

**LIMITED AUDIT OF THE FISCAL YEAR 2007  
FEDERAL MANAGERS' FINANCIAL  
INTEGRITY ACT SECTION 2 AND  
SECTION 4 ASSURANCE STATEMENTS  
REPORT NUMBER: A070205/A/F/F08003  
NOVEMBER 9, 2007**



U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

November 9, 2007

Reply to: Andrew Patchan, Jr.  
Attn of: Assistant Inspector General for Auditing (JA)

Subject: Limited Audit of the Fiscal Year 2007 Federal Managers' Financial Integrity Act Section 2 and Section 4 Assurance Statements  
Report Number: A070205/A/F/F08003

To: Lurita Doan  
Administrator (A)

David L. Bibb  
Deputy Administrator (AD)

This report presents the results of the Office of Inspector General's (OIG) limited audit of the General Services Administration's (GSA) Fiscal Year 2007 Federal Managers' Financial Integrity Act (FMFIA), Section 2 and Section 4 Assurance Statements. Assurance Statement questionnaires are issued to and completed by the Regional Administrators (RAs) and the Heads of Services and Staff Offices (HSSOs). Their results are used by the Management Control and Oversight Council as a basis for developing the Administrator's FMFIA Assurance Statement to the President and Congress as well as input for the Annual Performance and Accountability Report.

The objectives of the audit were to (1) review Assurance Statement questionnaire submissions that disclose all known control weaknesses and non-compliances in the Agency's programs, operations, and systems and summarize the results, and (2) identify and disclose material weaknesses reported by other credible entities.

To accomplish our objectives we reviewed: the FMFIA Section 2 and Section 4 Assurance Statement questionnaires submitted by the RAs and HSSOs, internal and external audit reports, and the findings to date by GSA in conjunction with Cotton and Company LLP, an independent public accounting firm, who conducted an OMB Circular A-123, Appendix A, Testing of Internal Controls Over Financial Reporting review.

The audit was performed in accordance with generally accepted government auditing standards. However, we did not perform an assessment of the internal control structure over the Agency's FMFIA evaluation and reporting process. Accordingly, we do not express an opinion on the adequacy of the basis used in the preparation of the assurance statements submitted by the RAs and HSSOs.

2007 Fiscal Year, Washington, DC 20460-0002

U.S. General Services Administration  
 3125-0001-0001

## **RESULTS OF AUDIT**

In reviewing management and systems control weaknesses reported in the FMFIA Section 2 and Section 4 Assurance Statement questionnaires from GSA senior management, we identified that the Agency senior officials reported weaknesses in the following areas: Budgetary Reporting, Non-compliance with Federal Financial System Requirements and Internal Control Issues at the Heartland Region. PricewaterhouseCoopers (PwC) also identified budgetary reporting deficiencies regarding unfilled customer orders and undelivered customer orders as well as information systems deficiencies relating to system access, segregation of duties and monitoring controls. The PwC issues will be reported as significant deficiencies in their audit report. The OIG audits identified issues relating to the Federal Information Security Management Act (FISMA). Specifically, information systems tested were not adequately secured and required background investigations were not completed for contractors. Also, the Government Accountability Office (GAO) had reported relevant GSA operational deficiencies.

### **Budgetary Reporting**

The Chief Financial Officer (CFO) and the Deputy CFO have identified budgetary accounts as an area of concern in their Fiscal Year 2007 Section 2 Assurance Statement questionnaires. PwC has also identified budgetary findings regarding undelivered orders and unfilled customer orders during their review of GSA's Financial Statements. Specifically, during the internal control testing phase of their Audit of GSA's Financial Statements, PwC determined that controls surrounding the Public Buildings Service (PBS) unfilled customer orders and undelivered orders were ineffective. As a result, PBS performed statistical sampling of its budgetary accounts to validate the reported year-end balances. In turn, PwC performed further testing on these statistical samples to substantiate PBS's budgetary account balances. This issue will be classified as a significant deficiency in the FY 2007 Financial Statement audit report.

### **Noncompliance with Federal Financial System Requirements**

The CFO, Deputy CFO, and the Director of Financial Management Systems issued qualified Section 4 Assurance Statements due to non-compliance with Federal Financial System Requirements. The rationale behind the qualification, in part, was a continuation of the prior year Assurance Statement reporting with (1) room for improvement in the area of Unfilled Customer Orders and Obligations, (2) the lack of integrated feeder systems for Pegasys, and (3) inconsistent data elements from the feeder systems. Additionally, internal controls for Construction in Process were reported as complex and inefficient.

Also, the OMB Circular No. A-123 review performed by Cotton and Company LLP noted that the Visual Imaging Tracking and Processing (VITAP) and Regional Business Application (RBA) systems were classified as high-risk.

### **Internal Control Issues at Heartland Region**

As reported in the Heartland Region's Section 2 Assurance Statement, the Regional Administrator issued a qualified assurance statement relating to internal controls. Specifically, the assurance statement details inadequate internal controls regarding recoveries of prior year obligations (chargebacks) that are difficult to trace through their systems to determine why the amounts are chargebacks. Several million dollars in chargebacks and write-offs against revenue has resulted in negative revenue. Also, the Global Supply Operation, a national program located in the Heartland Region, is not following Department of Defense's (DoD) guidance for inter-agency transactions. Specifically, the DoD's guidance requires that a review be performed by a DoD contracting officer prior to the placement of all orders over \$500,000.

### **GSA's Implementation of the Federal Information Security Management Act (FISMA)**

As required by law, the OIG performed the FY 2007 review of GSA's progress in implementing FISMA. The purpose of FISMA is to provide a framework for securing Federal information systems. Despite the GSA Chief Information Officer's efforts to improve its information technology security program, it has not been fully effective in ensuring that risks for all applications, data repositories, and services within system boundaries are identified and mitigated. For instance, the FY 2007 FISMA report determined that oversight of contractor-supported systems was not comprehensive where systems were not secured. Auditors also found that configuration management should be strengthened in the area of configuration settings, and Agency policies and procedures are in need of improvement in some cases.

The Pegasys System, GSA's web-based core financial system of record, was selected for review as part of the OIG's annual FISMA audit. As a result of the ongoing operational audit of Pegasys and FISMA related testing, the OIG issued an interim report *A070094/B/TF080001, Pegasys Security Controls*. This interim report found that Pegasys has security control issues in several areas: configuration management, system and communications protection, web application security, system and services acquisition, and awareness and training. Due to the critical nature of these issues, the OIG issued the interim report to management.

Furthermore, as noted in the OIG's FY 2007 FISMA Review of GSA's Information Technology Security Program, controls currently in place and those planned under HSPD-12 will not ensure that contractor background investigations are

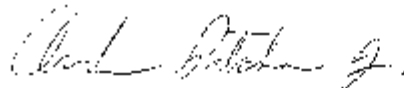
investigations are requested and completed before access is granted to GSA systems. For instance, 25 contractors were granted access to a system before background investigations were requested. However, the task order stated that "no access shall be given to the government computer information systems and government sensitive information without a background investigation being verified or in process." The lack of background investigations being completed for contractors is also a recurring significant system security risk and has been included in FISMA reports issued since 2002.

Lastly, PwC reported a significant deficiency relevant to IT security. Specifically, PwC reported in their audit report that GSA needs to strengthen system access, separation of duties, and monitoring of controls. For instance, control deficiencies were identified that indicate the need for continued progress to address weaknesses within GSA's logical access controls, segregation of duties, and monitoring of user actions.

#### **Government Accountability Office (GAO) Reporting on GSA's Operational Deficiencies**

In its report on *General Services Administration Could Better Manage Unexpended Construction Balances and Make its Budget More Transparent*, [GAO-07-409R](#), GAO found that (1) project information systems lacked readily available information to track project status and provide timely and accurate information to GSA management and (2) GSA lacked effective policies and procedures for determining when projects are complete and unexpended balances become available for other needs. This is similar to the condition of the aforementioned Construction in Process weakness disclosed by the CFO's Section 4 Assurance Statements.

We appreciate the cooperation and courtesies extended to our staff during this audit. Should you or your staff have any questions, please contact Jeffrey Womack, Deputy Assistant Inspector General, Finance and Administrative Audits Office, at (202) 501-6006.



Andrew Patchan Jr.  
Assistant Inspector General for Auditing (JA)

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