

REVIEW OF PEGASYS ACCOUNT
BALANCE AND TRANSACTION ANALYSIS –
UNFILLED CUSTOMER ORDERS
REPORT NUMBER A060169/B/7/F07006

JANUARY 3, 2007

Date: January 3, 2007

Reply to

Attn of: Regional Inspector General for Auditing (JA-7)

Subject: Review of Pegasys Account
Balance and Transaction Analysis –
Unfilled Customer Orders
Report Number A060169/B/7/F07006

To: Kathleen Turco
Chief Financial Officer (B)

James A. Williams
Commissioner, Federal Acquisition Service (Q)

This report presents the results of our survey of the Review of Pegasys Account Balance and Transaction Analysis – Unfilled Customer Orders (UFCO). This review was included in the Office of Inspector General's Fiscal Year (FY) 2006 Annual Audit Plan.

Background

Under OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, the General Services Administration (GSA) is required to submit interim unaudited financial statements to the Office of Management and Budget's Office of Federal Financial Management on a quarterly basis. One of the required quarterly financial statements is the Statement of Budgetary Resources (SBR), which provides information about how budgetary resources were made available as well as their status at the end of the reporting period. In the Combined SBR for the 6-month period ended March 31, 2006, GSA's reported Change in UFCO was a decrease of \$735 million for the Information Technology Fund (ITF)¹.

In the interim audit testing of GSA's FY 2005 Financial Statements, Pricewaterhouse Coopers (PwC), an independent public accounting firm, identified control weaknesses and accounting errors in UFCO. In response to PwC's interim assessment, GSA management developed a remediation plan that included selecting and reviewing a statistical sample of transactions as of August 31, 2005, to identify incorrect items and project the error rate to the September 30, 2005, ITF UFCO account balance. Based on

¹ The Change in UFCO was comprised of a \$719.5 million decrease in UFCO Without Advances (General Ledger Account 4221) and a \$15.3 million decrease in UFCO With Advances (General Ledger Account 4222). Each was calculated by taking the March 2006 adjusted general ledger balance and subtracting the beginning FY 2006 adjusted general ledger balance.

the extrapolation of the sampling error rate to the UFCO account balance, management recorded a worksheet adjustment to reduce the year-end UFCO balance for the ITF.

PwC was unable to satisfy itself as to the reported amounts related to UFCO reported by the ITF as of September 30, 2004. In addition, in FY 2005, management identified material UFCO balances of the ITF that were invalid or cancelled. As such, PwC did not render an opinion on the FY 2004 and 2005 SBR for the ITF. Further, PwC reported a material weakness concerning inadequate controls over monitoring, accounting, and reporting of agency budgetary transactions. In response to PwC's recommendations, GSA developed a comprehensive action plan to address the material weakness.

Objectives, Scope, and Methodology

The objectives of our survey were to answer the following:

Were adjustments made to the General Ledger (GL) accounts used to calculate the Change in Unfilled Customer Orders (UFCO) as reported in the financial statements? If so, what adjustments were made, and has management placed controls over the adjustment process?

We limited our survey work to the ITF's Change in UFCO. We further limited our survey to the Change in UFCO Without Advances and to the applicable March 2006 worksheet adjustment because the Change in UFCO Without Advances represented approximately \$719 million, or 97 percent, of the reported \$735 million decrease in UFCO.

To accomplish the survey objectives, we:

- Reviewed the Combined SBR for the 6-month period ended March 31, 2006;
- Obtained an understanding of and reviewed the Change in UFCO calculation;
- Selected the Change in UFCO Without Advances and \$384.6 million worksheet adjustment for March 2006;
- Reconciled the UFCO Without Advances worksheet adjustment to supporting summary documentation;
- Reviewed PwC work papers pertaining to: (1) FTS budgetary cycles related to UFCO; (2) substantive testing of internal controls over UFCO; and (3) results of the UFCO testing;
- Reviewed GSA's action plan in response to the FY 2005 reported material weakness; and
- Interviewed Office of Chief Financial Officer personnel to gain an understanding of the worksheet adjustment to the UFCO Without Advances.

The survey was conducted from April through October 2006 in accordance with generally accepted government auditing standards.

Results of Review

We reviewed a \$384.6 million worksheet adjustment to UFCO Without Advances, which was a compilation of several adjustments.² Management has developed and implemented changes to their control processes related to budgetary transactions and these adjustments. During the audit of GSA's FY 2006 Financial Statements, PwC placed greater emphasis on reviewing and testing controls over UFCO.

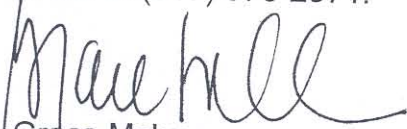
In addition, we found the \$384.6 million worksheet adjustment to be supported by source documentation.

Conclusion

Based on our analysis of the UFCO Without Advances worksheet adjustment and PwC's extensive review and testing of controls over UFCO in FY 2006, we have determined that further audit work is not warranted at this time.

Please note this report is informational only and as such, neither a written reply is required nor is the report subject to the audit resolution process.

If you have any questions concerning this review, please address them to Joe G. Lara or me at (817) 978-2571.



Grace McIver
Audit Manager
Fort Worth Field Audit Office (JA-7)

² We found the \$384.6 million worksheet adjustment to UFCO Without Advances was a compilation of the following adjustment: (1) Invalid UFCO – adjustment for the identification of invalid customer funding and for the projected correction of errors in UFCO; (2) Unassigned funding allocation between the ITF (299x) and GSF (295x) – adjustment for the allocation of the ITF that should have been assigned to the GSF; and (3) Timing – adjustments for UFCO activity occurring after month-end closing.

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