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Report to the Chairman, Subcommittee on General Services, Federalism, and the District of Columbia, Committee on Governmental Affairs, U.S Senate

September 1992

GENERAL SERVICES ADMINISTRATION

Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement

GAO/GGD-92-98

GAO

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The Honorable Jim Sasser
Chairman, Subcommittee on General
Services, Federalism, and the
District of Columbia
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report assesses the General Services Administration's (GSA) efforts in three key areas that we regard as essential to controlling fraud, waste, and mismanagement: (1) overall agency emphasis, implementation, and oversight of internal controls; (2) resolution of audit findings and recommendations; and (3) Financial Integrity Act implementation and reporting. It also identifies the GSA functions and activities that pose the greatest potential risks of losses and inefficiencies.

The report makes several recommendations to the Administrator of the General Services Administration that are aimed at improving GSA's existing efforts in the three key internal control areas we assessed and more fully and effectively protecting the eight GSA functions and activities that our assessment indicated are high risk.

As agreed with the Subcommittee, we plan no further distribution of this report until 10 days after the date of issuance, unless you publicly announce its contents earlier. At that time, we will send copies to the Administrator of the General Services Administration; Director, Office of Management and Budget; and other interested congressional committees and subcommittees. Copies of this report will be made available to others upon request.

If you have any questions or would like further information, please contact me at (202) 275-8676. Major contributors to this report are listed in appendix II.

Sincerely yours,

L. Nye Stevens

L. Nye Stevens
Director, Government Business
Operations Issues

Executive Summary

Purpose

Governmentwide program abuses, illegal activities, and management inefficiencies cost taxpayers billions of dollars annually and undermine public confidence in the government's ability to manage its operations and safeguard valuable federal assets. Continuing disclosures of such problems indicate that the federal government's systems of internal and accounting controls designed to prevent them are not working as effectively as they should.

Because of past abuses at the General Services Administration (GSA), the governmentwide scope of its operations, and concerns about its vulnerability to the types of problems that have plagued the departments of Housing and Urban Development and Defense as well as other federal agencies, the Chairman of GSA's Senate Oversight Subcommittee asked GAO to (1) assess the adequacy and effectiveness of GSA's efforts to prevent and combat fraud, waste, and mismanagement and (2) identify GSA functions and activities that may be especially vulnerable.

Background

The nature, dollar magnitude, and scope of GSA's operations provide ample opportunities for fraud, waste, and mismanagement. Its real estate portfolio, supply procurement and distribution activities, travel and transportation services, telecommunication and computer services, and property management and disposal functions involve more than $10 billion annually and extensive interaction with the private sector. If GSA were a private company, it would be ranked about number 50 on the Fortune 500 list of the largest U.S. companies.

Since GSA is in many respects like a large, diversified business and its activities and programs have governmentwide implications, it is especially critical that its operations be adequately protected. Losses and inefficiencies in GSA's activities and programs not only adversely affect its operations but also the operations of federal agencies that rely on GSA for facilities, supplies, and other day-to-day mission support. Losses and inefficiencies can cost the government huge sums of money, raise questions about GSA's continuing central role, and undermine federal agencies' mission accomplishment.

Since the late 1970s, when it experienced fraud and corruption in its federal buildings and supply operations, GSA, like other federal agencies, has established an Office of Inspector General and implemented the Federal Managers' Financial Integrity and Chief Financial Officers acts; taken a number of actions aimed at improving its internal control, financial management, and accounting systems and processes; and undergone major organizational and role changes.

As agreed with the Subcommittee, this initial report presents the overall results of GAO's assessment of GSA's internal control efforts in three principal areas GAO regards as essential to controlling fraud, waste, and mismanagement: (1) overall agency emphasis, implementation, and oversight of internal controls; (2) resolution of audit findings and recommendations; and (3) the Financial Integrity Act. It also presents the results of GAO's assessment of GSA's most vulnerable functions and activities.

In making its assessment, GAO relied heavily on the cumulative body of evidence already available on GSA's operations, management deficiencies, and internal control weaknesses and did other audit work and analyses as appropriate. The results of other work GAO has under way on two of GSA's most vulnerable activities—supply purchases and supply depot operations—will be presented in subsequent reports.

Results in Brief

GAO identified eight GSA functions and activities that pose the greatest potential risks of losses and inefficiencies. Despite actions taken by GSA to manage the risks, some of these areas are inherently vulnerable and require constant vigilance. For some others, the corrective actions taken have not been fully successful or have not been in place long enough to judge their effectiveness.

Over the years, GSA's management has made concerted efforts to strengthen internal control systems, and progress has been made. However, audits have continued to disclose many recurring management, operational, and oversight deficiencies. As a result, GSA's multibillion dollar operations are not protected as fully as they should be. GAO believes that additional improvements are needed in some of the key processes used to ensure the timely and effective implementation of corrective actions necessary to address control system weaknesses.

Principal Findings

High Risk Functions and Activities

GAO's assessment identified the following GSA functions and activities as especially vulnerable to fraud, waste, or mismanagement:

- acquisitions of facilities (see pp. 58-62);
- building repairs and modernization (see pp. 62-64);
- acquisitions of telecommunications and automated data processing equipment, software, and services (see pp. 64-69);
- automated management information systems (see pp. 69-72);
- procurements of common-use equipment and supplies (see pp. 72-76);
- supply depot operations (see pp. 76-78);
- identification, management, and sales or other dispositions of excess or underutilized government property (see pp. 78-81); and
- management and utilization of the governmentwide motor vehicle fleet (see pp. 81-84).

Implementation and Oversight of Internal Controls

Historically, GSA has relied heavily on audits and investigations by its Inspector General (IG) as its primary control against fraud, waste, and mismanagement. The IG's audits, as well as GAO's, consistently have disclosed recurring management and oversight deficiencies and program losses and inefficiencies. However, the IG cannot look at everything the agency does. For example, available resources have permitted the IG to examine only about 12 to 15 percent of the GSA contract actions with private vendors that should be audited annually. (See pp. 32-34.)

GAO believes GSA should make the prevention of such problems a higher and more clearly stated agencywide priority and employ a more proactive strategy and approach to complement and more effectively utilize the results of audits and investigations. For example, GSA could make better use of trend data to (1) eliminate recurring deficiencies in its building leasing practices and (2) more fully protect its operations from continuing criminal activities and other employee conduct and integrity problems. (See pp. 34-35.)

Resolution of Audit Findings

GSA's existing audit follow-up and resolution process has not held services and regions accountable for fully correcting deficiencies identified during audits, and it has several other limitations that have impeded its effectiveness. Consequently, many of the managerial, operational, and oversight deficiencies that were identified in earlier audit reports have not been fully corrected and continue to occur. Of the 56 deficiencies that were reported in the 10 IG audit reports sampled by GAO, 26 still existed. (See pp. 37-43.)

Financial Integrity Act Implementation and Reporting

The Financial Integrity Act requires that federal agencies make ongoing evaluations of their internal control and accounting systems and report annually to the president and Congress on the condition of these systems and their actions to correct the weaknesses identified. While GSA has designated several of its program components as high risk and made the required internal control evaluations, its last two reports have (1) disclosed no new material weaknesses or nonconformances and (2) indicated that the agency has only one open material weakness from previous years. (See pp. 14 and 43-51.)

GAO believes that more complete disclosure of documented material internal control weaknesses and actions being taken to address them is necessary if the process is to achieve its intended purposes. (See p. 51.)

Recommendations

GAO is making several recommendations to the Administrator of GSA that are aimed at (1) improving GSA's existing efforts in three key areas—overall agency emphasis, implementation, and oversight of internal controls; resolution of audit findings; and Financial Integrity Act implementation and reporting—and (2) more fully and effectively protecting the eight agency functions and activities that GAO's assessment indicated are high risk. (See pp. 55-56 and 84.)

Agency Comments

GSA and the Office of Management and Budget (OMB) commented on a draft of GAO's report. GSA acknowledged that it could and should do more to protect its operations from fraud, waste, and mismanagement; agreed with and committed to implement GAO's recommendations; and discussed other agency initiatives under way to address problems identified in this report. GSA's written comments are presented in appendix I and summarized at the end of chapter 3. (See pp. 56 and 86-88.)

Responsible OMB officials generally agreed with GAO's recommendations to GSA, acknowledged that GSA has made progress in improving its internal control structures and processes, and said that GSA now needs to do more to hold its operating and program managers accountable for fully implementing established controls. OMB's oral comments are summarized at the end of chapter 3. (See p. 56.)

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Abbreviations

ADEPT	automated document entrance and processing transaction subsystem
ADP	automated data processing
CFO	Chief Financial Officer
CPA	Certified public accountant
DSMD	discount scheduling and marketing data
FIA	Financial Integrity Act
FPRS	Federal Property Resources Service
FSS	Federal Supply Service
FTS	Federal Telephone System
GS	General Schedule
GSA	General Services Administration
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
IG	Inspector General
IRM	information resources management
IRMS	Information Resources Management Service
IT FUND	Information Technology Fund
OIG	Office of the Inspector General
MAS	multiple award schedule
OAP	Office of Acquisition Policy
OMB	Office of Management and Budget
PBS	Public Buildings Service
PCB	polychlorinated biphenyl
PIA	Partnership in Administration
PMR	Program Management Review
QAMA	Quality Approved Manufacturer Agreement
SES	Senior Executive Service
STRIDE	systematically tiered regionally integrated data environment

Introduction

Americans are deeply skeptical of their government's integrity and its ability to effectively operate its various activities and programs and to safeguard valuable federal assets. They expect and deserve an efficient and effective government that, at all times, is fully accountable for how it spends public funds. Continual reports of financial losses and other inefficiencies from fraud, waste, and mismanagement reinforce the public's perception that the federal government is wasteful and poorly managed with little or no control.[1]

Instances of fraud, waste, and mismanagement are not new. They also are not limited to certain areas or programs and are not isolated instances affecting only a few agencies. Instead, they span major governmentwide activities, such as procurement, automated data processing, and property and financial management, that are at the very core of the government's management processes.

Numerous disclosures in recent years, such as the widespread abuses and mismanagement at the Department of Housing and Urban Development (HUD) and fraud in defense contracting and Medicare billings, indicate that the federal government continues to be plagued by serious breakdowns in its internal control systems that are designed to prevent and detect such losses. Governmentwide, such program abuses, illegal activities, and management inefficiencies cost taxpayers billions of dollars and undermine their confidence in the government.

Governmentwide Efforts to Combat Fraud, Waste, and Mismanagement

Over the years, various initiatives have been instituted to combat these objectionable practices by improving governmentwide internal controls and strengthening audit oversight of government activities and programs. The principal initiatives include the Accounting and Auditing, Inspectors General, and Federal Managers' Financial Integrity Acts. Although these and other laws have resulted in improvements, problems remain. Consequently, Congress, the Office of Management and Budget (OMB), and we have reintensified efforts to address these long-standing problems.

The Accounting and Auditing Act of 1950, 31 U.S.C. 3511 et seq, required that agencies establish and maintain effective internal control and accounting systems and make internal audits of their operations. The 1950 act was later amended to require that federal agencies comply with audit standards prescribed by the Comptroller General. Although we have

[1]As used in this report, the term "fraud, waste, abuse, and mismanagement" refers generically to any agency actions, practices, or spending that are, or would appear to a rational person to be, illegal, corrupt, dishonest, unauthorized, unneeded, wrong, or otherwise questionable.

issued guidance designed to help agencies establish and maintain effective internal control systems, agencies' development of effective control systems has been slow.

Developments in the 1970s and early 1980s dramatically illustrated that the established controls had not been effective. For example, our 1978 report on fraud in government programs emphasized that federal agencies, including the General Services Administration (GSA), were doing a poor job of preventing and detecting fraud.[2] We found that federal agencies (1) did not know the nature and extent of fraud in their activities and programs and lacked the management information required to detect it; (2) had not made fraud prevention and detection a high, agencywide priority, fixed responsibility for identifying and combating it, and ensured that all suspected occurrences of fraud were being referred for investigation; and (3) may not have staff with the necessary knowledge, skills, and abilities to effectively investigate alleged instances of fraud.

To redress these problems, our 1978 report recommended that the Secretaries of Agriculture, HUD, Labor, and Transportation and the Administrators of GSA, Small Business Administration, and Veterans Administration institute a more proactive, systematic approach for preventing and detecting fraud. The report recommended that such an approach be achieved by

- elevating fraud prevention and detection to a high agency priority and designating organizational responsibility for it;
- developing management information systems that provide information on the types and methods of fraud and techniques to estimate its magnitude in their activities and programs;
- taking steps to make employees more aware of fraud potential, ensuring that allegations or known irregularities are referred to the proper authorities for investigation; and
- improving investigator qualifications and training.

Also, in the 1970s a series of investigations done by the House Committee on Government Operations disclosed that (1) agencies' systems of internal and accounting controls were not preventing fraud and abuse and (2) auditors and investigators throughout the executive branch suffered from lack of independence, effective organization and leadership, coordination, and resources. Following disclosures in 1974 and 1975 of serious

[2]Federal Agencies Can and Should Do More to Combat Fraud in Government Programs (GAO/GGD-78-62, Sept. 19, 1978).

deficiencies at the then Department of Health, Education, and Welfare (HEW) (now the Department of Health and Human Services) in preventing and detecting fraud and program abuse, Congress created an Inspector General (IG) in HEW in 1976. Subsequently, Congress created IGs at most federal departments and agencies; GSA's IG was created in 1978. OMB Circular A-50, "Audit Followup," dated September 29, 1982, contains the policies and procedures that agencies are expected to use in following up on IG as well as our audit findings.

Agency IGs have a clear legislative mandate to make audits and investigations related to agency programs and operations; promote economy, efficiency, and effectiveness; prevent and detect fraud and abuse in agency programs and operations; and keep agency heads and Congress informed about problems and deficiencies in agency programs and operations. The President's Council on Integrity and Efficiency, composed of agency IGs and other law enforcement and compliance officials, is responsible for coordinating the implementation of executive branch activities to combat fraud, waste, and mismanagement. It is also to promote the sharing of ideas to foster innovative and effective approaches for improving government programs and operations.

Congress enacted the Federal Managers' Financial Integrity Act (FIA) in 1982 (P. L. 97-255, Sept. 8, 1982). As amended, this act requires that federal agencies (1) make continuing evaluations of their internal control and accounting systems that protect federal programs from occurrences of fraud, waste, and mismanagement and (2) report annually to the president and Congress on the condition of these systems and their actions to correct identified weaknesses. As stated in the act, agencies' internal control systems should provide reasonable assurance that

- obligations and costs comply with applicable law;
- all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and
- revenues and expenditures are recorded and accounted for properly.

FIA recognizes that the ultimate responsibility for good internal controls rests with management. OMB guidance emphasizes that internal controls are management controls that should be an integral part of each system that management uses to regulate and guide its operations. OMB Circular A-123, "Internal Control Systems," contains policies and guidance federal agencies are expected to use in implementing FIA's requirements and ensuring the adequacy of internal controls.

Although the FIA requirement has existed for almost 10 years, it has not been as effective as Congress intended. In four earlier reports on governmentwide implementation of FIA, we have been increasingly critical of federal agencies' implementation and reporting efforts and failure to improve the effectiveness of their internal control and accounting systems.[3] These earlier reports showed the types and severity of the problems that exist throughout the federal government. They also showed the need for a vigorous program to correct such problems.

In response to these continuing governmentwide problems in general and the HUD scandal in particular, Congress, OMB, and we stepped up efforts to (1) combat fraud, waste, abuse, and mismanagement in government activities and programs; (2) further strengthen existing internal controls; and (3) further improve the federal government's financial management. For example, Congress increased its oversight of federal agencies' efforts to improve their internal control systems and processes and enacted the Chief Financial Officers (CFO) Act of 1990, Public Law 101-576, November 15, 1990. This act creates a new executive branch leadership structure for improving federal financial management, calls for the development of a comprehensive financial management reform plan, and establishes a pilot program to test the feasibility of conducting agencywide financial audits.

OMB intensified its leadership, guidance, and oversight of the executive branch's implementation and reporting under FIA and directed executive agencies to concentrate their improvement efforts on their highest risk areas. Similarly, we reaffirmed our long-standing concerns about the federal government's vulnerability and targeted 16 "high risk" areas for special audit attention.

Overview of GSA's Operations

GSA, in many respects, is comparable to a large, diversified commercial business. The nature, dollar magnitude, and scope of its activities and programs provide many opportunities for losses and inefficiencies. Any such occurrences in GSA's multibillion dollar activities and programs not only adversely affect the economy, efficiency, and effectiveness of its operations but also the operations of federal agencies that rely on GSA for

[3] Implementation of the Federal Managers' Financial Integrity Act: First Year (GAO/OCG-84-3, Aug. 24, 1984); Financial Integrity Act: The Government Faces Serious Internal Control and Accounting Systems Problems (GAO/AFMD-86-14, Dec. 23, 1985); Financial Integrity Act: Continuing Efforts Needed to Improve Internal Control and Accounting Systems (GAO/AFMD-88-10, Dec. 30, 1987); and Financial Integrity Act: Inadequate Controls Results in Ineffective Federal Programs and Billions in Losses (GAO/AFMD-90-10, Nov. 26, 1989).

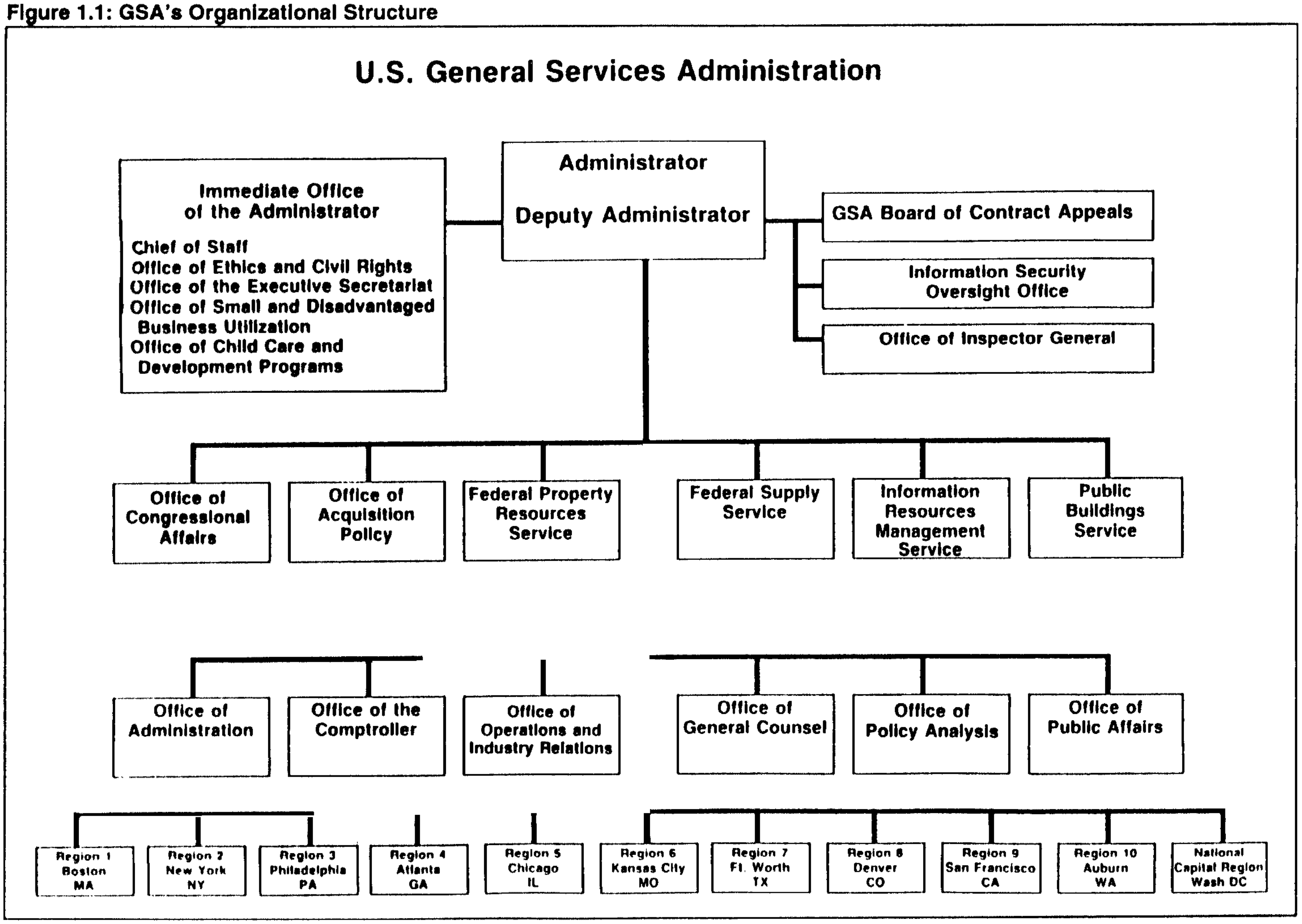
facilities, supplies, and other day-to-day mission support. Consequently, it is especially critical that GSA's operations be adequately protected.

As the federal government's principal real estate and business agent, GSA's activities and programs are diverse and have governmentwide implications. Its real estate portfolio, supply procurement and distribution activities, travel and transportation services, telecommunication and computer services, and property management and disposal function involve huge sums of money and extensive interaction with the private sector. If GSA were a private sector company, it would rank about number 50, in terms of sales, on the Fortune 500 list of the largest U.S. companies.

GSA spent over $10 billion in fiscal year 1991 to provide the facilities, goods, and services that federal agencies need to carry out their missions. Through various revolving or trust fund type arrangements, GSA buys most of these goods and services from private vendors and resells them to agencies. Additionally, GSA arranges for federal agencies to purchase billions of dollars of goods and services directly from private vendors through its governmentwide supply, travel and transportation, and automated data processing and telecommunications contracts.

GSA is headed by an administrator who is nominated by the president and subject to Senate confirmation. GSA is organized into 4 service components—Public Buildings Service (PBS), Federal Supply Service (FSS), Information Resources Management Service (IRMS), and Federal Property Resources Service (FPRS)—11 staff offices, 8 primary regions, and 3 satellite regions. It is largely decentralized with the 4 services carrying out programs through regional offices and the 11 staff offices providing support services. GSA's 19,000 employees nationwide work in its central office in Washington, D.C., or in its regions for 1 of the 4 services or the staff offices that support them. Primary regions are in New York, Philadelphia, Atlanta, Chicago, Kansas City, Fort Worth, San Francisco, and Washington, D.C.; satellite regions are in Boston, Denver, and Auburn, WA. The services and regional and staff offices are all aligned under the Office of the Administrator. GSA's organizational structure is shown in figure 1.1.

Figure 1.1: GSA's Organizational Structure



Source: General Services Administration

Since 1978, GSA has experienced a high rate of executive turnover and now has more political appointees, decentralized its operations, and delegated or contracted out many of its day-to-day responsibilities to third parties—characteristics that our past work at HUD and elsewhere suggests are indicators of vulnerability. Our November 1989 general management report chronicled the frequent turnover among GSA's key executives and its disruptive effects on agency objectives and operations.[4] Because changes in political leadership are inevitable, we recommended a number of actions to strengthen GSA's executive leadership and direction setting, which the agency is attempting to implement.[5]

GSA's most current (October 1991) strategic plan discusses turnover in its executive positions, acknowledges its disruptive effects on agency objectives and operations, and recognizes that it will continue to be a significant aspect of GSA's environment. Although there have been 11 changes in GSA's chief executive since April 1977, the current administrator has served for almost 4 years, the longest tenure in over 20 years. Similarly, some other top-level executives' tenures have been relatively stable, but considerable turnover has occurred in other positions. For example, there have been six deputy administrators since March 1985, four IRMS commissioners since September 1988, and nine PBS commissioners since January 1984.

According to GSA personnel data, the agency's number of noncareer Senior Executive Service (SES) and general schedule (GS) political appointees has increased by a total of 9 since 1978—from 40 to 49. GSA had 21 noncareer SES political appointees as of September 30, 1991, compared with 20 as of August 1978.[6] Political appointees included the deputy administrator, chief of staff, four associate administrators, general counsel, associate deputy general counsel, two service commissioners, and all regional administrators. Between August 1978 and September 30, 1991, the agency's total number of GS political appointees (Schedule Cs) increased from 20 to 28; over this 13-year period, the number of Schedule Cs has varied considerably from a low of 7 at the end of fiscal year 1980 to a high of 33 at the end of fiscal year 1990.

During the current administrator's tenure, the total number of GSA political appointees has declined. When the current administrator's term began in May 1990, GSA had a total of 54 political appointees—20 noncareer SES appointees and 34 Schedule C appointees—which represented .28 percent of GSA's total employees. As of September 3, 1992, GSA had a total of 50 political appointees—23 noncareer SES appointees and 27 Schedule C

[4]General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14, Nov. 6, 1989).

[5]See General Services Administration: Status of Management Improvement Efforts (GAO/GGD-91-59, Apr. 3, 1991).

[6]The September 1991 figure did not include three SES employees who occupied noncareer positions in August 1978, previously held a career position, and subsequently were permitted to return to career status effective July 13, 1979, under provisions of the Civil Service Reform Act of 1978 (P. L. 95- 454, approved Oct. 13, 1978).

appointees—which represented .25 percent of GSA's total employees. While the total number of GSA political appointees has fluctuated during the current administrator's tenure, the highest level has been 55 political appointees, which existed in March 1992.

As we mentioned earlier, GSA's operations are decentralized. The nature, dollar magnitude, and governmentwide scope of GSA's operations make them inherently vulnerable to fraud, waste, and mismanagement, regardless of the degree of centralization or decentralization. Although decentralization is used extensively by many organizations and offers certain operational advantages, our work at GSA and elsewhere has shown that it can increase the potential risks of losses and inefficiencies. GSA's four services are responsible for making policy, proposing funding levels, and ensuring that customer agencies get the facilities, goods, and services needed to accomplish their missions. However, they have little or no direct control over implementing programs or allocating resources. Instead, these functions are handled by the regional offices that carry out GSA's operations and interact, on a daily basis, with private vendors and federal agencies. Before 1978, the services exerted strong centralized control over agency activities and programs; GSA has since changed its operating philosophy to give the regional offices more autonomy.

Historically, GSA has had more of a direct operating role than it has today. GSA's governmentwide policymaking and oversight role was greatly expanded in the early 1980s. As part of this role expansion, GSA has delegated many of its direct operating responsibilities to others. For example, it has delegated day-to-day building operations and lease administration authority to the agencies that occupy about 25 percent of the space it controls. In addition, GSA has delegated limited building repair and alteration authority to some agencies on a case-by-case basis and space-leasing authority to a few selected agencies. Also, GSA now relies more extensively on private vendors to provide many of the services it once provided with its own workforce. In the public buildings area, for example, GSA contracts with private commercial property managers to operate and maintain some federal buildings that cannot be delegated to tenant agencies.

From a financing standpoint, GSA is unusual among federal agencies in that a majority of its funds are generated from building rents and sales of goods and services to other federal agencies, not from direct appropriations from Congress. However, GSA can spend this money only in accordance with obligation limitations carried in annual appropriation acts. For fiscal year

1993, GSA has requested authority to obligate about $11.4 billion, of which only about 1.9 percent would come from direct appropriations. According to GSA, 98.1 percent, about $11.2 billion, will come from other federal agencies through rental payments and purchases of the goods and services it provides.

Most of the $10.4 billion that GSA spent in fiscal year 1991 was for public buildings and supply and transportation activities. As shown in table 1.1, PBS' activities accounted for about 58 percent, FSS' activities for 30 percent, IRMS' activities for 10 percent, and FPRS' activities for only 0.2 percent; the remaining 2.2 percent was spent for general management and administration of GSA's activities and programs, Office of Inspector General (OIG) audits and investigations, reimbursable administrative support of various small federal agencies and commissions, operations of the Consumer Information Center in Pueblo, CO, and payment of entitlements to former presidents.

Table 1.1: GSA Obligations for Fiscal Year 1991

Dollars in thousands

	Obligations	
GSA service activity	**Amount**	**Percent of total**
PBS	$5,983,306	57.7
FSS	3,098,414	29.9
IRMS	1,036,603	10.0
FPRS	24,130	0.2
All others	232,191	2.2
Total	**$10,374,644**	**100.0**

GSA's spending has more than doubled since 1978 and probably will continue to increase in the future. Compared with its fiscal year 1978 spending level of $4.15 billion, GSA spent $10.4 billion in 1991 and has requested obligational authority to spend $11.4 billion for fiscal year 1993.

Earlier Abuses at GSA

In the 1970s, fraud and corruption in GSA's building construction and maintenance and supply operations received considerable media, congressional, and Justice Department attention. Beginning about 1977, numerous charges of fraud and abuse were made that touched many of GSA's programs. For example, a major scandal involved GSA's self-service supply stores. At least 50 people, including suppliers and federal employees, received fines and jail terms for theft, bribery, embezzlement, and other crimes. As a result, GSA acquired an embattled image that it is still struggling to overcome.

Over the next 5 years, hearings by House and Senate committees disclosed several other examples of potential fraud and documented waste and abuse in GSA programs. These examples included building managers who authorized unnecessary repairs and alterations to federal buildings and who participated in schemes to falsify invoices claiming payment for work that either was not done or was done by federal employees. The examples also included charges of widespread abuse of government credit cards. In addition, millions of dollars worth of new furniture was purchased while GSA and other federal agencies had warehouses full of functional older and unused new furniture. New furniture purchases included some of poor quality, but complaining federal agencies were unable to get GSA to correct the problem of poor quality furniture. Some GSA quality assurance people were found to have taken bribes to (1) accept contracted-for goods that did not meet specifications or (2) help ensure that certain companies were awarded contracts.

In congressional testimony between 1977 and 1982, several GSA administrators and other top executives presented plans to reform the agency and eliminate its vulnerability to fraud and abuse. For example, during February 20, 1979, hearings by the House Government Operations Subcommittee on Government Activities and Transportation, Joel W. Solomon, then the GSA Administrator, said in describing conditions at the agency:

> "[W]e went back to the 1968 hearings of the Jack Brooks committee. You would listen to what was said in 1968 and what Chairman Brooks brought out in that hearing, and you would find that all you had to do was change the date from 1968 to 1978 and the same practices went on, even though commitments had been made to the committee that changes would take place. But those changes never took place."

In response to our 1978 report on fraud in government programs, GSA promised to institute several new management controls. These included

- clarifying organizational authorities and responsibilities,
- improving audit capabilities,
- eliminating favoritism in its contracting,
- identifying other GSA activities and programs that are especially susceptible to fraud, and
- resolving other long-standing problems.

Objectives, Scope, and Methodology

Because of the governmentwide scope of GSA's operations, the earlier abuses that occurred at GSA in the 1970s, and concerns about GSA's continued vulnerability to the types of problems that have engulfed HUD, the Department of Defense, and other federal agencies, the Chairman of the Senate Governmental Affairs Subcommittee on General Services, Federalism, and District of Columbia asked us to (1) assess the adequacy and effectiveness of GSA's efforts to prevent and combat fraud, waste, and mismanagement and (2) identify GSA functions and activities that may be especially vulnerable.

As agreed with the Subcommittee, we analyzed GSA's various activities and programs and focused our assessment primarily on the three internal control functions and processes that we believe are key in preventing and combating losses and inefficiencies: (1) overall agency emphasis, implementation, and oversight of internal controls; (2) resolution of audit findings and recommendations; and (3) FIA implementation and reporting. Because of GSA's heavy reliance on OIG as its first line of defense against such losses and inefficiencies, we also (1) examined OIG's organization, resource levels, and reported accomplishments and (2) evaluated the extent to which GSA used the results of OIG audits, investigations, and other activities as management tools to improve agency operations and reduce its vulnerability.

This report describes GSA's vulnerabilities and evaluates the adequacy and effectiveness of GSA's cumulative efforts in the three key internal control areas since the documented abuses of the 1970s and our 1978 fraud report. It is not intended to be a snapshot of GSA's current efforts or a report card on the current GSA Administrator. Historical data are used to show that existing internal control weaknesses and inherent vulnerabilities are not new but rather are long-standing problems. We also included the most recent data made available to us in analyzing trends. For example, our evaluation of GSA's FIA implementation and reporting was based on its cumulative efforts over the 9 years that the FIA requirements have existed, including GSA's latest report covering fiscal year 1991 as well as OIG and OMB evaluations through May 1992. Using only the latest data would have provided an incomplete perspective on GSA's efforts to protect its operations and could have left the false impression that the vulnerabilities discussed are solely a product of the current administration.

We did our work primarily at GSA's Central Office in Washington, D.C., and its regional office in New York, which includes the Boston satellite region. As part of our efforts to follow up on GSA's corrective actions in response to certain GSA IG audit reports, we also visited GSA's regional offices in Chicago and Washington, D.C. The results of other work we have under way on two of GSA's most vulnerable activities—supply purchases and supply depot operations—will be presented in subsequent reports.

To assess the adequacy and effectiveness of GSA's overall emphasis, implementation, and oversight of established internal control structures and processes in protecting its programs and activities from fraud, waste, and mismanagement, we followed up on our 1978 governmentwide report on fraud in government programs and GSA's promised corrective actions. Also, we evaluated GSA's operating policies, procedures, and practices for protecting its operations from such occurrences. Specifically, we (1) determined the priority GSA has placed on preventing and detecting losses and evaluated its success in reducing or minimizing its vulnerability; (2) identified, cataloged, and considered OIG and our audit reports issued since 1978 that highlighted problems with GSA's management and oversight of its activities and programs; (3) evaluated GSA's use of the findings, conclusions, and recommendations in those reports as well as the adequacy of its corrective actions in response to them; (4) evaluated GSA's efforts to prevent, detect, and resolve documented as well as potential employee conflict-of-interest, integrity, and other misconduct problems; (5) considered OMB's views and feedback to GSA concerning its overall management of agency activities and programs and its internal control efforts; and (6) identified and evaluated GSA's recent and ongoing internal control improvement efforts in several key areas.

To assess the adequacy and effectiveness of GSA's audit follow-up and resolution efforts, we evaluated GSA's success in implementing OIG and our past audit report recommendations and correcting the conditions that precipitated them. To do this, we judgmentally selected 10 OIG audit reports dealing with various activities and programs at the GSA Central Office and 3 regions—New York, Chicago, and Washington, D.C.— that GSA's audit follow-up and resolution system indicated were closed and fully implemented. For each of the 10 audit reports, we reviewed available GSA action plans to address the reported findings and recommendations, discussed them and GSA's response with officials of the affected agency organization, and determined whether the reported condition still existed. Similarly, we followed up on several of our earlier audit reports to evaluate the adequacy of GSA's action plans and whether its reported or ongoing corrective actions actually solved or would solve the problems we reported. Finally, we reviewed GSA's policies and procedures for resolving audit findings, its practices for tracking and reporting corrective actions taken in response to audit findings and observations, and the resources it devoted to this activity.

To assess the adequacy and effectiveness of GSA's FIA implementation and reporting, we reviewed its annual FIA reports to the president and Congress for fiscal years 1983 through 1991. We compared the internal control weaknesses GSA disclosed in those FIA reports and those that it reported as corrected with the documented findings OIG and we reported during that same 9-year period. We then noted and followed up on any discrepancies. Also, we examined and considered available OIG audit reports and OMB correspondence and evaluations on GSA's FIA efforts. To evaluate GSA's implementation of the FIA process in a regional office, we chose New York because it is one of the largest regions. We reviewed the functioning of the New York region's FIA process for fiscal year 1990 and the guiding policies, procedures, and data it used as the basis for the regional administrator's 1990 FIA assurance statement to the GSA Administrator. These 1990 data were the most current data available when we did this portion of our work in New York, and the FIA process and guiding policies and procedures have not changed since then.

To assess GSA's overall vulnerability to fraud, waste, and mismanagement and identify agency functions and activities that may be high risk, we considered and relied heavily on the cumulative body of evidence already available from various sources on GSA's operations, management deficiencies, and internal control weaknesses. These sources included

- GSA's congressional budget presentations and justifications for fiscal years 1990 through 1993;
- our past reports on GSA's management practices and its various activities and programs as well as our continuing institutional knowledge of GSA's operations;
- past OIG audit reports on GSA's operations and contracts with private vendors and OIG investigations of alleged wrongdoing by GSA employees and contractors;
- GSA's FIA reports covering fiscal years 1983 through 1991 and its first CFO's report covering fiscal year 1991;
- independent audits of GSA's consolidated financial statements for fiscal years 1988, 1989, and 1990 by Arthur Andersen & Co., Certified Public Accountants (CPA);
- OMB's feedback to GSA regarding its operations and performance in general and its implementation of the FIA and CFO acts in particular; and

- the Senate Governmental Affairs Committee's May 1990 confirmation hearings of Richard G. Austin to be Administrator of GSA.

We did our work in accordance with generally accepted government auditing standards. GSA and OMB provided comments on a draft of this report. We have included GSA's written comments in appendix I and summarized them and OMB's oral comments at the end of chapter 3.

Overview of GSA's Past and Ongoing Efforts to Improve Internal Controls and Financial Management

As indicated in chapter 1, GSA has established an Office of Inspector General; implemented the Federal Managers' Financial Integrity and Chief Financial Officers' Acts; and undergone role, organizational, and management changes since 1978. Over the years, GSA also has made a number of improvements in its internal control and financial management structures, processes, and procedures and devoted extensive resources and management attention to them. The current Administrator of GSA has continued that tradition. Under his stewardship, the agency has made, and continues to make, a concerted effort to strengthen management control systems and processes. During the course of our assessment, for example, GSA established a top-level Management Control Oversight Council and instituted a number of other efforts designed to improve its implementation of FIA evaluation and reporting requirements and oversight of other related management control processes and tools.

Past Efforts

In response to the earlier abuses in the 1970s, our 1978 governmentwide fraud report,[1] legislative requirements, and other factors or on its own initiative, GSA has taken numerous actions aimed at improving its internal controls and financial management. A few key examples include

- creation of an Office of Acquisition Policy (OAP), which is responsible for governmentwide and internal procurement policy and procedures and for overseeing the agency's acquisition activities and individual contract actions;
- development and implementation of an audit follow-up and resolution process, which tracks OIG and our audit report recommendations and the agency's actions to implement them;
- establishment of a Special Counsel for Ethics, which now is a staff office reporting directly to the Administrator, to direct reform of employee ethical standards and provide a formal mechanism for ethics and financial disclosure education, enforcement, and analysis; and
- establishment of a system of procurement management reviews to regularly assess the operational management of GSA contracting activities and their vulnerability to fraud and abuse.

Recent and Ongoing Efforts

Similarly, GSA has recently taken and continues to take actions that are aimed at improving its internal controls and financial management. Key examples include several actions designed to improve agency FIA implementation and reporting and oversight of related management

[1] GAO/GGD-78-62.

control efforts, consolidated financial statements and independent audits of them by a major CPA firm, and implementation of the CFO Act of 1990. These efforts are discussed below.

Efforts to Improve FIA and Related Control Processes

In March 1990, GSA established a Management Control Oversight Council, chaired by the Deputy GSA Administrator with the Associate Administrators for Administration and Acquisition Policy and the Chief Financial Officer (Controller) as members. Its purpose is to provide leadership and oversight of the agency's efforts to implement the evaluation and reporting requirements of FIA and OMB Circular A-123, Internal Control Systems. The IG serves as ex-officio advisor to the council. The principal duties and responsibilities of the Council include (1) approving the contents of GSA's annual FIA reports to the president and Congress, (2) ensuring that GSA's high-risk areas are being adequately addressed, (3) monitoring GSA's efforts to make the required internal control evaluations and to correct previously disclosed material weaknesses, and (4) meeting with the heads of GSA's services and staff offices to resolve internal control and FIA reporting issues.

At the conclusion of GSA's fiscal year 1990 FIA assessment process, the Council raised the risk ratings that the responsible GSA service had assigned to four agency program activities—FSS' multiple award schedules (MAS) for equipment and supplies, donations of surplus personal property, and Transportation Audits Accounting Systems and PBS' building health and safety. The ratings were raised to "high," principally on the basis of OIG's audit findings and concerns that the ratings assigned by the services were too low to accurately reflect the levels of risk that existed. Under OMB's governmentwide FIA guidance, GSA is required to make internal control reviews of all components designated as high risk. Although the Council raised FSS' risk rating for the MAS program from medium to high, it did not agree with OIG's suggestion that the program be designated as a material weakness in GSA's 1990 FIA report. Similarly, the Council raised IRMS' 1991 risk ratings for its automated data processing (ADP) MAS program and oversight of FTS 2000 from moderate to high. Although the Council did not raise the risk rating for PBS' building leasing program to high as recommended by OIG, it directed PBS to make an internal control review of the program to address OIG's concerns.

Besides establishing the Council, GSA reorganized its management review staff office in 1990 and assigned additional staff to this function to facilitate better monitoring and oversight of the agency's key internal control processes. One of the major changes included the restructuring of GSA's audit resolution and follow-up staff to a desk-officer approach, which is designed to permit integration of audit follow-up and FIA analysis. The eight desk officers are also responsible for monitoring the status of the agency's required FIA evaluations and internal control reviews of high-risk activities.

During fiscal years 1990 and 1991, this new restructured office analyzed management control evaluation work done by GSA services and staff offices and provided formal feedback to responsible officials of those organizations. This review and analysis activity is continuing, and GSA has provided special training, advice, and assistance to agency managers who are responsible for doing the management control evaluations. GSA also has attempted to improve the FIA training of lower level managers involved in the process, provide more time for management reviews, and cross-check information received from various sources about potential problems.

In response to a specific directive from the GSA Administrator, the Office of Management Controls and Evaluation is in the process of developing a comprehensive trend analysis program to consolidate and analyze information available to GSA management from OIG and our work as well as the agency's own management control evaluation reports. Once this program has been developed and implemented, GSA plans to use this data to identify agencywide vulnerabilities, systemic control issues, "early warning" signs, and corrective actions the agency has taken in certain areas that have not been effective.

Audited Financial Statements

GSA was one of the first federal agencies to develop consolidated financial statements on its overall operations, submit them to us for audit, and have them audited by an independent CPA firm. Fiscal year 1991 represented the fourth year in a row that GSA received an unqualified opinion on its consolidated financial statements from Arthur Andersen & Co.

Arthur Andersen & Co.'s latest audit report, dated January 29, 1992, expressed its opinion that GSA's consolidated balance sheets as of September 30, 1990 and 1991, and the related consolidated statements of revenues and expenses, cash flows, and reconciliation to budget reports for those years present fairly, in all material respects, the financial position of GSA as of those dates and for the years then ended in conformity with generally accepted accounting principles. It also issued separate, accompanying reports on GSA's internal controls and compliance with applicable laws and regulations and a management letter on the detailed results of its consideration of the agency's internal control structure.

Arthur Andersen & Co.'s audit reports have emphasized that the management of GSA is responsible for establishing and maintaining an internal control structure that provides reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the consolidated financial statements in accordance with generally accepted accounting principles. Its audit reports also emphasized that it considered GSA's internal control structure only to the extent necessary to provide a basis for determining the nature, timing, and extent of audit tests applied in connection with its audit of GSA's consolidated financial statements. Finally, its reports emphasized that its consideration of GSA's internal control structure did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of GSA's internal control structure to prevent or detect all errors and irregularities.

Arthur Andersen & Co.'s audits of GSA's consolidated financial statements for fiscal years 1988 through 1991 considered the design and operation of the agency's internal control structure policies and procedures for the following categories: revenue, treasury and appropriations, expenditures-payroll, expenditures-purchasing, fixed assets, inventory, and financial reporting. For each of these categories, the auditor assessed the relevant control risks involved. Arthur Andersen and Co.'s January 1992 report on internal controls noted reportable conditions relating to GSA's adherence to procedures for periodically (1) substantiating physical inventories of supplies for sale to federal agencies and (2) reconciling unbilled accounts receivable in two ADP programs, contracting services and teleprocessing services. However, Arthur Andersen and Co. did not consider these conditions material weaknesses in relation to GSA's consolidated financial statements.

Arthur Andersen & Co.'s annual management letters to GSA and the accompanying matrix presenting the results of its consideration of the agency's internal control structure have identified several internal control deficiencies and made recommendations for correcting them. Its management letters have also summarized the status of GSA's actions to correct the internal control deficiencies disclosed in the auditors' previous reports to GSA.

Implementation of the CFO Act

In addition to GSA's ongoing efforts to improve its FIA implementation and reporting, the agency has implemented the CFO Act of 1990, which is aimed at improving federal agencies' financial management. GSA submitted its first annual CFO report to OMB on August 29, 1991. OMB transmitted GSA's CFO report to the House Committee on Government Operations and the Senate Committee on Governmental Affairs on October 29, 1991. OMB's transmittal also included a summarization of the GSA report's key points and OMB's independent assessment of GSA's financial management progress and problems.

GSA's 1991 CFO report highlighted several of its financial management initiatives, including its expanded overall annual report; structured financial analysis process; accounting system and cash management; and various ongoing initiatives within FSS, PBS, IRMS, and FPRS. GSA has expanded its annual report on agency activities and financial condition to incorporate many of the requirements of the CFO Act. GSA's annual report for fiscal year 1990 included Arthur Andersen and Co.'s certification letter and separate reports on GSA's internal controls and compliance with laws and regulations.

OMB's assessment of GSA's financial management performance and CFO Act reporting for fiscal year 1991 was generally positive. OMB agreed that the financial management improvements GSA cited in its report, particularly the unqualified audit opinions on its financial statements from Arthur Andersen & Co., were both sound and significant. However, OMB concluded that sufficient data were not yet available to judge the overall adequacy of GSA's financial management and identified several needed improvements for the agency's future CFO reports.

Conclusion

GSA's internal control and financial management efforts to date have been primarily focused on establishing and improving control structures and processes. The agency has generally succeeded in having in place a sound framework for managing its operations and protecting them from fraud, waste, and mismanagement. As discussed in subsequent chapters of this report, however, GSA's efforts have not focused as much as they should on the actual implementation, use, and effectiveness of that framework in its services, regions, and program offices.

Internal Control Improvements Needed in the Three Key Areas Assessed

As indicated in chapter 2, GSA's top management seems committed to preventing and combating fraud, waste, and mismanagement. GSA has taken and is taking a number of actions to strengthen its internal control and financial management structures and processes, and progress has been made in several areas. However, key internal control processes have not worked as intended or as well as they should, especially at the GSA service, regional office, and individual program office levels. Consequently, GSA's multibillion dollar operations still are not adequately protected from losses or inefficiencies. And, as discussed in chapter 4, several of its functions and activities remain high risk. Improvements are needed in all three principal areas where we concentrated our assessment—overall agency emphasis, implementation, and oversight of internal controls; resolution of audit findings; and FIA implementation and reporting.

Overall Agency Emphasis, Implementation, and Oversight of Internal Controls

GSA management has made and continues to make concerted efforts to improve its internal controls. However, the internal control structures and processes we examined and GSA's recent improvement efforts in the FIA area have not worked as intended or as effectively as they should. GSA's services and regions, which are responsible for carrying out its various functions and activities, have not effectively implemented control structures and processes in the audit resolution areas. Similarly, improved implementation of established internal controls could more fully protect those GSA functions and activities discussed in chapter 4 that are inherently vulnerable to fraud, waste, and mismanagement or have documented control deficiencies. Finally, pervasive management information systems deficiencies have impeded GSA's ability to improve its operational performance and detect operational losses and inefficiencies.

GSA now recognizes that it needs a more proactive strategy to complement and effectively utilize the results of audits, investigations, and its own internal control evaluations and has efforts under way in this regard. GSA also has efforts under way to upgrade the capability and reliability of its various program management information systems. However, some of these improvements will not be realized for several years, and GSA currently lacks the data it needs to manage and oversee key activities and programs more effectively.

Greater Emphasis, More Proactive Approach, and More Effective Implementation Needed

As noted in chapter 2, GSA has numerous internal control structures, processes, and procedures in place that are designed to protect its activities and programs from fraud, waste, and mismanagement. However, recurring audit and investigative findings in several program areas and the results of our examination of GSA's audit resolution and FIA processes, which are discussed later in this chapter, indicated that established program controls have not worked as well in actual practice as they should. GSA has not (1) adequately emphasized that internal controls are a top agencywide priority; (2) done enough to combat documented and potential control deficiencies that OIG's and our audits and investigations have brought to its attention; or (3) held managers at its service, region, and program office levels fully accountable for implementing them.

Historically, GSA has chosen to rely heavily on its OIG as the agency's primary internal control to guard against fraud, waste, and mismanagement. OIG has an important, essential role in preventing and detecting such losses and inefficiencies, but it is not a substitute for effective agency program management or the implementation of established program controls. OIG has limited resources, and its basic mission is to issue reports and make recommendations to GSA management and others on the basis of the results of its audits and investigations. It is not OIG's role to ensure that GSA's activities and programs are adequately protected; that is GSA management's responsibility.

OIG frequently has found and reported problems in GSA activities and programs. However, with some 400 auditors and investigators nationwide and an annual budget of about $30 million, OIG's resources have not allowed it to examine everything GSA does, and it should not be expected to. Annually, OIG has targeted about 55 percent of its available audit resources to preaward and postaward audits of GSA's contracts with private vendors and about 45 percent to audits of GSA's operations and internal controls. Annually, GSA issues an estimated 20,000 individual contract actions. OIG has held that existing laws and regulations require that about 5,000 of them be considered for audit. Historically, however, available resources have permitted OIG to audit only about 600 (12 percent) of them.[1]

[1]Because GSA's increased use of multiyear contracts has reduced the total number of contract actions, OIG now estimates that about 3,000 contract actions meet conditions requiring audit and that about 1,500 of them warrant priority audit consideration. However, available resources permit OIG to audit only about 500 of them annually.

Over the 6-year period ended September 30, 1990, about 65 percent of OIG's audits were contract audits that resulted in recommended actions that potentially could save about $1.2 billion. In fiscal years 1989 and 1990, for example, OIG audits made recommendations to GSA management that potentially could have resulted in cost avoidance of over $250 million and $230 million, respectively, through preaward negotiation or postaward recoveries through renegotiation and/or criminal or civil actions.

As with contracts, OIG's available resources for preaward reviews of GSA's proposed building leases, audits of internal controls at GSA headquarters and its regional offices, and investigations of white-collar crime and other illegal or improper activities are limited. Nevertheless, OIG audits consistently have disclosed recurring deficiencies. In the preaward lease area, for example, OIG, over the 6-year period ended September 30, 1989, reviewed annually only 34 to 49 percent of the proposed leases that were subject to preaward review but found that anywhere from 53 percent to 72 percent of them were deficient in some respect. Although the vast majority of OIG's preaward lease review findings were not significant enough to recommend nonaward of the lease, these OIG findings indicate recurring breakdowns in the implementation of established control policies and procedures.

Similarly, OIG investigations, many of which were made on the basis of referrals from GSA management and employees, have disclosed continuing problems with white-collar crime and GSA employees' integrity and conduct. Over the last 7 years, hundreds of GSA vendors and employees have been successfully prosecuted or punished for activities ranging from bribery and contract fraud to time card and travel abuses. Although not unique to GSA, such continuing problems jeopardize the agency's institutional reputation and credibility and place its activities and programs at risk.

During the 6-year period ended September 30, 1990, for example, GSA's OIG initiated 2,817 investigations of alleged wrongdoing. OIG referrals that were accepted by U.S. Attorneys and other law enforcement authorities resulted in 302 formal legal charges (criminal indictments, informations, or complaints), 273 successful criminal prosecutions, and 69 civil judgments or settlements. As a result of these successful legal actions, the federal government either has recovered or expects to recover about $37 million. Also, during this 6-year period 521 GSA employees were punished for misconduct of a noncriminal nature—114 were fired, 117 were suspended, 12 were demoted, and 278 received official reprimands.

GSA's senior executives have not been immune to integrity problems. Over the years, several GSA executives have been convicted of criminal activities or forced to resign. For example, the former comptroller of GSA pleaded guilty in August 1992 to accepting gratuities from employees of a GSA vendor while he was in charge of administering its contract with the firm; he faces a maximum sentence of two years in prison and a fine of $20,000. The Chairman of the Senate Committee on Governmental Affairs highlighted several earlier examples during the 1990 confirmation hearings of the current GSA Administrator to illustrate the kinds of problems that GSA has experienced with political appointments and his concern that politics can lead to the appointment of people who may not be fully or adequately qualified for their positions.

GSA has employee screening, ethics, and financial disclosure processes and procedures that are designed to prevent, detect, and resolve such problems. However, occurrences of continuing employee integrity and conduct problems indicate that established controls have not worked as intended or as effectively as they should. As a result, we believe that GSA can do more to protect its operations from these types of problems. Many GSA employees have attended OIG's fraud awareness training course, and GSA has efforts under way to develop a trend analysis program to better enable it to detect trends and systemic problems. However, GSA has not yet effectively used the results of OIG audits and investigations to profile or target particular areas where criminal activities or other wasteful or abusive practices or employee integrity and conduct problems have occurred and could recur.

In response to criticism from customer agencies and our November 1989 general management report, GSA has made improving the quality and timeliness of its services to customer agencies, especially in the public buildings area, a top agency priority. GSA has adopted broad policy goals and operating objectives that are designed to emphasize its commitment to improving relations with client agencies as well as becoming more competitive and businesslike. GSA's current strategic plan emphasizes the goal of improving the quality and responsiveness of services to client agencies. To develop more of a customer-oriented focus and forge stronger partnerships with customer agencies, GSA has taken a number of actions aimed at improving its communications with and responsiveness to federal agencies, including an annual "Partnership in Administration" (PIA) conference for outreach and dialogue with customer agencies on a variety of common interest topics.

GSA's goal of improving the quality and responsiveness of its services to customer agencies and its ongoing efforts to achieve that goal are praiseworthy. However, GSA has not placed an equally high agencywide emphasis on the goal of reducing its vulnerability to fraud, waste, and mismanagement or sufficiently emphasized this goal to all GSA employees and vendors as well as to client agencies. GSA's October 1991 strategic plan does not specifically mention this goal. Also, GSA has not mentioned this goal at its recent PIA annual conferences with the federal community that we have attended. Besides not targeting vendor and employee trends and systemic problems, as we noted earlier, GSA has not made sufficient use of audit results or its own evaluations to effect institutional or cultural change in its FIA and audit resolution practices.

To better protect its operations and avoid many of the recurring management and internal control weaknesses and deficiencies that consistently have been disclosed by OIG audits and investigations as well as our evaluations, GSA will have to (1) make the elimination of such problems a higher, more clearly stated agencywide priority, as it has its goal of improving services to customer agencies, and place more emphasis on the prevention and detection of losses and inefficiencies; (2) integrate a more proactive approach into its day-to-day activities, programs, and management; and (3) hold its services, regional offices, and individual program offices and managers more accountable for effectively implementing established program controls.

Management Information Deficiencies Impede Oversight and Detection Efforts

Besides lacking a proactive, institutionalized strategy, GSA has lacked the quantity and quality of data it needs to effectively (1) manage and oversee its various activities and programs and (2) detect losses or inefficiencies. Management information problems have plagued GSA for years. Our November 1989 general management report emphasized that GSA had pervasive management information systems problems that seriously inhibited its ability to manage and to make informed decisions. Several of our subsequent reports and other products, OIG audit reports, and other analyses have shown that many of GSA's management information systems still are obsolete, inaccurate, or unreliable.

Our past reports and those of OIG have documented a variety of operational and oversight problems at GSA that were caused, at least in part, by poor management information. In the public buildings area, GSA's existing information systems have been unable to provide the data and reports needed to effectively provide facilities and related facility services to federal agencies. For example, we reported in May 1991 that GSA lacked complete information on total building repair and modernization requirements, as well as on identified requirements that had been deferred, to permit it to target the most seriously deteriorated, functionally obsolete, or unsafe buildings.[2] GSA's OIG also has reported problems in the management and oversight of leased space and specific leases that stemmed from poor information.

OIG, independent public accounting firms, and we have reported various management information deficiencies in the federal supply area. For example, in 1989 OIG reported that the inventory records at GSA's customer supply centers contained numerous inaccuracies. OIG also reported problems with facility management and administration, receiving and storage operations, shelf-life items, and safety at GSA's supply depots that appeared to stem, at least in part, from inadequate data.

As emphasized in our November 1989 report on GSA's general management practices and our April 1991 follow-up report on the status of its management improvement efforts, GSA recognizes that it has serious management information deficiencies, is attempting to improve its overall leadership and oversight in this area, and has efforts under way to upgrade and improve its various management information systems. As discussed later, however, GSA has experienced considerable, costly problems in developing new replacement systems, and their successful implementation is several years away.

In the meantime, GSA lacks the data needed to improve its operations and adequately protect them from losses and inefficiencies. As discussed in chapter 4, GSA's continued use of the existing systems has helped make its facilities acquisition, building repair and modernization, and supply depot activities especially vulnerable. Given (1) the ADP hardware and/or software development problems GSA has experienced to date and (2) the fact that its successful development and implementation of replacement management information systems will take a long time to complete and require strong commitment and sustained attention to ensure that needed improvements occur, its ongoing information systems development efforts also are especially vulnerable. OIG's March 1992 response to the House Committee on Government Operations included management of major information systems development efforts as one of GSA's 10 most critical management problems.

[2] Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57, May 13, 1991).

Resolution of Audit Findings

GSA has not fully corrected many of the managerial, operational, and oversight deficiencies and weaknesses that were identified in earlier OIG and our prior audit reports. GSA's corrective actions have not been fully effective because its (1) services, regions, and program offices have not made sufficient use of audit reports as management tools to help ensure that established internal control structures and processes produce their intended results and to avoid recurring or similar deficiencies and (2) audit follow-up and resolution process has several limitations. Subsequent audit reports frequently have disclosed that the same or similar problems continue to recur.

GSA Components Have Not Used Audit Reports as Management Tools

Audit reports can be a potentially valuable resource to agency management. OIG's and our audit reports have contained numerous findings and observations that GSA could have used more effectively to improve its operations and reduce its vulnerability. GSA has used audit reports to strengthen many of its internal control structures and processes. However, we found little evidence that GSA services, regions, and program offices effectively used audit reports as management tools to improve the functioning or outcomes of those established control structures and processes. In fact, both we and OIG consistently have found and reported recurring deficiencies in several areas, such as MAS procurements and buildings management, that have been the subject of previous audit reports.

Since our 1978 governmentwide report on fraud prevention and detection, we have issued dozens of audit reports on GSA's activities and programs. Similarly, GSA's OIG has issued thousands of audit reports since it was established in 1978. During fiscal year 1990, for example, OIG completed 549 contract audits and 277 audits of internal controls at GSA headquarters and regional offices. OIG's internal control audits have varied in scope and complexity. They have ranged from broad, comprehensive audits of agencywide programs involving millions of dollars and several GSA offices to a narrow audit of the accountability for and controls over a $500 imprest fund at one GSA field office.

GSA's OIG has reported recurring operational and oversight deficiencies in several areas. Examples include MAS, personal property donations, GSA buildings management field offices, and, as discussed earlier, preaward reviews of proposed building leases. Many of the recurring deficiencies OIG continues to report in the MAS and buildings management areas are similar to problems we reported in the early 1980s. In view of OIG's recurring findings in these areas, GSA components appear to have made few, if any, improvements over the years in avoiding these types of deficiencies. As discussed in chapter 4, the failure to fully correct audit-documented deficiencies in these areas has contributed to their continuing vulnerability. According to OIG, it has resisted GSA's efforts to discourage continuation of preaward lease reviews because of the recurring nature of its findings and the absence of management improvements.

Beginning in fiscal year 1990, GSA's OIG instituted a new reporting practice of periodically summarizing, in a separate report, the aggregate results of its individual audits of various headquarters and regional activities and programs. To date, the OIG has issued overview reports highlighting its audit findings in FSS, PBS, and GSA services and staff offices, as a whole. The purposes of these summary reports are to (1) highlight for GSA service commissioners and other top management officials the OIG's audit findings, (2) present broad concerns and observations, and (3) identify recurring findings and systemic agencywide problems that need management attention.

GSA's Audit Follow-Up and Resolution Process Has Limitations That Impede Its Effectiveness

Many of the deficiencies that were identified in OIG and our earlier audit reports continue to recur at GSA, in part, because of limitations in its audit follow-up and resolution process. GSA's existing process has not adequately ensured that agency components' planned or reported corrective actions fully corrected the condition that precipitated the audit findings and recommendations. Also, by focusing primarily on audit report recommendations, the existing process has not adequately considered audit reports or other products containing findings that might have been useful to cognizant GSA management officials but did not contain formal recommendations.

As required by OMB Circular A-50, "Audit Followup," GSA has a process that is designed to ensure that OIG's and our audit report recommendations are addressed and implemented. GSA Order ADM P 2030.2B, as revised January 9, 1990, gave the Audit Resolution and Internal Controls Division at GSA Headquarters lead responsibility for tracking the resolution of and following up on OIG's and our audits. The Audit Resolution Division reports through the Office of Administration to GSA's Deputy Administrator, who is the designated audit follow-up official.

Under this order, the Audit Resolution Division is responsible for obtaining, reviewing, and approving the audited organization's action plan to implement audit report recommendations; monitoring the organization's implementation of the approved action plan and preparing periodic status reports; reviewing and approving the organization's reported successful implementation of the action plan; and closing out the case file on the audit when all action plan items have been completed. As part of GSA's established audit resolution process, OIG (1) reviews and approves GSA's proposed action plans in response to its audit recommendations before the agency implements them and (2) makes about 40 implementation reviews annually of GSA's corrective actions to determine if agreed-upon action plan items are being implemented in accordance with established milestones.

In view of OIG's recurring audit findings, we followed up on a judgmental sample of 10 OIG audit reports on internal controls—4 in the New York region, 3 in the Chicago region, 2 in the National Capital region in Washington, D.C., and 1 in headquarters—to assess the effectiveness of GSA's audit follow-up and resolution process. In judgmentally selecting our sample, we chose various types of OIG audit reports issued during fiscal year 1989 at those locations that disclosed deficiencies and were considered closed. Eight of the 10 audit reports contained formal recommendations, and GSA's audit resolution system classified them as closed and their recommendations fully implemented.

These 10 audit reports disclosed a total of 56 audit findings or deficiencies. We found that at least 1 of the reported audit findings in 9 of the 10 reports still existed at the time of our review in late fiscal year 1990. Of the 56 deficiencies that were reported in these reports, our follow-up work disclosed that 26 of them still existed. While (1) we had no way of determining whether these deficiencies were corrected and later resurfaced or were never corrected and (2) some of these deficiencies were relatively minor in nature, the continued existence of almost one-half of them indicates that the agency's audit resolution process did not work as well as it should. Table 2.1 identifies the 10 OIG audit reports and 56 audit findings and summarizes the results of our follow-up assessment.

Table 3.1: Sampled OIG Audits and the Results of Our Follow-up Review

OIG audit report title and date	Results of our follow-up review: No. of findings	No. corrected	No. uncorrected	Description of uncorrected findings
Review of the contract management of unsatisfactory contractors in Region 5, 10/23/87	3	1	2	(1) Deviation and delivery extension of contract modifications lacked adequate documentation and (2) contracting officers did not take timely action in cases of delinquent contractors.
Review of security measures taken to safeguard government vehicles at GSA's ration depot, 7/19/88	6	3	3	(1) Main gate locking system inoperable; (2) vehicles stored in an unfenced area; and (3) area surrounded by low fence, holes in fence, public access available through railroad access gate.
Review of award and negotiation of work orders processed under supplemental architect/engineer contracts in Region 5, 12/8/88	11	7	4	(1) Contract modification not signed before work commenced, (2) price negotiation memoranda lacked required detail, (3) unable to verify time charges of contract construction inspectors, and (4) work order files lacked documentation.
Review of imprest fund, Loop Field Office, Region 5, 3/3/89	5	1	4	(1) Minor coverage in fund, (2) authorization and support for advances lacking, (3) lack of accountability for cash box, and (4) GSA and Treasury regulations not followed.
Review of Proprietary Procurement Information in the Federal Supply Services, 3/24/89	5	2	3	(1) Work area accessibility compromised security, (2) commingling of sensitive files, and (3) inadequate controls over keys and combinations compromised security after normal work hours.
Review of Imprest Activities, Metro North Field Office, Germantown, MD, 3/30/89	5	4	1	Cashier managing fund had received no formal training on agency regulations and procedures governing imprest fund operations.
Review of West Alterations Work Group in the National Capital Region, 3/31/89	3	1	2	(1) Incomplete or missing contract files checklists and (2) inadequate documentation supporting determinations that amended small purchase prices were fair and reasonable.
Review of Regional Fleet Management Operations, 4/6/89	7	3	4	(1) Annual inspections not performed as required, (2) invoices approved with insufficient data on labor hours worked, (3) lack of rotation of high-mileage and low-mileage vehicles, and (4) improper documentation.

(continued)

OIG audit report title and date	Results of our follow-up review: No. of findings	No. corrected	No. uncorrected	Description of uncorrected findings
Review of Imprest Fund, A. Ribicoff Federal Office Building, Hartford, CT, 8/9/89	9	6	3	(1) Inadequate separation of duties of approval official, (2) claims paid without proper approval, and (3) expenditures approved by official without a required signature card.
Review of FSS Contract Management in Region 1, 8/10/89	2[a]	2	0	
Total	**56**	**30**	**26**	

[a]This audit report disclosed five deficiencies. However, we reviewed only two, both of which had been corrected. We did not determine if the other three had been corrected.

Similarly, GSA's resolution of several of our recent audit report recommendations has been ineffective or incomplete. In our April 1991 follow-up report on the status of GSA's actions to implement the recommendations in our November 1989 general management report, for example, we pointed out that GSA's action plan strategies to implement at least four of our recommendations were not fully responsive because they would not correct the reported deficiency.[3] However, GSA considered three of the four recommendations closed and fully implemented because the action plan items had been accomplished. Also, GSA's actions to date in response to the four recommendations in our May 1991 report on the condition of federal buildings are steps in the right direction, but they have not been fully responsive.[4] GSA's action plan strategies for these recommendations, several of which it considered closed and fully implemented, did not go far enough to fully correct the conditions that prompted our recommendations.

Because of its geographic separation from some of the audited organizations, particularly GSA's regional offices, GSA's headquarters Audit Resolution Division frequently could not be on site to validate that action plan items were actually completed and that the actions taken fully corrected the condition or conditions that precipitated the audit recommendation. Consequently, the division relied heavily on self-reporting of corrective actions by the audited organizations with little independent verification that the reported corrective actions were actually taken or that they effectively solved the problem.

[3]GAO/GGD-91-59.

[4]GAO/GGD-91-57.

The division's three audit resolution specialists[5] periodically visited audited organizations, including regional offices, and made a few limited independent reviews of closed audit cases, including OIG preaward lease reports, to assess the adequacy of GSA's corrective actions. In view of the number of OIG's and our audit reports and the geographic dispersal of GSA offices nationwide, however, the division's independent reviews necessarily were limited in nature and few in number.

Besides failing to ensure that audit report recommendations were fully and effectively implemented, GSA's audit follow-up and resolution process did not track OIG's or our audit reports or other products that did not make formal recommendations, including those containing findings or observations that could have been useful to GSA in improving its operations or reducing its vulnerability. Although GSA's audit resolution system acknowledged the issuance of such reports, it considered them closed audits upon receipt of the report because agency action plans and corrective actions were not required.

OMB's governmentwide guiding Circular A-50 focuses on audit recommendations and does not require federal agencies to track or follow up on audit reports that do not contain formal recommendations. Consistent with this guidance, GSA's automated tracking system was designed primarily to track audit report recommendations and agency action plans and completed and ongoing corrective actions to implement them. Although GSA's follow-up system does not track audit reports that do not make recommendations, it does acknowledge their issuance, and the Audit Resolution Division has, on occasion, advised the GSA Administrator of the results of such audit reports. For example, it disclosed to the Administrator the results of OIG's preaward reviews of proposed building leases (discussed earlier) and that many of the deficiencies OIG reported, despite their recurring nature, were not corrected before the lease was awarded.

In our March 1992 report on needed changes in federal agencies' audit resolution processes and OMB's governmentwide guidance,[6] we emphasized that several agencies were closing audit recommendations before completing all corrective action and on the basis of incomplete and inadequate documentation. We attributed these problems, in part, to the

[5]Subsequent to the completion of our review, GSA increased the staffing level of this function from three to eight people.

[6]Audit Resolution: Strengthened Guidance Needed to Ensure Effective Action (GAO/AFMD-92-16, Mar. 24, 1992).

lack of policy guidance in OMB Circular A-50. In response to this report and the results of a 1991 survey by the Interagency Audit Follow-up Council, OMB has proposed several significant changes in Circular A-50. These include (1) requiring that agency follow-up systems track all audit reports and recommendations issued to the agency by OIG, us, independent accounting firms, and agency regulatory inspection units; (2) expanding the existing audit/management agreement requirement to include agreement on the principal documentation that will be required to conclude that audit recommendations can be closed; (3) emphasizing that audit follow-up is an integral part of the internal control process and requiring that the responsible agency internal control official ensure that audit recommendations and reports are fully considered in preparing the agency's FIA reports; (4) defining when final action on audit recommendations and reports occurs (closure) and illustrating the types of documentation required to demonstrate that corrective action has been accomplished; and (5) requiring audit concurrence with agency management determinations that corrective action is complete.

It should be emphasized that OMB's current version of Circular A-50 and GSA's existing system only require that agreed-upon corrective actions be implemented. They do not require that the actions taken actually correct the problem. In this regard, we found little evidence that GSA components were held accountable for fully and effectively correcting audit findings. GSA's existing audit follow-up and resolution efforts at the headquarters and regional offices we reviewed appeared to be preoccupied with tracking and closing action plan items in response to formal audit recommendations as opposed to determining whether they actually had corrected the problem.

FIA Implementation

Similarly, GSA has not effectively used the FIA process as a management tool to improve its internal controls and reduce its vulnerability.[7] GSA's FIA reports generally have disclosed few material internal control weaknesses. However, OIG's audit reports, OMB's oversight and feedback to GSA, and our examination of GSA's FIA reports for fiscal years 1983 through 1991 and the New York region's input to GSA's fiscal year 1989 efforts, collectively,

[7]The act requires federal agencies to complete annual self-assessments and reports on their internal control and accounting systems. We limited our evaluation of the adequacy and effectiveness of GSA's FIA implementation and reporting to its self-assessments and reports on internal controls under section 2 of the act. We did not examine GSA's separate required reports under section 4 of the act on whether its accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General. However, GSA's financial statements and accounting and financial management controls were discussed in chapter 2.

raised questions about the adequacy, completeness, and effectiveness of the agency's FIA implementation and reporting.

GSA's FIA reports to the president and Congress have not disclosed documented internal control weaknesses in several areas, such as management information, building leasing, and supply procurement, that adversely affected its operations and services to federal agencies and we believe were material enough to report. However, GSA management did not report them because it did not consider them material. Also, deficiencies in the strategic planning, building repair and alterations, and other areas that GSA disclosed as "significant weaknesses" in early FIA reports, but did not include or account for in subsequent FIA reports because they were considered corrected or not material, have continued to exist and merited disclosure. Finally, GSA has not held its headquarters and regional offices fully accountable for complete, effective FIA implementation and reporting in their respective program areas and geographic jurisdictions.

Overview of GSA's FIA Reports

GSA's FIA efforts have been mixed but disappointing. During the first 2 years (fiscal years 1983 and 1984), GSA's FIA reports disclosed 25 material internal control weaknesses and 42 other "significant" weaknesses that GSA believed made its activities and programs vulnerable. In its first FIA report in 1983, then Administrator Gerald Carmen was reluctant to state, with assurance, that GSA's internal and accounting controls were adequate to safeguard its assets. In that report, he said that

> "[C]onsidering some of the major problems facing the government in general and the findings of outside observers, Webster's definition of reasonable assurance, and careful reading of the requirements laid out in law, it gives me some concern that anyone in this position could give assurance, reasonable or otherwise, that [GSA] runs as well as it is expected to."[8]

During the next 7-year period, 1985 through 1991, GSA's FIA reports identified only seven additional material internal control weaknesses. GSA's 1985 report identified no new material weaknesses and, consistent with evolving OMB policy guidance, reassessed earlier-reported weaknesses and ended the practice of reporting on significant weaknesses. GSA acknowledged in its 1985 FIA report that seven material weaknesses remained uncorrected from prior years, but two of those weaknesses actually represented seven earlier-reported material weaknesses.

[8]GSA's FIA report for fiscal year 1983 (Jan. 20, 1984, p. 2).

Table 2.2 shows the material internal control weaknesses GSA has reported, the number open at the end of each year, and the number GSA considered corrected. As the table shows, GSA's reports for 1990 and 1991 classified only one material weakness as still open—FTS 2000 billing procedures.

Table 3.2: Material Internal Control Weaknesses GSA Reported in Its FIA Reports

Functional area having a material weakness	Fiscal year									
	83	84	85	86	87	88	89	90	91	Total
ADP/telecommunications	5	1		1		1	2			10
Agency management	2	2								4
Financial management	2									2
Fire/safety/health	1	1					2			4
Procurement of supplies and services	4	1		1						6
Space acquisition	4	2								6
Total reported	**18[a]**	**7**	**0**	**2**	**0**	**1**	**4**	**0**	**0**	**32**
Cumulative total	**18**	**25**	**25**	**27**	**27**	**28**	**32**	**32**	**32**	
Cumulative number reported as corrected	**10**	**11**	**13**	**26**	**26**	**27**	**27**	**31**	**31**	

[a]In 1983, GSA reported two material weaknesses concerning preservation and physical protection of records for the National Archives and Records Service, which at that time was part of GSA. In 1985, the Service was made independent of GSA. Consequently, we did not include those two material weaknesses in our tally for GSA.

As mentioned earlier, GSA's FIA reports for fiscal years 1983 and 1984 also reported "significant weaknesses." Significant weaknesses were considered to be less serious than material weaknesses, but GSA believed they required concentrated management attention to correct. GSA reported 30 significant internal control weaknesses in 1983 and another 12 in 1984. FIA only requires the reporting of material weaknesses; after 1984 GSA no longer reported or accounted for significant weaknesses.

GSA Has Not Disclosed All Material Weaknesses

GSA's FIA reports have not disclosed documented deficiencies in several areas—such as facilities acquisition, information management, and procurements of common-use supplies and equipment—that have been repeatedly identified in OIG's and our audit reports and we believe are material enough to report. GSA's omission of such deficiencies raises questions about the adequacy and completeness of its FIA reporting. Although GSA management officials believe they have disclosed all material weaknesses that needed to be brought to the administration's and

Congress' attention, OMB and GSA's OIG have encouraged more complete disclosure.

OIG and OMB evaluations of GSA's FIA implementation and reporting have indicated an increasing level of criticism and frustration with GSA's efforts. OIG's audit reports covering various aspects of GSA headquarters' and regional offices' FIA efforts during fiscal years 1988 through 1991 identified a number of implementation and reporting deficiencies. In 1989, for example, OIG suggested that GSA report its FIA program as a material internal control weakness. GSA declined to do that because it believed its FIA efforts were adequate.

However, OMB included GSA's FIA program on its initial governmentwide list of high-risk areas requiring management attention in 1990 because of concerns about the adequacy of GSA's reporting and the design of its internal control review program. OMB expressed concerns that major GSA programs, such as building leasing, building purchase, supply procurement, and fleet operations, may not have been subjected to internal control reviews. In the leasing area, for example, OMB pointed out that GSA leased one-sixth of the available commercial building space in Washington, D.C., but continued to pay top rates for such leases. OMB said that GSA should review its leasing program to ensure that policies are not only adequate but also are being followed.

OMB removed GSA's FIA program from its high-risk list in October 1991 on the basis of structural improvements GSA had made and the GSA Administrator's specific request. As part of its May 1992 feedback to GSA on the agency's fiscal year 1991 FIA report, OMB commended the Administrator's efforts to strengthen management controls. However, OMB again expressed concerns about the completeness of GSA's FIA reporting in 1990 and 1991 and whether all high-risk program components had been identified.

Although GSA's 1990 and 1991 FIA reports disclosed no new material internal control weaknesses, GSA has designated several areas as high risk. Of 232 discrete activities that were assigned a risk rating in fiscal year 1990, GSA ranked 13 as high risk, 81 as moderate risk, and 138 as low risk. Areas GSA designated as high risk included components of PBS' software development and building and environmental management; FSS' commodity management, personal property donations, and transportation audits; and IRMS' oversight of FTS 2000 and internal GSA ADP systems.[9] Several of these high risk components are discussed in more detail in chapter 4.

OMB also included GSA's oversight of major systems development projects on its 1989 list of governmentwide high risk areas requiring management attention, and it still remains on this list. OMB told GSA that it should take steps to ensure that there is no repeat of an earlier-reported material weakness involving its development of a new information system for public buildings activities. This example illustrates GSA's historical reluctance to disclose internal control weaknesses in its FIA reports. The acronym "STRIDE" stood for systematically tiered regionally integrated data environment. It was intended to be a new, state-of-the-art computerized management information system to replace the existing PBS system, which was about 20 years old and inadequate.

In the early stages of STRIDE's development in 1983 and again in 1984, GSA's OIG found and reported deficiencies that it believed were serious.[10] Both times, however, GSA management claimed that the reported deficiencies had been or were being corrected and chose not to disclose the matter in its FIA reports. GSA subsequently canceled its STRIDE contract and developmental efforts in 1988 after spending over $121 million on system hardware and software that did not work as intended. The OIG's final wrap-up report on STRIDE concluded that it was doomed from inception because (1) a logical, progressive development approach was not utilized; (2) quality controls were not in place; (3) progress reports to management were inaccurate, misleading, and overly optimistic; and (4) project oversight was ineffective.[11]

In spite of the dollar magnitude and implications of the STRIDE failure, neither of the cognizant GSA services—PBS or IRMS—disclosed it in their fiscal year 1988 assurance statement to the GSA Administrator. OIG objected and reported this to PBS and IRMS, but they declined to amend their

[9]As directed by the House Committee on Government Operations, in October 1991 GSA appointed a new Associate Administrator to manage and oversee FTS 2000 and established the office of FTS 2000 as a separate entity apart from IRMS.

[10]GSA's FIA report covering fiscal year 1983 noted that the IG believed that a material deficiency existed in the area of internal ADP systems development. However, GSA's report said that the material weakness that once existed in this area had been corrected. On July 7, 1984, the IG issued a report titled Final Letter Report on Coordination of System Development Projects -STRIDE and ADEPT (A40323) reiterating his concern that no single organization in GSA was managing systems development projects and that this lack of overall agency management could result in wasteful and costly systems development and acquisition efforts relating to STRIDE and ADEPT.

[11]Review of STRIDE: Public Buildings Service, OIG, Mar. 24, 1989.

statements. After OIG reported this omission to GSA management, GSA disclosed the STRIDE failure as a material weakness in its 1988 FIA report. There is no definitive way of knowing whether GSA would have reported it had OIG not objected.

GSA still needs a new PBS management information system because its existing system is inadequate. Consequently, GSA has undertaken a major system development of a new PBS management information system that reportedly will utilize commercial software and existing computer equipment. GSA's IRMS has worked closer with PBS during the developmental phase to better ensure that a sounder, more logical, and more systematic approach is followed and that this new system development project succeeds. In spite of its documented and readily admitted management information needs in the public buildings area, however, GSA has not reported these unmet needs as a weakness in its FIA reports. In our opinion, these unmet information needs, which will continue to exist for several years until the new system is fully operational, constitute a material internal control weakness.

Similarly, we believe that several other internal control deficiencies documented in OIG's and our audit reports should have been but were not disclosed in GSA's FIA reports. Examples include GSA's failure to adequately oversee delegations of procurement and leasing authority to other federal agencies; GSA's leasing of office space, building purchases, and other aspects of its acquisitions of real property; and GSA's MAS program and procurements of common-use supplies and equipment.

In its March 1992 response to an inquiry from the House Committee on Government Operations, OIG identified the MAS program, delegations of ADP procurement authority, oversight of major information system development projects, space leasing, contracting and contract administration for facilities' services, and space leasing versus ownership as 7 of GSA's 10 most critical management problems. The remaining three critical management problems OIG identified were FTS 2000 billings verification, surplus property donations program, and supply depot operations. As noted earlier, GSA disclosed FTS 2000 billings as a material weakness in its fiscal year 1989 FIA report, and its fiscal year 1991 report indicated that this weakness remained uncorrected. However, GSA's FIA reports have not disclosed documented weaknesses in the surplus property donations and supply depot operations areas. The 10 most critical GSA management problems OIG identified generally coincide with the 8 most vulnerable GSA functions and activities that are discussed in chapter 4.

The MAS program illustrates GSA's reluctance to disclose documented internal control weaknesses in its FIA reports. The OIG recommended to GSA management in 1990 that FSS' MAS program be disclosed as a material weakness because its audits consistently had shown that the government was not getting the price discounts it was entitled to because many commercial vendors were not submitting adequate, complete, and valid product pricing data. According to OIG, this deficiency also met OMB's criteria for a reportable FIA material weakness in fiscal year 1991 because it "could result in the loss of $10 million or more or 5 percent or more of the resources of a budget line item." However, OIG did not press the material weakness issue in 1991 because GSA recognized the problem, classified MAS components as high risk for FIA purposes, and established a MAS Improvement Project and an agencywide task force to study this issue. In May 1992, OMB recommended to GSA that it should consider adding the MAS program to the governmentwide high risk list.

OIG's audit reports on individual GSA offices' implementation of FIA and input to GSA's overall FIA report have concluded that, on the whole, offices' assurance statements were reliable. However, these OIG reports repeatedly have raised questions about the adequacy of GSA offices' efforts in several specific areas. According to OIG's April 1992 semiannual report to Congress on its activities, most of the services' and offices' assurance statements were complete, but four of them—PBS, Office of Administration, and regions 4 (Atlanta) and 5 (Chicago)—were not reliable because they did not include all required information and documentation regarding internal reviews, audit reports, and documented internal control weaknesses. For example, PBS' Office of Real Property Management and Safety did not address the control issues identified in (1) 7 of the 14 OIG audits involving building safety and environmental management programs and (2) regional management surveys. Similarly, PBS' Office of Procurement did not summarize audits and other studies of their programs, and its assurance statements did not address or consider the adequacy of existing controls over regional office contracting programs.

Also, OIG reported that 10 GSA program components' assessment of existing risks were too low. These 10 components included PBS' lease acquisition, award/administration of contracts, and building fire, occupational safety and health, and environment components; IRMS' MAS program; the Office of FTS 2000's AT&T service oversight, U.S. Sprint oversight, and network oversight components; FSS' depot operations and Region 6's (Kansas City) related financial components; and the Office of Administration's transportation accounts receivable and payable system. It should be noted that GSA's Management Control Oversight Council generally agreed that the cognizant services and offices had understated the degree of risk associated with these components and took action to raise them to more appropriate levels.

Our review of the functioning of GSA's 1989 FIA process at its New York regional office disclosed other avoidable problems that undermined the process' effectiveness.[12] GSA had distributed 1,015 questionnaires to managers (branch chief and above) in headquarters and regional offices that required them to make what basically were vulnerability assessments of their operations. On the basis of our work in GSA's New York region, however, we suspect the reliability of the questionnaire results. Even though OIG issued a total of 23 internal control and preaward lease reports to the New York region in fiscal year 1989, the deficiencies in those audit reports were cited by only 5 of the 58 New York managers who responded to the questionnaire. In response to a specific question about any relevant audit findings, only 11 managers identified the issued audit reports.

The New York managers who did not identify relevant audit reports or findings said they omitted them because they believed that the reported deficiency had been corrected or that the audit-identified deficiency was not material enough to report. Some New York managers with significant responsibilities, such as for fleet management service, personal property sales, and property utilization, were excluded from the questionnaire assessment process because they did not have the word "branch chief" in their official title. The regional IG for investigations told us that he believes several of the excluded offices have activities and programs that are potentially vulnerable to high dollar losses.

Also, we noted that, contrary to established GSA policy, some identified internal control weaknesses were filtered out by higher level regional officials. A GSA OIG audit report on GSA's 1989 FIA process discussed this practice of screening or filtering out weaknesses and emphasized that it was inconsistent with GSA's FIA policy requiring individual managers to disclose all existing internal control weaknesses, regardless of whether or not they were considered material. However, we found that the guidance GSA headquarters officials gave the New York region, both verbally and in

[12]We reviewed the 1989 process because it was the most current at the time we completed this segment of our work in the fall of 1990; however, the process has not changed significantly since then.

writing, contradicted established policy because it encouraged the screening or filtering out of weaknesses and stressed that each manager had the discretion to report or not report weaknesses identified by his or her organizational subcomponent. After we brought this to GSA's attention, the agency clarified its earlier FIA guidance to encourage more complete disclosure of internal control weaknesses.

As noted in chapter 2, GSA's establishment of a Management Control Oversight Council in 1990 and its other recent and ongoing efforts to improve internal control structures and processes are steps in the right direction. To date, however, they have not yet resulted in any demonstrated improvements in GSA's FIA reporting. As OMB pointed out to GSA in May 1992, GSA continues to have serious management control problems in several of its activities and programs. However, OMB noted that GSA has not reported any new material weaknesses the last 2 years, no new material nonconformances for 3 consecutive years, and currently reports only one open material weakness and no nonconformances.

The integrity and effectiveness of the FIA process require complete assessments and full disclosure of internal control weaknesses. Agencies' assessments and reports are supposed to be based primarily on the cumulative results of self-assessments and management control assurances by their various subcomponents and supplemented by audit reports and other studies and analyses and top management's judgment. Although we recognize that OMB's FIA guidance to agencies has evolved since the process began in 1983 and there is confusion over the definition of "materiality," agencies are responsible for their FIA reporting and must decide what is material and what is not. Accordingly, it is important that the inputs from organizational components be complete and accurate. Otherwise, heads of federal agencies may not make informed, rational decisions concerning which weaknesses, if any, should be disclosed in annual FIA reports and be given priority agency attention.

Earlier Reported Weaknesses Still Exist and Merit Disclosure

In addition to not disclosing internal control weaknesses in its annual FIA reports to the president and Congress that we believe should have been reported, earlier-reported internal control weaknesses that GSA's subsequent FIA reports indicated were fully corrected or no longer material enough to report have continued to exist and warranted disclosure. Although we recognize that it is permissible to classify previously reported internal control weaknesses as corrected when they are no longer material, we believe that GSA prematurely reported several weaknesses as corrected or no longer material. On the basis of our prior work and that of OIG, previously reported weaknesses in the building repair and alterations, space leasing, supply procurement operations, facility acquisitions, automated data processing, administration of facility construction contracts, and telecommunications management areas have not been fully corrected, as implied by GSA's FIA reporting.

The following examples raise questions about the integrity and reliability of GSA's FIA reporting on the status of previously disclosed weaknesses.

- GSA's 1985 FIA report said that an earlier reported internal control weakness caused by the lack of an agencywide strategic planning system was no longer a reportable weakness. Although there is no express requirement for GSA to plan or manage strategically, the lack of a strategic focus remains a major problem that has impeded GSA's ability to acquire and manage costly public building assets in a more cost-effective, business like manner. The absence of an effective strategic plan in the public buildings area was a major finding in our November 1989 general management and May 1991 federal buildings reports,[13] and both reports recommended improvements in GSA's strategic planning. Our October 1991 testimonies on GSA's general management and real property management performance emphasized that the agency still lacked a strategic focus.[14] Legislation (S.2068) is pending in the Senate that would require GSA to do strategic planning in the buildings area and report the results to the Senate and House Public Works Committees.
- GSA's 1983 and 1984 FIA reports disclosed "significant" internal control weaknesses in its building repairs and alterations and lease acquisition programs, respectively. GSA's subsequent FIA reports classified these weaknesses as corrected, substantially resolved, or no longer material enough to report. However, our May 1991 report on needed actions to prevent further deterioration and functional obsolescence of federal buildings (1) raised serious questions about the adequacy and effectiveness of GSA's management and oversight of building repair and alteration requirements and available funds to satisfy them and (2) recommended several corrective actions that GSA has not yet fully implemented. In the leasing area, as mentioned earlier, OIG's preaward reviews of GSA's proposed building leases consistently have found that GSA failed to comply with several applicable legal and regulatory requirements,

[13]GAO/GGD-90-14 and GAO/GGD-91-57.

[14]GSA: A Central Management Agency Needing Comprehensive Congressional Oversight (GAO/T-92-3, Oct. 29, 1991) and Real Property Management Issues Facing GSA and Congress (GAO/T-GGD-92-4, Oct. 30, 1991).

and OIG believes that lease acquisitions still constitute a major unresolved problem. OIG's preaward lease reviews in fiscal years 1989, 1990, and 1991 documented a repetitive pattern of shortcomings affecting leasing actions; 77 percent of the proposed leases it reviewed were deficient in some respect. Moreover, 10 percent of OIG's preaward lease reviews in 1990 and 1991 disclosed problems that it considered serious enough to recommend nonaward of the proposed lease.

- GSA's 1986 FIA report said that an earlier-reported internal control weakness in the asbestos abatement area had been corrected. However, OIG reported to GSA management in 1988 and again in 1989 that asbestos abatement remained a major problem and met OMB's criteria for a reportable material FIA weakness. GSA again reported this as a material weakness in its 1989 FIA report, but its 1990 FIA report said that the 1989 weakness was no longer material. While OIG's audit reports on GSA's 1990 and 1991 FIA efforts recognized that GSA had raised the risk rating for this area and instituted management control improvements, OIG noted that existing policies and procedures had not yet been fully implemented at the regional office level.

Conclusions

As emphasized in chapter 2, GSA's top management seems committed to preventing and combating fraud, waste, and mismanagement, and progress has been made. However, there is still substantial need and opportunity for further improvement if GSA is to fully meet its responsibilities for managing the government's provision of central services.

GSA's efforts to date have been focused primarily on establishing and improving internal control structures, processes, and procedures, instead of on their outcomes or effectiveness. If GSA is to adequately protect its governmentwide activities and programs from losses and inefficiencies, it must improve its existing efforts in all three key areas we assessed—overall agency emphasis, implementation, and oversight of internal controls; resolution of audit findings and recommendations; and FIA implementation and reporting.

GSA has established and improved numerous control structures and processes in response to governmentwide directives and attention since the late 1970s. However, our assessment indicated that GSA's operations still are not adequately protected from fraud, waste, and mismanagement. And, as discussed in chapter 4, certain of its functions and activities are especially vulnerable not only inherently, but also because these key internal controls have not worked as intended or as well as they should.

While GSA does not lack the structure or process needed to control its vulnerabilities, structure and process are not enough. Thorough implementation and specific, constant emphasis are equally essential to ensuring positive results.

GSA has not made the prevention of losses and inefficient practices and spending a high enough agencywide priority. GSA's services, regions, and program offices have not done enough to combat documented or potential examples that we, OIG, and others have brought to GSA's attention. Also, GSA continues to have pervasive management information systems deficiencies or weaknesses that have limited its ability to improve operational performance and more fully protect its various programs and activities.

A more proactive agencywide prevention, detection, and resolution strategy and approach that complements and better utilizes the results of completed audits, investigations, and other studies and analyses of GSA's activities and programs could enable GSA to reduce its existing vulnerability. More reliable management information systems also would enhance GSA's ability to protect its operations and improve its performance.

Similarly, GSA has not used the audit resolution and FIA processes as effectively as it should to improve the outcomes of its internal controls and thereby reduce its vulnerability. Its audit follow-up and resolution process has not held audited components accountable for fully correcting OIG and our audit findings or effectively implementing recommended improvements. Also, GSA's process has other limitations that have impeded its effectiveness. Consequently, many of the managerial, operational, and oversight deficiencies that were reported in earlier audit reports have continued to exist.

Finally, GSA's FIA implementation and reporting efforts have been disappointing. GSA's annual FIA reports to the president and Congress have not disclosed or adequately addressed audit-documented deficiencies and other known weaknesses significantly affecting its operations as well as the operations of its customer agencies that we believe were material enough to report. Also, internal control weaknesses that GSA disclosed in earlier FIA reports but indicated were fully corrected or no longer material in subsequent reports have continued to exist and warranted continued disclosure.

GSA's creation of the Management Control Oversight Council in 1990 and other changes designed to strengthen FIA controls and oversight that were recognized and discussed in chapter 2 are steps in the right direction. However, their effectiveness to date in improving GSA's FIA implementation and reporting has been marginal. Given GSA components' continuing reluctance to (1) disclose documented internal control deficiencies in their assurance statements to the GSA Administrator and (2) designate functions and activities as high risk, the Council has had limited success to date in bringing about needed institutional reforms in GSA's FIA approach.

As long as GSA's FIA reports continue to omit internal control deficiencies meriting disclosure, the administration and Congress may be unaware of documented or potential material losses and inefficiencies that could significantly affect GSA's operations and its services to the federal community. More complete disclosure of such deficiencies likely would result in better oversight of GSA's activities and programs and facilitate needed legislative and executive reforms and cultural changes.

Recommendations

To enable GSA to more fully protect its operations from fraud, waste, and mismanagement, we recommend that the Administrator of GSA make this goal a higher, more clearly stated agencywide priority and adopt and institutionalize a more aggressive, proactive agencywide policy and approach that (1) complements OIG and other audits, investigations, and oversight; (2) holds GSA services, regions, and program offices and managers fully accountable for more effective implementation of existing internal controls; and (3) focuses more on the expected outcomes and measurable results of control structures and processes.

As a minimum, this more proactive approach should include

- better utilization of OIG and other available audits, investigations, and studies as management tools to more effectively target and resolve systemic operational problems and potential employee ethics and integrity issues, improve agency operations, and more effectively combat known, documented problems;
- reintensified efforts to improve the quantity and quality of the automated information systems data GSA needs to more effectively manage and oversee its various activities and programs and prevent and detect material losses, inefficiencies, and other irregularities;
- improvements in the audit followup and resolution process to hold GSA services, regions, and program offices more accountable for ensuring that

audit report findings are fully corrected and audit report recommendations are effectively implemented; and

- more assurance that GSA's FIA reports disclose all material internal control weaknesses, specify what GSA is doing and anything OMB and Congress could do to help address and correct them, and properly characterize the status of previously reported weaknesses.

Our recommendations are aimed at improving GSA's existing efforts in the three key areas we assessed—overall agency emphasis, implementation, and oversight of internal controls; resolution of audit findings and recommendations; and FIA implementation and reporting. However, they are not intended to be all-inclusive and should be viewed as the minimum actions GSA needs to take to more fully and adequately protect its operations.

Agency Comments

GSA and OMB commented on an earlier draft of this report. In written comments dated August 31, 1992, GSA acknowledged that it could and should do more to protect its operations from fraud, waste, and mismanagement; agreed with and committed to implementing our recommendations; and identified and discussed several other initiatives it is taking, in response to problems discussed in this report, to improve its operations. GSA's comments are presented in appendix I.

In oral comments on August 13, 1992, responsible OMB officials indicated general agreement with the report's recommendations to GSA. While acknowledging that GSA has made progress in improving its internal control structures and processes, OMB officials said that GSA needs to do more to (1) make internal controls and audit follow-up integral elements of its operating program managers' responsibilities and (2) hold program managers accountable for their performance in implementing established controls, especially in the audit resolution and FIA areas.

GSA Functions and Activities That Remain High Risk

As discussed in chapter 3, key internal control processes have not worked as intended or as well as they should in GSA's services, regions, and program offices. Consequently, GSA's multibillion dollar governmentwide operations still are not adequately protected. Our assessment indicated that the following GSA functions and activities pose the greatest potential risks of losses and inefficiencies:

- acquisitions of facilities;
- building repairs and modernization;
- acquisitions of telecommunications and ADP equipment, software, and services;
- automated management information systems;
- procurements of common-use equipment and supplies;
- supply depot operations;
- identification, management, and sales or other dispositions of excess or underutilized government property; and
- management and utilization of the governmentwide fleet of motor vehicles.

We considered these eight functions and activities high risk for one or more of the following reasons: (1) their nature, scope, and dollar implications; (2) audit findings and management or internal control deficiencies noted in our earlier reports and testimonies that have not been fully corrected; (3) audit reports, investigations, and observations by OIG and independent public accounting firms; (4) ongoing work by OIG and us; (5) OMB's feedback to GSA and its observations on GSA's operations in general and its CFO Act and FIA implementation and reporting in particular; and/or (6) GSA's own FIA and CFO reports and other internal studies and self-assessments.

Many of the highly vulnerable GSA functions and activities discussed in this chapter generally coincide with OIG's March 1992 response to the House Committee on Government Operations on the 10 most critical management problems GSA faces that were identified in chapter 3. Also, they are similar to the components, also identified in chapter 3, that GSA designated as high risk for FIA evaluation purposes.

While some aspects of these functions and activities, such as funding for and approval of building acquisitions and repairs and modernization, are beyond GSA's direct operational control, we included them in this report because of their great potential for losses and inefficiencies. Since GSA is responsible for managing or overseeing them, it also is responsible for ensuring that they are adequately protected. To the extent that their vulnerability is beyond GSA's direct control, GSA must make OMB and Congress aware of the vulnerability that exists, identify the specific causes, and take the lead in proposing and advocating needed reforms.

GSA is attempting to manage these risks and has taken or is taking actions to address the inherent vulnerabilities and/or documented control weaknesses associated with them. However, some of these functions and activities are and will remain inherently vulnerable and require constant vigilance. In other cases, GSA's corrective actions to date have not been fully successful or it is too early to judge their effectiveness, and we believe that they remain highly vulnerable.

The following sections describe these eight functions and activities, explain why we believe they are high risk, identify our past reports and other supporting evidence of vulnerability in these areas, and highlight the actions GSA has taken or is taking to manage or minimize the risks associated with them.

Acquisitions of Facilities

Description of the Function or Activity. One of GSA's principal responsibilities is to provide federal agencies and employees a quality work environment—safe, healthful, and functional working space—in which they can effectively carry out the government's important business. GSA attempts to do this through a combination of government-owned and leased space. Of the 247 million square feet of workspace in 7,400 buildings nationwide that GSA controls, 138 million square feet, or 56 percent, is in 1,700 federally owned buildings; the rest—109 million square feet, or 44 percent—is in 5,700 leased buildings. In fiscal year 1991, GSA spent over $3 billion to acquire space—about $1.7 billion to construct and purchase (including lease-purchase) new facilities and about $1.5 billion to lease space from private owners.

Why It Is Highly Vulnerable. Because of funding and budgetary limitations beyond GSA's direct control and its lack of a strategic approach for meeting long-term federal space needs, GSA has not been successful in acquiring facilities in a cost-effective, businesslike manner. One of the major consequences has been to make GSA dependent on costly leased office space.

In a series of reports and testimony over the past 3 years, we have stressed that the federal government could save billions of dollars by owning the space GSA controls instead of leasing it. Recognizing that several of the obstacles to increased ownership were outside of GSA's direct control, we made recommendations to GSA as well as to Congress in December 1989 that were designed to facilitate increased federal ownership. Similarly, our October 1989 report on GSA's building purchase program pointed out that, although individual building purchases needed to be better managed, the program could be an economical, cost-effective means of increasing federal ownership of office space.[1] However, GSA currently lacks discretionary building purchase authority. OMB and Congress have lacked adequate assurance that GSA would make cost-effective use of such authority, and its approved budgets for fiscal years 1989 through 1992 have included no new funds to acquire additional commercially available buildings.

Given the savings and loan and banking failures and the currently depressed real estate market, the Resolution Trust Corporation, Federal Deposit Insurance Corporation, and other sellers may have commercial properties that could cost-effectively satisfy the federal government's office space and ownership needs. However, the obstacles discussed earlier also preclude GSA's purchases of such buildings.

OMB has expressed concerns about the adequacy of GSA's central management leadership in this area. As discussed in chapter 3, OMB also has expressed concerns about GSA's building leasing and opportunity purchase programs. The current economic recession that has resulted in depressed real estate prices and higher office space vacancy rates in the Washington, D.C., area and elsewhere probably make OMB's observations even more applicable today.

GSA's OIG also believes that acquisitions of facilities are highly vulnerable. In its March 1992 response to an inquiry from the House Committee on Government Operations, OIG identified building leasing, ownership vs. leasing, and administration of facilities contracts as 3 of GSA's 10 most critical management problems. As indicated in chapter 3, OIG audit reports have documented a number of deficiencies in the building leasing and purchases areas. These included poor planning, unreliable information systems, inexperienced personnel, out-of-date handbooks and program guidance, and inconsistencies in applying the procurement rules, particularly the failure to obtain competition.

[1] GAO/GGD-90-5.

OIG-documented deficiencies in GSA's administration of facilities contracts included lack of training and/or proper technical qualifications, inadequate review of drawings and specifications, inadequate inspection and enforcement of contract requirements and project schedules, lack of adherence to established contract administration procedures, and failure to identify and correct design deficiencies. OIG also questioned the cost-effectiveness of GSA's use of construction quality management contracts.

GSA's own review of its space delivery process, completed in August 1988, concluded that the process was unfocused, inefficient, and overly bureaucratic. For example, the average number of calendar days required for GSA to deliver requested space rose from 239 days in 1977 to 307 days in 1988. Since the issuance of this internal study, GSA has made improving the quality and timeliness of its services to customer agencies a top priority.

Supporting Evidence of Vulnerability. The following provided supporting evidence of vulnerability:

- GAO.

  Building Purchases: GSA's Program Is Successful but Better Policies and Procedures Are Needed (GAO/GGD-90-5, Oct., 31, 1989); General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14, Nov. 6, 1989); Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989); The Disinvestment in Federal Office Space (GAO/T-GGD-90-24, Mar. 20, 1991); Facilities Location Policy: GSA Should Propose a More Consistent and Businesslike Approach (GAO/GGD-90-109, Sep. 28, 1990); Long-Term Neglect of Federal Buildings Needs (GAO/T-GGD-91-64, Aug. 1, 1991); Real Property Management Issues Facing GSA and Congress (GAO/T-GGD-92-4, Oct. 30, 1991); and Federal Office Space: Obstacles to Purchasing Commercial Properties From RTC, FDIC, and Others (GAO/GGD-92-60, Mar. 31, 1992).

- GSA IG.

  Reviews of controls over lease payments (A980990, Jun. 7, 1990; A80528, Dec. 27, 1988), vacant space management (A90532, Apr. 23, 1990; A80413, Mar. 16, 1989), government cost estimates (A00139, Dec. 3, 1990), lease acquisition and administration programs (A90678, Oct. 11, 1990; A80990, Apr. 16, 1989; A90082, May 17, 1989), buildings management (A90686, Jan. 23, 1990), building purchases (A60411, Apr. 16, 1988), contractor integrity requirements (A90947, May 24, 1990), numerous preaward lease reviews and preaward and postaward contract audits, and Mar. 1992 response to House Committee on Government Operations.

- OMB.

In 1990, OMB included GSA's FIA program on its list of 106 governmentwide high risk areas and specifically cited GSA's building leasing and opportunity purchase programs as areas needing internal control reviews.

- Other.

GSA Space Delivery: A Management Review, GSA, 1988 and a September 1989 joint OMB/GSA study of federal building needs and financing options.

GSA Corrective Actions. GSA and Congress have taken some actions to begin overcoming these obstacles, but more needs to be done. GSA recognizes that it needs to improve its strategic focus and planning to promote better congressional oversight and decisionmaking, has drafted a 5-year capital plan, and has efforts under way to improve this draft plan so that it is acceptable to OMB by more clearly outlining the proper mix of owned and leased buildings and identifying and prioritizing federal space needs as well as the most economical way of meeting them. Also, GSA has revised its building purchase policies and procedures in response to the results of earlier audit reports, but it has not purchased a building since 1988, and these new controls have not yet been tested.

Congress allowed GSA's Federal Buildings Fund to borrow $1.9 billion from the Federal Financing Bank in 1990 and appropriated $1.6 billion in 1991 to allow GSA to acquire or construct several new federal buildings that had already been authorized. As a result of this substantial supplemental funding for increased federal ownership of space, GSA now has about 12 million square feet of government-owned space in the "design and construction pipeline." If approved, GSA's 1993 budget will provide for over 4 million more government-owned square feet. These projects reportedly will allow GSA to increase the owned percentage of space to almost 60 percent from its current 56 percent. However, we continue to believe that Congress should restructure the federal budget to include a capital component, as we have recommended before.

Finally, GSA appears to be making a concerted effort to be more responsive to agencies' requests for space and has implemented new streamlined procedures for delivering leased space of 25,000 or fewer square feet.

Building Repairs and Modernization

Description of the Function or Activity. As discussed under the acquisition of facilities function, GSA is responsible for providing federal agencies safe, healthful, and functional working space and other facilities. Additionally, PBS is responsible for effectively managing valuable federal assets. In federally owned buildings, GSA must make necessary repairs and modernize them to ensure that federal assets are preserved and that tenant agencies occupy safe and modern working space. This is a particular challenge because many of the 1,700 federally owned buildings GSA controls are more than 40 years old, monumental in design, and historically significant. They will likely remain in GSA's inventory indefinitely. Unlike the private sector, GSA cannot dispose of these buildings simply because it is economically advantageous to do so.

GSA is responsible for identifying, funding, and completing needed building repairs and modernization. The scope of repair and modernization projects varies, but projects generally fall into one of three broad categories—(1) recurring repairs, such as periodic painting and the minor repair of defective building systems; (2) major repairs to buildings systems and equipment to restore them to acceptable operating condition; and (3) modernization of buildings and building systems to upgrade, improve, or renovate them.

Why It Is Highly Vulnerable. Concerned that the 50-year-old Pentagon—which needs a billion dollar renovation to overcome years of neglect—might not be an isolated example of the federal government's failure to sustain needed capital investment in federal buildings, the Chairman, House Public Works and Transportation Subcommittee on Public Buildings and Grounds, asked us to determine (1) whether other federal buildings were being neglected, (2) whether and how conditions in federal buildings adversely affected tenant agencies and employees, and (3) the major reasons why repair and modernization needs had not been satisfied.

Though their condition was not as bad as the Pentagon's, we reported in May 1991 that other federal buildings had been neglected and needed major repairs and modernization to bring them up to acceptable quality and health and safety standards. Excluding the Pentagon, federal buildings needed at least $3 billion worth of repairs and upgrading. Our analysis of 25 federally owned buildings showed that over one-third had major repair and modernization needs that were first identified anywhere from 3 to 15 years ago. These needs included repairing or replacing leaking roofs and plumbing systems, installing fire alarm and sprinkler systems, and upgrading electrical and heating and cooling systems. Lack of attention to these problems decreased the value of federal assets and cost the government more money in the long run. It also contributed to poor quality working space, impeded agencies' operations, and, in some instances, jeopardized federal employees' health and safety.

Funding limitations, other capital investment obstacles, and ineffective GSA management and oversight of identified repair and modernization requirements were the primary reasons why buildings had been neglected and gradually allowed to become deteriorated, functionally obsolete, and, in a few instances, unsafe. GSA lacked complete data on repair and modernization requirements and on identified requirements that had been deferred. Such information is needed to effectively manage and oversee federal buildings and to target the most seriously deteriorated, obsolete, or unsafe ones. We concluded that if critical repairs and alterations were not made, other federal buildings would eventually deteriorate as did the Pentagon and probably require a major infusion of federal funds. To help prevent this, we made a series of recommendations to the Administrator of GSA.

Over the years, OIG audit reports have disclosed numerous problems in the building repairs and alterations area, and the OIG also considers this area vulnerable to waste and abuse. OIG-documented problems have included (1) requesting funds for projects that were not legitimate, (2) using funds authorized for one project on unrelated projects, (3) splitting projects to avoid established authorization and procurement limitations, and (4) spending money on repair and alteration projects that were frivolous or not justified. Additionally, the IG is concerned that GSA's identification and management of building hazards, such as asbestos, polychlorinated biphenyls (PCB), fire and safety deficiencies, radon gas, lead in drinking water, and poor air quality, has been deficient. OIG audits have disclosed serious problems associated with a lack of adequate and/or experienced staff, weaknesses in developing policies for identifying and controlling hazardous material, and weaknesses in implementing policies for the identification and control of hazardous substances. Finally, the IG's findings concerning GSA's administration of construction contracts that were discussed in the acquisition of facilities section also cover building repairs and modernization since they too are done through contracts with private sector firms.

Supporting Evidence of Vulnerability. The following provided supporting evidence of vulnerability:

- GAO.

The Disinvestment in Federal Office Space (GAO/T-GGD-90-24, Mar. 20, 1990); Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57, May 13, 1991); Long-Term Neglect of Federal Building Needs (GAO/T-GGD-91-64, Aug. 1, 1991); Real Property Management Issues Facing GSA and Congress (GAO/T-GGD-92-4, Oct. 30, 1991).

- GSA IG.

Reviews of removal and disposal of PCBS and asbestos (A80612, Oct. 12, 1988; A80767, Mar. 22, 1989; A80966, Jul. 19, 1989; A90562, Sep. 12, 1989; A90385 and A90386, Mar. 27, 1989; A80743, Jul. 13, 1989), fire safety in federal buildings (A00620, Dec. 21, 1990; A90641, Oct. 25, 1989; A90451, Nov. 7, 1989; A90641, Dec. 21, 1989).

GSA Corrective Actions. In the last 2 years, GSA, in consultation with OMB and Congress, has placed greater emphasis on repair and modernization funding, but the results of this increased investment in existing buildings are just beginning to be realized. Although GSA has sought and obtained more funding authority for needed repairs and modernization, it will take years to compensate for past neglect, especially in view of funding limitations. Beginning with the fiscal year 1994 cycle, GSA will calculate a relative return on investment index for each new building construction and modernization project, which is aimed at helping ensure that scarce capital investment dollars are spent more wisely.

Acquisitions of Telecommunications and ADP Equipment, Software, and Services

Description of the Function or Activity. The acquisition, management, and oversight of telecommunications and ADP systems equipment, software, services, and maintenance is one of the federal government's most critical, costly, and dynamic functions. It affects every federal agency and employee. Such technology continues to rapidly change how federal agencies and employees do their work. With the proliferation of computers, fax machines, modems, and other electronic communications equipment, the workplace is vastly different today than it was just 10 years ago. And what will it be like 10 years from now?

GSA is responsible for planning, managing, and overseeing the federal government's local and long-distance telecommunications systems and ensuring that federal agencies acquire and manage computer hardware and software effectively. To carry out its responsibilities, GSA develops and coordinates governmentwide policies, procedures, and regulations governing the management, procurement, and utilization of ADP, telecommunications, and office information equipment and services; develops and coordinates governmentwide policies, procedures, and regulations governing information services to the general public; and provides for the overall management of operations financed by the Information Technology Fund (IT Fund) through agencies' payments for telecommunications and other ADP services and equipment.

In fiscal year 1990, GSA spent about $1 billion from the IT Fund to provide or facilitate these governmentwide services. It awarded MAS contracts to 798 vendors under which federal agencies spent about $2.2 billion to acquire the ADP and telecommunications equipment, software, services, and maintenance offered. The IT Fund received reimbursements from federal agencies of $939 million during fiscal year 1990.

GSA implemented FTS 2000 in 1990 to replace the outdated and expensive FTS network and provide state-of-the-art voice, data, and video telecommunications services to the federal government. In 1988, GSA awarded FTS 2000 contracts, potentially worth $25 billion, to two vendors—AT&T and US Sprint—which were expected to share contract revenues on a 60 to 40 basis, respectively. The contracts specify that GSA is to maintain this revenue allocation during the first contract period as it assigns additional traffic to the two vendors' networks. GSA intends to keep prices competitive by recompeting up to 40 percent of each vendor's estimated revenue during recompetitions between the two vendors in years 4 and 7 of the contract.[2] GSA also expects to obtain lower prices, through economies of scale, by effectively enforcing the mandatory-use policy and buying telecommunications services in bulk.[3]

GSA is also enhancing local telecommunication services. Its objective is to operate consolidated telephone systems that provide effective and

[2]Only the incumbent FTS 2000 vendors are permitted to participate in these recompetitions, the first of which is under way now.

[3]Under Public Law 101-509, using FTS 2000 is mandatory for most federal agencies.

economical local service and, through competitive processes, procure cost-advantageous telephone services and equipment. This includes the program areas of telecommunications technical services contracts and the purchase of telephones and services contracts. GSA's aggregated system procurement program is designed to consolidate systems into a single procurement action to achieve economies of scale and cost stability for systems in major metropolitan areas. The aggregated procurement system will replace existing systems, as well as completed systems whose contracts have expired, with state-of-the-art technology. GSA is in the process of modernizing local service in the Washington, D.C., area. The Washington Interagency Telecommunications System is replacing a selected portion of the existing local telephone equipment and services with one integrated voice and data transmission facility.

Why It Is Highly Vulnerable. Given its importance and governmentwide implications, the dollars involved, the dynamics of the emerging technology, and the problems that we, GSA's IG, OMB, and others have documented to date, we believe that this activity is highly vulnerable to fraud, waste, abuse, and mismanagement. On the basis of our past recommendations, however, GSA has taken steps to improve its operations in these vulnerable areas.

Since 1990, we have identified numerous problems with GSA's management of FTS 2000. These management problems resulted in costly disruptions in the program and undermined its success. Examples include GSA's (1) failure to achieve the targeted 60 to 40 revenue split between the two vendors, (2) inability to enforce contract provisions requiring that FTS 2000 prices keep pace with commercial prices, and (3) difficulties in ensuring that FTS 2000 vendors comply with Small Business Act requirements. In addition, a recent review of GSA's overhead costs for managing FTS 2000 questioned whether some of the contract requirements add value to program management. It also identified opportunities for GSA to reduce overhead costs by streamlining certain operations.

Even more critical, however, are concerns about the cost-effectiveness of FTS 2000. In September 1991, we estimated that, although FTS 2000 saved millions of dollars over the old FTS, the government would pay $148 million above commercial rates for FTS 2000 voice service in fiscal years 1991 and 1992. GSA and the vendors maintained that the FTS 2000 contracts contain unique requirements not typically included in commercial contracts and that these requirements accounted for the difference in prices. At the time of our review, however, neither GSA nor the vendors could quantify the incremental effect of these additional requirements on prices.

In the ADP area, GSA has grappled for over 2 decades with the challenge of meeting its oversight responsibilities. Under GSA's oversight, agencies have continued to make poorly designed, ineffectively managed procurements that did not work as planned, had cost overruns in the hundreds of millions of dollars, and were not developed on time. In October 1991, we reported that GSA's management of its procurement review process was not well focused and that staffing problems and poor procedures limited GSA's effectiveness in reducing acquisition risks. In addition, GSA's procurement and management reviews, which could help agencies develop good ADP processes and procedures, were limited in number and scope. In response, GSA increased its reviews of agencies' ADP procurement and management activities from three in 1989 to six in 1990. In addition, GSA said that an increased staffing level beginning in May 1992 would allow it to make nine agency reviews annually. With this review schedule, GSA expects to cover all 27 major ADP agencies over a 3-year period.

GSA's IG also has reported deficiencies in GSA's controls over telecommunications and ADP procurement. OIG-documented weaknesses in the telecommunications area included inadequate controls over the IT Fund, lack of controls over payments within the Telephone Inventory Accounting System, lack of adequate planning for establishing communications in national emergencies, and potential billing and telephone usage control problems in the FTS 2000 system. In the ADP procurement area, OIG reported in 1989 that (1) GSA had made only limited reviews of agencies' use of delegated procurement authority and (2) poor controls over such delegated authority had allowed agencies to abuse their authority by directing contracts to favored contractors.

Similarly, OMB is concerned about the effectiveness of GSA's leadership, management, and oversight in this area. In a February 1991 letter to GSA containing budgetary and operating guidance for fiscal years 1991 and 1992, OMB directed GSA to evaluate current and alternative approaches to its oversight of agencies' information resources management (IRM) and acquisition practices to determine the value added by GSA's involvement. In the meantime, OMB directed GSA to establish a pilot program to delegate more of its oversight responsibilities of agencies' IRM programs to those agencies and to rigorously oversee and evaluate the program's effects. OMB also stressed that the growth in the importance of IRM technology to federal agencies challenges GSA to find the most appropriate mix of increased control and oversight of IRM activities and recommended that GSA conduct an independent evaluation of the overhead costs associated with FTS 2000 and local telecommunication services.

Supporting Evidence of Vulnerability. The following provided supporting evidence of vulnerability:

- GAO.

ADP Procurement: GSA Needs to Improve Its Review Process to Enhance Its ADP Oversight (GAO/IMTEC-92-7, Oct. 28, 1991); FTS 2000 Recompetition: Opportunity Exists for Better Prices (GAO/T-IMTEC-92-1, Oct. 22, 1991); FTS 2000: GSA Must Resolve Critical Pricing Issues (GAO/IMTEC-91-79, Sept. 11, 1991); Telecommunications: GSA Should Improve Oversight of Small Business Subcontracting (GAO/IMTEC-91-57, Jul. 9, 1991); Telecommunications: GSA's Difficulties Managing FTS 2000 (GAO/IMTEC-91-45, Jun. 13, 1991); General Services Administration's Management of FTS 2000 (GAO/T-IMTEC-91-9, Apr. 18, 1991); Competitiveness of Federal Computer Procurement (GAO/T-IMTEC-90-12, Sep. 13, 1990); FTS 2000: An Overview of the Federal Government's New Telecommunications System (GAO/IMTEC-91-17FS, Feb. 14, 1990); and Telecommunications Acquisitions: Information on GSA's Procurements (GAO/IMTEC-88-24, May 13, 1988).

- GSA IG.

Reviews of FIA assurance statements (A11913, Nov. 7, 1990; A90862, Jan. 23, 1990); accounts receivable in the Information Technology Fund (A80260, Oct. 27, 1989); contingency planning for computer systems (A00348, Mar. 1, 1991); and IRMS's quality assurance program for automated information systems development projects (A90480, Nov. 16, 1990).

- OMB.

OMB letter to GSA providing operating and budgetary guidance, February 1991, and OMB letter to GSA containing budgetary and operating guidance, March 1992.

GSA Corrective Actions. GSA is taking steps to address these concerns. First, GSA has assigned all new agencies to the AT&T network and expects to achieve the targeted 60 to 40 revenue split between AT&T and US Sprint, respectively, by the end of fiscal year 1992. Second, GSA and the vendors are in the process of developing mutually agreed upon methodologies for ensuring that FTS 2000 prices for all services keep pace with commercial rates. Third, GSA has undertaken an extensive monitoring effort toward ensuring that small and small, disadvantaged businesses are being afforded maximum practicable opportunity under the FTS 2000 contracts. According to GSA, AT&T and US Sprint have 10-year contract plans for subcontracting with small and small, disadvantaged business firms, and, as of May 1992, both contractors were on target for meeting their negotiated subcontracting goals. Fourth, during the current recompetition, GSA intends to obtain prices, inclusive of the value associated with unique requirements, that are below the lowest possible commercial prices.

Additionally, GSA has initiated a review of the cost-effectiveness of FTS 2000. As part of this review, GSA will also evaluate the methodologies being negotiated with the vendors for keeping FTS 2000 prices competitive with commercial rates to ensure they are adequate in controlling prices. Finally, GSA recently awarded a contract for a comprehensive management review of the FTS 2000 program. This review, expected to be completed by November 1992, will include an evaluation of the overhead charge and the functions supporting GSA's management of the contracts.

In the ADP area, GSA has taken several steps since 1989 to strengthen the quantity and quality of its oversight of agencies' acquisitions by making the following improvements to the Delegations of Procurement Authority and Procurement Management Review (PMR) programs—implementing the three-tiered delegations review model; increasing its oversight staff's size and grade levels; expanding the delegations database; adding DPA reporting requirements; and increasing the number of PMRs. These oversight changes are designed to help agencies make better ADP acquisitions.

Automated Management Information Systems

Description of Function or Activity. To carry out its central management, oversight, and governmentwide service provider roles, GSA relies on a number of automated management information systems. GSA needs reliable data so that it can monitor, record, account for, summarize, interpret, and control millions of transactions. GSA also needs accurate and reliable data to prepare its consolidated financial statements and related statements of revenues and expenses; ensure compliance with FIA and the CFO Act and various other legal and regulatory requirements; and provide

OMB and Congress the information they need to authorize, finance, and oversee GSA's various activities and programs.

GSA's 4 services, 11 staff offices, and 11 regional offices use and rely on various automated systems to carry out and manage their particular activities, programs, and responsibilities and to safeguard valuable real and personal property assets. Also, GSA needs these systems to help detect losses from fraud, waste, and mismanagement in its internal operations and its contracting with private vendors.

Why It Is Highly Vulnerable. As discussed in chapter 3, GSA lacks the quantity and quality of timely, accurate, and reliable program data it needs to effectively manage, oversee, and control its various activities and programs, especially in the public buildings area. Such program data deficiencies also can adversely affect the accuracy and reliability of the financial and accounting data GSA reports to OMB, Congress, and others. Similarly, they can impede GSA's ability to detect potentially fraudulent, wasteful, abusive, or otherwise undesirable practices or spending.

Our work and that of OIG have documented a variety of operational and oversight deficiencies at GSA that were caused, at least in part, by poor management information. Also, independent public accounting firms, OIG, and we have disclosed several deficiencies in GSA's accounting and financial management systems and subsystems. OMB has expressed concern about the adequacy of GSA's oversight of the acquisition, development, and implementation of major information systems and included GSA's systems development efforts on its governmentwide list of activities and programs requiring top-level management attention. GSA has reported its inadequate oversight of major information systems development projects for public buildings activities as a material internal control weakness in its FIA reports and classified this as a high risk area requiring management attention. Finally, in its March 1992 response to an inquiry from the House Committee on Government Operations, the OIG included management of major information systems development as one of GSA's 10 most critical management problems.

As recognized earlier, GSA has major efforts under way to replace its public buildings information system, automate and upgrade its supply depot information system, and improve various other management information, financial management, and accounting systems and subsystems. As with the telecommunications and ADP equipment, software, and services GSA acquires or arranges for the federal government community, which were discussed in the previous section of this chapter, the systems it acquires or develops for its own internal uses also are complex and costly. On the basis of GSA's systems development efforts to date in the public buildings and supply depot areas, we believe it is highly likely that it will continue to experience technical as well as administrative problems in bringing new automated systems on-line in a timely, cost-effective manner.

Supporting Evidence of Vulnerability. The following provided supporting evidence of vulnerability:

- GAO.

Internal Controls: System Problems Affecting GSA's Financial Reporting (GAO/AFMD-88-2, Feb. 4, 1988); Financial Audit: Examination of GSA's Financial Statements for Fiscal Years 1987 and 1986 (GAO/AFMD-89, Nov. 21, 1988); Internal Controls: Areas for GSA Management to Strengthen (GAO/AFMD-89-36, Apr. 20, 1989); Public Buildings Service: GSA's Projection of Lease Costs in the 1990s (GAO/GGD-89-55, Apr. 19, 1989); General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14, Nov. 6, 1989); and General Services Administration: Distribution Center Modernization Was Mismanaged (GAO/GGD-92-71, May 20, 1992).

- GSA IG.

Reviews of accounts receivable (A80620, Oct. 27, 1989); vacant space in GSA buildings (A90532, Apr. 23, 1990); controls over lease payments (A80990, Jun. 6, 1990); debt collection procedures and controls (A00222, Aug. 20, 1990; A80620, Jul. 24, 1989); inventory management (A80739, Jan. 31, 1989); and March 1992 response to the House Committee on Government Operations on GSA's 10 most critical management problems.

- Arthur Andersen & Co.

1988-91 audits of GSA's financial statements.

- OMB.

October 29, 1991, letters to House Committee on Government Operations and Senate Committee on Governmental Affairs transmitting GSA's fiscal year 1991 CFO report; feedback to GSA on its FIA implementation and reporting.

- GSA.

FIA reports to the president and Congress covering fiscal years 1989, 1990, and 1991.

GSA Corrective Actions. Since 1988, PBS has made efforts to improve management controls by reorganizing the Office of PBS Information Systems, implementing better software development life cycle procedures, establishing better decisionmaking methodologies, and tracking critical milestone dates for the PBS information systems conversion project through GSA's executive management information system, ExecuTrac. In the financial management area, GSA's CFO agreed with OIG's report on accounts receivable, implemented one of the five recommendations, and received OIG concurrence to defer implementation of the remaining recommendations until the improvements could be incorporated into a systematic revision of the operating system. In the GSA systems procurement area, the Executive Steering Committee for Information Management reviews all major agency projects in detail. Also, GSA's IRMS quality assurance, security, and planning staffs have become more actively involved in all phases of the agency's internal systems developments.

Procurements of Common-Use Equipment and Supplies

Description of the Function or Activity. One of GSA's primary responsibilities is to provide an economical and efficient means for federal agencies to obtain common-use supply items such as furniture, tools, paints, office supplies, and office equipment. In providing supplies and equipment, GSA is expected to ensure that (1) federal agencies' requirements are filled with quality items that satisfy their needs and are reasonably priced and (2) the rights of the federal government and all responsible bidders are adequately protected.

GSA meets federal agencies' supply and equipment requirements in two primary ways—the multiple award schedules (MAS) program and the award of requirements contracts using competitive contracting procedures. Both are supposed to allow federal agencies to obtain quality products at the lowest possible cost. Under the MAS program, GSA awards contracts to multiple vendors of a particular product or service and advertises the product's availability through catalogs describing the approved products and vendors. Federal agencies purchase directly from the vendors at prices specified in the catalog. MAS is supposed to be a commercial item procurement program. It relies on the marketplace to establish fair prices and quality products and assumes that overpriced or poor quality products are eliminated from the marketplace by lack of demand. During fiscal year 1990, federal agencies purchased $4.6 billion worth of MAS items and services.

Under competitive requirements contracts, GSA buys common-use equipment and supplies for resale to federal agencies through its depots and supply centers or via direct delivery from vendors. The Federal Acquisition Regulation, Competition in Contracting Act, and GSA's implementing regulations govern its procurements of bulk quantity products as well as its governmentwide supply schedule arrangements with vendors. GSA has several control organizations and processes to help ensure that the products it buys for resale to federal agencies meet contract requirements and satisfy federal agencies' needs. These include the procurement and administration contracting officers, the Quality Approved Manufacturer Agreement (QAMA) program, a national testing laboratory, a federal agency complaints system, and contract management divisions in several of its regions. QAMA requires vendors to maintain quality control systems that meet FSS' requirements. In fiscal year 1990, federal agencies purchased $2.5 billion worth of merchandise through GSA's requirements contracts.

Why It Is Highly Vulnerable. GSA's contracting and contract administration practices for common-use equipment and supplies have not been as effective as they should. Both the MAS and requirements contracts procurement programs have a history of serious problems, and past GSA corrective actions have not solved them. Potential or documented problems we and/or the GSA IG have identified include undetected fraudulent contractor performance, overpriced items on MAS, acceptance of defective or inferior quality products, and continued contracts with vendors who have histories of poor performance in delivering products that meet GSA's requirements. In a series of reports in the 1980s, we identified problems with the MAS program; GSA's OIG continues to report similar problems. In its March 1992 response to the House Committee on Government Operations, OIG identified the MAS program as one of GSA's 10 most critical management problems.

The basic problem with MAS is that GSA has no assurance that the federal government's interests are adequately protected. The IG's preaward audits frequently have disclosed that contract proposals do not comply with the law or represent the vendor's best price. Prospective vendors often misrepresented or failed to disclose better discounts than those offered to the government. Of the over 500 preaward reviews of MAS proposals OIG made in fiscal years 1990 and 1991, over 70 percent of the FSS proposals and over 55 percent of the IRMS proposals did not contain accurate and complete pricing data. Since OIG is unable to review all proposed contracts, many similar problems likely go undetected.

As discussed in chapter 3, OIG's postaward audits also frequently have disclosed that some GSA vendors have not complied with the terms and conditions of their contracts, resulting in overcharges to federal agencies. These disclosures often have led to successful criminal or civil prosecution and recoveries through fines or restitution. During 1991, for example, nine civil settlements were reached providing for recoveries of over $15 million from MAS vendors as a result of OIG postaward audits of MAS contracts. However, other contractors who may have overcharged the government are not being detected because OIG cannot audit all contracts and has chosen to concentrate its available resources on preaward audits to prevent problems before they occur.

Other OIG-documented deficiencies have included vendors who qualified for inclusion on MAS schedules despite their failure to pass tests of commerciality, GSA's inability to obtain product cost and discount data when negotiating with dealers who are manufacturers' sole source representatives, and poor negotiation and administration of MAS contracts by GSA personnel. As noted earlier, GSA has designated MAS procurements a high risk area but has not disclosed documented MAS program deficiencies as a material weakness in its FIA reports.

Similarly, GSA cannot ensure that the products it buys under requirements contracts meet the quality standards established in the contract. OIG reported in 1985 that GSA's inspections of contractors' quality control systems had not prevented the receipt of defective items in its stock procurement program. Subsequently, we reported in 1987 that GSA did not (1) know the extent of its product quality problems, (2) prevent acceptance of defective or inferior quality products, or (3) adequately monitor or oversee vendors' performance. Our ongoing work in the procurement area indicates that GSA has continued to buy products that do not meet specifications and/or delivery schedules and that it has not yet taken effective actions against vendors who have histories of poor performance under earlier contracts.

Supporting Evidence of Vulnerability. The following provided supporting evidence of vulnerability:

- GAO.

Management of the Federal Supply Service Procurement Program Can Be Improved (PAD-75-32, Dec. 31, 1974); Federal Supply Service Not Buying Goods at Lowest Possible Price (PAD-77-69, Mar. 4, 1977); Ineffective Management of GSA's Multiple Award Schedule Program—A Costly, Serious, and Longstanding Problem (PAD-79-71, May 2, 1979); Effectiveness of GSA's Actions to Improve the Multiple Award Schedule Program (B-199079, Aug. 22, 1980); GSA Procurement: Are Prices Negotiated for Multiple Award Schedules Reasonable? (GAO/GGD-86-99BR, July 1986); GSA Procurement: Quality Assurance of Common-Use Items Should Be Improved (GSA/GGD-87-65, June 29, 1987); Multiple Award Schedule Purchases: Improvements Needed Regarding Publicizing Agencies' Orders (GAO/NSIAD-92-88, May 12, 1992); and Multiple Award Schedule Purchases: Changes Are Needed to Improve Agencies' Ordering Practices (GAO/NSIAD-92-123, June 2, 1992).

- GSA IG.

Reviews of 1990 FIA assurance statements (A11514, Dec. 3, 1990, and A00549, Nov. 21, 1990); OIG Audit Highlights of FSS Activities in 1989 (Aug. 14, 1990); reviews of multiple award schedules for office machines and MAS price lists (A70726, Dec. 27, 1988, and A00286, May 31, 1990); contract management and quality assurance (A90484, Aug. 10, 1989); numerous preaward and postaward audits of MAS contracts and proposals; and response to Chairman, House Committee on Government Operations, on GSA's 10 most significant management problems (March 1992).

- OAP.

Summary Report for Improving the Quality of Contracting (June 1989).

GSA Corrective Actions. According to GSA, effecting change in the MAS program has always been difficult because of intense pressure on the agency to satisfy the parochial concerns of various interest groups. Because of a variety of concerns, GSA established a MAS Improvement Project in 1990. After a comprehensive review of the pricing issues, GSA is making efforts to simplify and clarify the data submission requirements of MAS offerors and to reduce the incidence of inaccurate and incomplete offers. In this regard, GSA issued a temporary regulation in February 1992 restating the MAS price negotiation objectives and completely revamping the discount schedule and marketing data (DSMD), is implementing a pilot test of the revised MAS procedures in up to five solicitations, and developed a vendor guide and vendor checklist to assist offerors as well as its own contracting personnel. After evaluating the results of the revised DSMD, GSA said it will consider further revisions, if necessary, and consider implementing these changes programwide.

In the requirements contracting area, GSA is actively pursuing several new initiatives to address the issue of its continued contracting with vendors who have histories of poor performance on earlier contracts.

Supply Depot Operations

Description of the Function or Activity. GSA maintains a worldwide supply distribution system to receive, store, and issue products to federal agencies. To do this, it operates five depots to warehouse and distribute products in small as well as bulk quantities. The depots house some 18,000 individual products, many of which are common-use and commercially available items. During fiscal year 1991, GSA spent about $136 million to operate these depots, reported sales to federal agencies of about $1 billion, and had a year-end inventory valued at about $242 million. In 1986, GSA began an ambitious program to automate and modernize its depots to allow more efficient operations, increase productivity, and reduce costs. This program is expected to cost hundreds of millions of dollars. GSA opened its first "modernized" depot in March 1989 at Palmetto, GA, and its second in January 1991 at Burlington, NJ.

Why It Is Highly Vulnerable. GSA's supply depot operations have not been as cost-effective as they should. A 1987 study of GSA's depot operations by Coopers and Lybrand, Certified Public Accountants, and ongoing work we are doing raises questions about the cost-effectiveness of depot operations. We reported in May 1992 that GSA mismanaged its depot modernization and automation efforts, wasted millions of dollars, and may never fully realize the intended benefits of modernization.

While depots store many products, large agency orders have been filled by utilizing direct delivery from vendors' plants. Although depots are designed primarily to enable the government to take advantage of bulk purchase pricing, the Coopers and Lybrand study found that depots nevertheless filled many small quantity orders. Our ongoing work corroborates this view and suggests that increased use of direct shipments from vendors for large quantity orders and use of alternate sources for filling small quantity orders could save millions of dollars annually. In any event, streamlined depot operations could achieve significant cost savings and a more businesslike approach to supplying government agencies.

The GSA OIG's audit reports and our May 1992 report indicated that GSA's depot modernization program experienced serious operational problems. GSA has already spent more than $3 million and may incur millions more to develop the critically needed software to automate its depots. According to GSA, its initial development effort failed largely because of an inadequate needs assessment and ineffective project oversight. GSA began a second software development effort in February 1991 that has an estimated completion date of 1994. Although this effort seems better planned and managed, it is too early to tell whether this second effort will succeed or be cost-effective.

Nevertheless, our work showed that GSA wasted millions of dollars in acquiring and moving into the first modernized depot because it (1) overestimated its space needs, (2) did not include modernization requirements in the original lease for the new facility but amended it noncompetitively 12 days later to reflect them, (3) poorly planned and managed its move into the new facility, and (4) failed to ensure that its lease for the new facility adequately protects the government's financial interests.

Supporting Evidence of Vulnerability. The following provided supporting evidence of vulnerability:

- GAO.

General Services Administration: Distribution Center Modernization Was Mismanaged (GAO/GGD-92-71, May 20, 1992) and Internal Controls: Federal Supply Service Depot Transportation Costs Can Be Reduced (GAO/GGD-87-63, May 8, 1987).

- GSA IG.

OIG Audit Highlights of FSS Activities in FY89 (Aug. 14, 1989), audit of the Palmetto, GA, depot (A00640, Jan. 23, 1990), employee safety at Palmetto (A00468, Sep. 28, 1990), and other reviews of depot operations (A70780, Jun. 19, 1989; A90321, Nov. 3, 1989; A90450, Dec. 5, 1989; and A90449, Jan. 9, 1990).

- Other.

Arthur Andersen & Co.'s reports on GSA's 1990 and 1991 financial statements and Coopers and Lybrand's final report: A Cost Comparison Study of the Federal Procurement and Supply Process (Dec. 14, 1987).

GSA Corrective Actions. GSA has a long-term initiative to operate a single supply system by merging the wholesale and retail components of its supply network. GSA believes that such an approach would make its supply operations more cost efficient and enable it to compete with agencies' open market and other purchase alternatives. In the depot modernization area, GSA brought the Burlington depot on-line essentially devoid of the acquisition and logistical problems it experienced at Palmetto. However, neither of these new depots yet has the critically needed software to enable GSA to achieve the intended benefits of automation.

Identification, Management, and Sales or Other Dispositions of Excess or Underutilized Government Property

Description of the Function or Activity. The federal government is the nation's largest property owner. It owns almost 700 million acres of land and over 400,000 buildings that would cost hundreds of billions of dollars to replace. It also owns a wide range of personal property, including equipment, fixtures, furniture, tools, vehicles, aircraft, and other items that cost billions of dollars.

This valuable real and personal property was acquired and is controlled by various federal agencies that are responsible for ensuring its effective use, identifying any unneeded or underutilized property, and reporting any excess property to GSA. GSA is responsible for overseeing agencies' identification of excess federal property; recycling it among federal agencies; and donating, exchanging, leasing, or selling it to state and local governments, nonprofit organizations, or private entities. Additionally, several other organizations, such as the Resolution Trust Corporation, Federal Deposit Insurance Corporation, and U.S. Customs Service, are responsible for managing and disposing of forfeited or seized real and personal property valued in the hundreds of billions of dollars.

Why It Is Highly Vulnerable. Federal efforts to identify, manage, and dispose of excess and underutilized government property have been largely ineffective. Given the amount of property that federal agencies control and the lack of adequate centralized governmentwide management and oversight of these valuable strategic assets, we believe that there are significant amounts of excess or underutilized property that could be recycled to other federal use, exchanged, sold to finance other federal spending or reduce the budget deficit, or donated for public benefit purposes. However, federal agencies have reported relatively little excess property to GSA.

Most agencies have an economic disincentive to report excess property to GSA because they generally get nothing for it. By law, proceeds from GSA sales of agencies' excess property usually must be deposited into the Land and Water Conservation Fund. GSA estimates that the agencies that currently have special legislative authority allowing them to share in the disposal proceeds have disposed of excess property worth an estimated $100 million to $300 million annually. GSA expects these agencies' excess property disposals to continue to increase.

If federal agencies are holding large amounts of valuable property that either are underutilized or unneeded, as we suspect, the government is incurring opportunity costs since such property could be more cost-effectively recycled to more optimal use, exchanged for needed property, or sold. The government also unnecessarily incurs considerable costs in holding, managing, and safeguarding property that more appropriately should be recycled or sold, but it is not required to recognize or be accountable for these costs.

Although GSA has made efforts to fulfill its envisioned governmentwide management and oversight responsibilities in this area, most federal agencies have not cooperated. On the other hand, GSA does not appear to have realized significant cash receipts from its disposal of excess real property assets that federal agencies have identified. Of total excess property valued at $123 million in fiscal year 1991, for example, GSA realized cash receipts of only $13 million; most excess property was either transferred to another federal agency or donated for public benefit purposes. Also, in the personal property area, our work and that of OIG have raised questions about the appropriateness and effectiveness of GSA's property donations to state and local governments and other nonprofit organizations. For these reasons, OIG in March 1992 characterized the surplus personal property donation program as one of GSA's 10 most critical management problems.

Supporting Evidence of Vulnerability. The following provided supporting evidence of vulnerability:

- GAO.

Property Management: Excess and Surplus Property Transfers to Nonfederal Organizations (GAO/GGD-88-68, May 13, 1988) and GAO's Third Biennial Report on the Transfer of Excess and Surplus Personal Property to Nonfederal Organizations (GAO/GGD-85-3, Nov. 9, 1984).

- GSA IG.

OIG Audit Highlights of FSS Activities in FY89 (Aug. 14, 1989), reviews of personal property sales in GSA Region 5 (A90104, Mar. 23, 1990), 1990 assurance statements (A11514, Dec. 3, 1990; A00549, Nov. 21, 1990), 2 state agencies for surplus property (A00458, Oct. 18, 1990; A00359, Feb. 25, 1991), and report to the Chairman, House Committee on Government Operations, on GSA's 10 most significant management problems (March 1992).

- GSA.

Summary Report of Real Property Owned by the United States Throughout the World (Sept. 30, 1989).

GSA Corrective Actions. In response to direction from OMB, GSA is developing, in consultation with the other major federal property holding agencies, a comprehensive framework for centralized real property management, policymaking, and oversight, including any legislation or regulations to implement it. As an integral part of this new governmentwide framework, GSA is establishing a new office of Real Property Policy, apart from PBS and FPRS. The proposed responsibilities of this new office will be to (1) take a more proactive role in governmentwide asset management and become a resource for all property holding agencies, (2) coordinate the overall management of the federal government's real property assets, (3) develop a unified legislative and regulatory agenda, and (4) organize and establish a Real Property Council, composed of the major property holding agencies, to advise GSA on policy matters.

We view this new GSA office as a step in the right direction. It forces GSA to integrate its own asset management functions and, for the first time, provides an opportunity as well as a challenge to better integrate the asset management activities of the federal government. In the real property area, GSA also has made efforts to advocate and promote centralized management and disposal of all federal real estate and various legislative proposals designed to improve program efficiency, reduce costs and overhead, and optimize benefits accruing to the government. For example, GSA developed and continues to actively support a legislative proposal that would create an inducement for federal agencies to report unneeded property by providing a return of 50 percent of the proceeds realized from its disposal.

In the personal property area, GSA has monitored donations to state agencies and other eligible donees, made a number of improvements in guiding control policies and procedures, and worked with state agencies for surplus property to improve the management and oversight of donated property.

Management and Utilization of the Governmentwide Fleet of Motor Vehicles

Description of the Function or Activity. GSA manages and directly operates an interagency fleet of motor vehicles that is designed to support federal agencies' needs. At the end of fiscal year 1991, this fleet consisted of about 128,000 vehicles —50 percent were light trucks, 41 percent passenger cars, and 9 percent other. GSA provides motor vehicles fleet services to federal agencies through a nationwide network of 61 fleet management centers. Services are provided on a full-service lease basis, with user fees that are supposed to recover GSA's ownership, operations, maintenance, fuel, and management costs.

GSA's collections for services provided to other federal agencies (sales) and the size of its vehicle fleet are projected to increase as a result of absorbing additional agency-controlled vehicles. GSA's fleet of 128,000 vehicles in fiscal year 1991 generated revenues of $618 million, including vehicle disposal proceeds. In fiscal year 1992, GSA expects to have sales of $648 million with a fleet of 136,000 vehicles. Similarly, GSA plans to increase the number of fleet management centers to 67 in fiscal year 1992. Finally, GSA is leasing vehicles for its interagency fleet to meet federal agencies' increasing demands for vehicle support. For the 6-year period ending September 30, 1995, GSA's total outlays for leased vehicle payments, under contracts entered into through fiscal year 1992, are projected to be at least $435 million.

GSA has efforts under way aimed at modernizing and enhancing its internal fleet operations and reducing the total cost of fleet vehicle operations. Besides absorbing additional agency-owned vehicles into its interagency fleet, these initiatives include (1) efforts to help ensure that agencies are utilizing the most economical vehicle support services and that its regional fleet operations are cost-effective and efficient and (2) emphasizing safety and alternative fuel programs and acquiring state-of-the-art safety equipment for fleet vehicles.

Beginning in fiscal year 1992, the full life cycle cost for fleet vehicles is reflected in GSA's fleet operations, and its vehicle disposal program is fully funded by customer agencies through the property management sales program. Formerly, GSA's property management sales program was funded by direct congressional appropriations, and the fleet did not incur the costs of disposing of vehicles that exceeded its 3-year replacement criteria. GSA expects to dispose of or sell about 25,000 fleet vehicles in fiscal year 1992.

Why It Is Highly Vulnerable. Collectively, the size of GSA's existing interagency fleet, further projected increases, the amount of ownership and leasing costs involved, decentralized fleet management, prior vehicle management and utilization deficiencies at GSA as well as other federal agencies, and GSA's continuing poor internal controls in several fleet areas create significant opportunities for fraud, waste, and mismanagement. GSA's vulnerability results primarily from its poor oversight and enforcement of fleet management and maintenance control centers and user agencies' practices, not from centralization itself and certainly not from fleet consolidations and centralized acquisition of vehicles that our past work has shown save money.

Our March 1988 report on GSA's and other agencies' implementation of the 1985 Consolidated Omnibus Budget Reconciliation Act's required motor vehicle management improvements and cost reductions disclosed that agencies had not implemented some requirements because of deficiencies in GSA's central management agency leadership and oversight.[4] Subsequently, GSA's OIG has reported deficiencies with maintenance of vehicle data, vehicle security, and vehicle utilization. OIG also has identified weaknesses in GSA's internal control procedures for managing vehicle credit cards and tags, that could allow abusive and fraudulent transactions to occur and go undetected. Finally, OIG and GSA's OAP have found recurring deficiencies in GSA's small purchases of supplies and services for its fleet management centers. OAP noted that inadequate oversight of field offices, their remoteness from GSA's larger procuring organizations, and their lack of familiarity with procurement rules provide opportunities for fraud, waste, and abuse.

[4]GAO/GGD-88-40.

The recurring deficiencies OIG has reported indicate that GSA's fleet control mechanisms and procedures are not working as well as they should at the program or activity level. OIG's August 1990 consolidated report on GSA's FSS activities reported that the use of operating agency commercial credit cards and transfer of vehicle repair responsibilities to user agencies could alleviate the reporting, security, and procurement problems repeatedly identified in its audit reports. OIG observed that making user agencies responsible for determining the adequacy of services and reasonableness of prices also would eliminate or substantially reduce the need for GSA maintenance control centers. OIG's April 1992 semiannual report to Congress on its activities pointed out that 40 percent of all credit card gasoline purchases at 1 fleet management center (GSA has 56 such centers) were at full service prices or for premium grade gas, which resulted in excess costs of $35,000 for this center alone.

OMB has expressed concerns about the vulnerability and cost-effectiveness of some aspects of GSA's motor vehicle operations. OMB directed that GSA study alternatives for meeting federal motor vehicle fleet needs, including (1) identifying agency fleet requirements, (2) developing and evaluating alternative models for organizing fleet management services, and (3) identifying key characteristics of corporate fleet management programs. As part of its oversight of FIA, OMB suggested that GSA make an internal control review of its fleet maintenance program.

Supporting Evidence of Vulnerability. The following provided supporting evidence of vulnerability:

- GAO.

  Federal Motor Vehicles: Agencies Progress in Meeting Expenditure Control Requirements (GAO/GGD-88-40, Mar. 2,1988) and Motor Vehicles: Better Management of the Military Services' Vehicles Could Save Millions (GAO/NSIAD-91-132, May 24, 1991).

- GSA IG.

  OIG Audit Highlights of FSS Activities in FY89 (Aug. 14, 1989) and Semiannual Report to Congress: October 1, 1991 to March 31, 1992 (Apr. 1992).

- OMB.

Letters to the Administrator of GSA relaying budget ceilings and other guidance (Feb. and Oct. 1991).

GSA Corrective Actions. GSA has issued solicitations to the private sector for acquiring, operating, maintaining, and disposing of motor vehicles. According to GSA, however, the private sector could not provide the full range of fleet services requested or they were significantly more expensive. GSA also has worked actively with the President's Council on Management Improvement and other federal agencies that operate vehicle fleets to make improvements in fleet management policies and practices.

Conclusions

According to the evidence available to us, the eight GSA functions and activities described in this chapter pose the greatest potential risks of losses and inefficiencies from fraud, waste, and mismanagement. Consequently, it is especially critical that they be better protected. Although GSA has taken and continues to take actions to improve its control policies, processes, and procedures for these functions and activities, they remain highly vulnerable. Some aspects of these vulnerable functions and activities, such as funding and budgetary obstacles impeding increased building ownership and other needed capital investment, are beyond GSA's direct operational control, but they nevertheless result in government inefficiencies that could be avoided. Since GSA is the executive branch agency responsible for these functions and activities, it must take the lead in seeking and advocating reforms. One way GSA could focus more attention on these issues and on needed executive and legislative reforms would be to disclose the resulting losses and inefficiencies as material weaknesses in its FIA reports to the president and Congress.

Recommendations

The Administrator of GSA should ensure that GSA's improved internal control efforts, in response to our recommendations in chapter 3, specifically and effectively cover the eight high-risk functions and activities highlighted in this chapter. For the aspects of these functions and activities that are beyond GSA's direct operational control, the Administrator should explore with OMB and Congress actions the government could take to eliminate, or at least reduce, the inefficiencies now associated with them. In this regard, the Administrator may wish to consider disclosing these inefficiencies in GSA's FIA reports.

Agency Comments

GSA and OMB comments are summarized on page 56.

Comments From the General Services Administration

Administrator
General Services Administration
Washington, DC 20405

August 31, 1992

The Honorable Charles A. Bowsher
Comptroller General of the
United States
General Accounting Office
Washington, DC 20548

Dear Mr. Bowsher:

Thank you for the opportunity to review and comment on the General Accounting Office's (GAO) draft report entitled, "General Services Administration: Actions Needed to Better Protect Against Fraud, Waste, Abuse, and Mismanagement." We appreciate your consideration of the General Services Administration's views in the preparation of the report.

We are entirely in agreement with GAO's opinion that GSA's activities must be effectively performed and adequately safeguarded. As noted in the draft report, GSA has, over the last 15 years, consistently worked to improve its overall management systems, its workforce, its policy and planning mechanisms, and the quality of its customer service delivery.

GSA also concurs in the draft report's observation that certain aspects of GSA's management control system can be improved. Indeed, the GSA Strategic Plan states our commitment to the concept of "continuous improvement" as a management philosophy. Inherent in this concept is the recognition that no GSA activity, whether it is the provision of central property management direction, the delivery of customer support services, or the maintenance of internal control systems, is performed so well that it cannot be improved. Consistent with this philosophy I have, over the last few years, taken a number of actions to address problems in the agency's control system. A number of these initiatives were in response to problems identified in the draft report They included:

> Establishment of a Management Control Oversight Council (MCOC). The MCOC, chaired by my Deputy Administrator, was established in early 1990. The MCOC provides leadership for and oversight of GSA's implementation of the Federal Managers' Financial Integrity Act. Through participation in MCOC activities, key senior executives, such as the Chief Financial Officer and the Inspector General, have become directly involved in the overall management of control evaluation and improvement work.

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- Increased Emphasis on Scheduling and Completing Management Control Evaluations. Senior managers are now required to include specific plans for management control evaluation work in their annual assurance letters to me, including plans to commit the resources necessary to complete the evaluations within the fiscal year.

- Reorganization to Provide for More Effective Monitoring of the Quality of Management Control Evaluation Work. GSA has revised its procedures for the review of agency managers' management control evaluation work. Additional staff has been assigned to this function, and the Office of Management Controls and Evaluation has been established with desk officers to provide for better organization of the review work. During 1990 and 1991, all management control evaluation work performed in the agency was analyzed by the staff and formal feedback was provided to those managers who completed the evaluations. The review and analysis activity continued into fiscal year 1992, and special training, advice, and assistance has been provided for managers involved in the performance of evaluation work.

- Development of a Trend Analysis Program. In 1991 we identified a need to consolidate and analyze the information available to management from the Office of Inspector General (OIG), GAO, and other audit reports and management control evaluation reports.

  We intend to use the information to identify agencywide vulnerabilities, systemic control issues, "early warning" signs, and indicators that corrective actions taken were not effective. To address this need, I directed that a comprehensive trend analysis program be developed by the Office of Management Controls and Evaluation.

With the establishment of the Management Control Oversight Council, GSA took an important step toward improving management attitudes about FMFIA. With the revision of the process for scheduling management control evaluations, and with the associated restructuring of its management control monitoring and review activities, the improved management attitude is translating into improved management control evaluations. More evaluations are being scheduled, more scheduled evaluations are being completed, and those evaluations that are completed are of a sufficiently high quality to provide a basis for the agency's assurance statements. Combined with the implementation of a trend analysis program, these actions should help to improve our overall control system.

We very much appreciate the fact that the draft report recognizes GSA's many positive accomplishments in the area of internal controls and financial management. Nonetheless, I recognize that GSA can do more. GAO's identification in the report of six recommendations for improvement to our management control systems will serve as a starting point for our efforts. I have tasked GSA's Deputy Administrator and the MCOC to direct and oversee the implementation of these recommendations. In addition to the GAO recommendations, we are proceeding with other initiatives to improve our operations. We look forward to sharing our progress in this important exercise with you, and will appreciate your additional advice on how we can improve our system of internal controls.

Sincerely,

Richard G. Austin
Administrator

Major Contributors to This Report

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