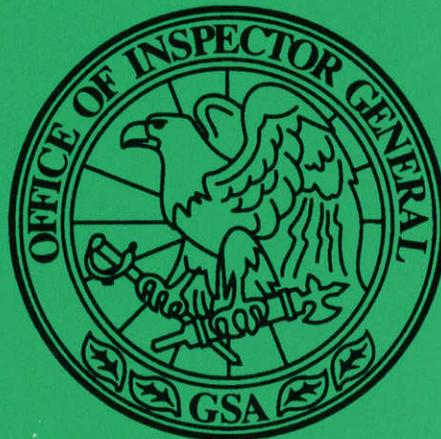


Audit Report

LIMITED AUDIT OF THE FISCAL YEAR 2008
FEDERAL MANAGERS' FINANCIAL
INTEGRITY ACT SECTION 2 AND
SECTION 4 ASSURANCE STATEMENTS
REPORT NUMBER: A080118/A/F/F09003
NOVEMBER 14, 2008

**Office of Inspector General
General Services Administration**



Office of Audits

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U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

November 14, 2008

Reply to: Regina O'Brien
Attn of: Acting Assistant Inspector General for Auditing (JA)

Subject: Limited Audit of the Fiscal Year 2008 Federal Managers' Financial Integrity Act Section 2 and Section 4 Assurance Statements
Report Number: A080118/A/F/FDS003

To: James A. Williams
Acting Administrator (A)

Barnaby L. Brasseux
Deputy Administrator (AD)

This report presents the results of the Office of Inspector General's (OIG) limited audit of the General Services Administration's (GSA) Fiscal Year 2008 Federal Managers' Financial Integrity Act (FMFIA), Section 2 and Section 4 Assurance Statements. Assurance Statement questionnaires are issued to and completed by the Regional Administrators (RAs) and the Heads of Services and Staff Offices (HSSOs). The results are used by the Management Control and Oversight Council as a basis for developing the Administrator's FMFIA Assurance Statement to the President and Congress as well as input for the Annual Performance and Accountability Report.

The objectives of the audit were to (1) review the Assurance Statement questionnaire submissions to determine if any control weaknesses and non-conformances in the Agency's programs, operations, and systems were disclosed, and summarize the results, and (2) identify and note any material weaknesses reported by PricewaterhouseCoopers, LLP (PwC), General Accountability Office, and Office of Management and Budget (OMB) A-123 Reviews.

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

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The audit was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. However, we did not perform an assessment of the internal control structure over the Agency's FMFIA evaluation and reporting process. Accordingly, we do not express an opinion on the adequacy of the basis used in the preparation of the assurance statements submitted by the RAs and HSSOs.

RESULTS OF AUDIT

In reviewing management and system control weaknesses reported in the FMFIA Section 2 and Section 4 Assurance Statement questionnaires from GSA senior management, we noted that the Agency senior officials reported weaknesses in the following areas: Budgetary Reporting, Systems Integration, and Accounting for Accounts Payables and Receivables. PwC also identified budgetary reporting weaknesses regarding Unfilled Customer Orders (UFCOs) and Undelivered Orders (UDOs). In addition PwC identified system security weaknesses relating to the following; segregation of duties, account management, and activity monitoring.

Budgetary Reporting

The Chief Financial Officer (CFO) and the Deputy CFO identified budgetary accounting as an area of concern in their Fiscal Year 2008 Assurance Statement questionnaires. Also, during the FY 2008 Financial Statement Audit, PwC reported a lack of effective controls over GSA's accounting and business processes designed to ensure its budgetary transactions are properly recorded, processed, and summarized to permit the timely preparation of financial statements.

Since FY 2004, PwC has reported significant deficiencies in the reporting of budgetary accounts and balances. To address these deficiencies, the Office of the CFO has issued policies to each GSA Service to address the need to strengthen internal controls over budgetary reporting. As a result, both the Public Buildings Service (PBS) and the Federal Acquisition Service (FAS) instituted corrective action plans, to include: semi-annual reviews and certifications of UDOs, Delivered Orders (DOs), and UFCOs, reconciliations of subsystems and business systems to the general ledger; performing reviews of budgetary entries at the transaction level, and monitoring regional financial performance quarterly. Furthermore, both PBS and FAS instituted further reviews at the regional offices and program levels, including providing necessary training nationwide. However,

when these controls were tested during the FY 2008 Financial Statement Audit, PwC determined that mitigating controls developed to ensure the accuracy and validity of UDOs, DOs, and UFCOs were ineffective. Specifically, PwC noted the following:

- The Federal Buildings Fund UDOs, DOs, and UFCOs were both overstated and understated, which resulted in significant year-end adjustments.
- Not all PBS contracts were entered into Pegasys within a timely manner.
- The Acquisition Services Fund, Motor Vehicles UFCO's were understated FY 2006, FY 2007 and FY 2008, which resulted in year-end adjustments to the financial statements.

System Security

During the FY 2008 Financial Statement Audit, PwC identified security weaknesses across multiple systems. Security weaknesses were reported related to segregation of duties, account management, and activity monitoring. Specifically, PwC found there were weak controls around segregation of user and administrator duties for five systems; there were weak controls around account management for nine systems; and for six systems there were weak monitoring controls over application and system activity logs and violation reports of user actions.

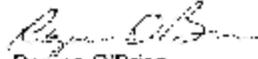
System Integration

The OMB Circular No. A-123 review performed by Cotton and Company, LLP noted feeder system reconciliation problems between Pegasys and Comprizon. The review determined there was a difference of \$4.033 billion between Comprizon and Pegasys. Also, the Mid-Atlantic Region Administrator's Assurance Statement, contained a qualified assurance statement relating to internal controls. Specifically, the assurance statement noted the lack of integration between Pegasys and Comprizon data systems. Additionally, PwC reported that unfilled customer orders in Autochoice were not recorded in the financial statements which resulted in approximately \$123 million, \$220 million, and \$159 million not being recorded in the financial statements, for FY 2006, FY 2007 and FY 2008, respectively.

Accounts Payables and Receivables

The National Capital Region's Administrator (NCR) issued a qualified Assurance Statement relating to internal controls. The assurance statement reported ineffective internal controls over the management of accounts payables and receivables.

We appreciate the cooperation and courtesies extended to our staff during this audit. Should you or your staff have any questions, please contact Jeffrey Womack, Deputy Assistant Inspector General, Finance and Administrative Audits Office, at (202) 501-0006.



Regina O'Brien
Acting Assistant Inspector General for Auditing (JA)

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