF and FBF financial statements as of and for the year ended September 30, 2018, we considered GSA's, ASF's and FBF's 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, ASF and FBF financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA's, ASF's and FBF's internal control. Accordingly, we do not express an opinion on the effectiveness of GSA's, ASF's and FBF's 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 audits 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 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GSA's consolidated, ASF and FBF 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 audits, 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 under *Government Auditing Standards* or OMB Bulletin No. 19-01.

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 audits, 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.

Other Matters

GSA management identified two matters that may represent violations of the Anti-Deficiency Act. These matters are currently under review by OMB. A final determination has not yet been made, and therefore, the outcome of these matters is not presently known.

GSA's Responses to Findings

GSA's responses to the significant deficiency identified in our audits are described and presented as a separate letter attached to this report. GSA's responses were not subjected to the auditing procedures applied in the audits of the consolidated, ASF and FBF 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 results of that testing, and not to provide an opinion on the effectiveness of GSA's, ASF's and FBF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 8, 2018

Independent Auditors' Report

Exhibit I – FY 2018 Significant Deficiencies

I. Controls Over Access to Financial Management Systems¹

In FY 2018, we continued to note weaknesses in information technology (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 users from performing tasks not assigned to them and to log and monitor 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 certain applications and operating systems. Specifically, we continued to note control deficiencies over:
 - a. Approval for new access for operating system administrators (in 2 of 7 systems tested) and application users (in 1 of 7 systems tested);
 - b. Periodic recertification of access for operating system administrators (in 4 of 7 systems tested), application users (in 3 of 7 systems tested), and application change migrators (in 2 of 7 systems tested); and
 - c. Timely removal of access for separated operating system administrators (in 1 of 7 systems tested) and application users (in 3 of 7 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 password history and password complexity for applications and databases (in 1 of 7 systems tested).

Criteria

1. Government Accountability Office (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. National Institute of Standards and Technology (NIST) SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, security control requirements AC-2 *Account Management*, CM-5 *Access Restrictions for Change*, IA-4 *Identifier Management*, IA-5 *Authentication Management*, and PS-4 *Personnel Termination*.
3. GSA Order CIO P 2100.1K CHGE 1, *GSA Information Technology Security Policy*.
4. IT Security Procedural Guide: *Identification and Authentication* (IA), CIO-IT Security-01-01, revision 5.
5. IT Security Procedural Guide: *Termination and Transfer*, CIO-IT Security-03-23, Revision 2.

¹ This finding applies to the ASF, FBF and GSA as a whole.

Cause and Effect

GSA did not enforce documented system-specific and GSA-wide policies and procedures and NIST requirements consistently for financial management systems and associated general support systems managed by GSA or hosted by third parties. In addition, certain GSA system-specific or GSA-wide policies and procedures did not require the documentation and maintenance of supporting control documentation or evidence of review. Further, GSA's corrective actions for certain prior-year conditions were not applied consistently to all GSA applications and did not address root causes of the control exceptions identified.

Without implementing effective access controls to programs and data, the risk increases that unauthorized users could perform tasks not assigned to them and activity performed would not be prevented, logged, and monitored. This can increase the risk that unscrupulous or unauthorized 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 GSA-wide and system-specific policies and procedures to approve user accounts, roles, and job functions for employees and contractors prior to assigning them in the financial management systems and associated general support systems, and maintain documented evidence of these approvals.
2. Enforce GSA-wide and system-specific policies and procedures to review and recertify all accounts, roles, and job functions for employees and contractors in the financial management systems and associated general support systems, including the accounts with privileges to migrate application changes into the production environment, and maintain documented evidence of this review and recertification.
3. Enforce GSA's termination and transfer procedures to remove system access of terminated or transferred employees and contractors in a timely manner.
4. Configure the settings for password history and password complexity in accordance with NIST requirements and GSA-wide and system-specific policies and procedures.
5. Assess the corrective actions to remediate current and open prior-year conditions and determine, based on root cause analyses, whether to:
 - a) Apply corrective actions to all GSA applications, when conditions could affect more than one application, and
 - b) Validate that the root causes of the control deficiencies are addressed in the corrective actions.

II. Controls Over Financial Reporting¹

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 consistently and effectively perform review controls over the preparation of its financial statements. As a result, GSA relied on multiple audit reviews to ensure its financial statements were prepared in accordance with all applicable OMB requirements.
2. GSA did not consistently monitor user controls, as documented in third party service providers' reports, to ensure they were properly designed and operating effectively. Specifically, we noted an instance where GSA used an incorrect posting logic to record gains and losses related to vehicle disposals. We recommended, and GSA recorded, an audit adjustment for approximately \$49.3 million to correct the gains and loss balances as of September 30, 2018.

Criteria

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 the financial reporting process. Without the proper monitoring controls in place and operating effectively, GSA continues to run the risk that required disclosures and misstatements are neither prevented nor detected and corrected 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 should perform a comprehensive evaluation of the current financial statement review process. At a minimum, the financial statement review should be done at a sufficient level of precision; performed by an appropriate level of the Office of Chief Financial Officer (OCFO) personnel; and documented to maintain evidence that the review was performed timely and that the financial statements are complete, accurate, and in accordance with applicable required standards.
2. GSA and its components should design monitoring controls to consistently and effectively monitor financial related activities and processes, including the recording of gains and losses from vehicle disposals.
3. GSA should continue to refine and strengthen its policies, procedures, and processes to properly assess user controls associated to third-party service providers that host or operate GSA financial systems.

¹ This finding applies to the ASF, FBF and GSA as a whole.



DATE: November 8, 2018

TO: Carol Ochoa
GSA Inspector General

FROM: Gerard Badorrek 
GSA Chief Financial Officer

SUBJECT: Response to FY 2018 Independent Auditors' Report

The General Services Administration (GSA) has reviewed the independent auditors' report prepared by KPMG LLP that includes the auditors' opinions on the GSA consolidated, the Acquisition Services Fund (ASF), and the Federal Buildings Fund (FBF) financial statements; the auditors' report on internal control over financial reporting; and the auditors' report on compliance and other matters.

GSA received an unmodified opinion on GSA's consolidated, ASF and FBF financial statements, and there were no material weaknesses identified. GSA is developing and will execute corrective action plans to address the two significant deficiencies -- one related to controls over the financial reporting process and the other related to weaknesses in information technology controls designed to protect GSA's financial management systems.

GSA agrees with KPMG's recommendations, and will focus on the necessary corrective actions to address the root causes of these two significant deficiencies.

GSA appreciates the professionalism, due diligence and recommendations provided by the Office of Inspector General as well as KPMG.