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## **Independent Auditors' Report**

Administrator and Inspector General  
United States General Services Administration:

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the U.S. General Services Administration (GSA), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements"). We have also audited the individual balance sheets of the Federal Buildings Fund and the Acquisition Services Fund (hereinafter referred to as the "Funds") as of September 30, 2016 and 2015 and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended (hereinafter referred to as the Funds' "individual financial statements") and the related notes to the Funds' individual financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements and the Funds' individual financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements and the Funds' individual financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements and the Funds' individual financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the Funds' individual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Funds' individual financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements and the Funds' individual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements and the Funds' individual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Funds' individual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



## ***Opinions on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GSA as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, the Funds' individual financial statements referred to above present fairly, in all material respects, the financial position of each of the individual Funds as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

## ***Other Matters***

### *Interactive Data*

Management has elected to reference to information on websites outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or the Funds' individual financial statements or supplementary information required by the Federal Accounting Standards Advisory Board (FASAB). The information on these websites has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements and the Funds' individual financial statements. Such information, although not a part of the basic consolidated financial statements and the Funds' individual financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements and the Funds' individual financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements and the Funds' individual financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements and the Funds' individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audits were conducted for the purpose of forming opinions on the basic consolidated financial statements and on the Funds' individual financial statements as a whole. The information in the Other Funds and Intra-GSA Eliminations sections in the consolidating and combining financial statements in Schedules 1 through 4 (hereinafter referred to as "consolidating information"), and the information in the Table of Contents, Letter from the Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information sections of GSA's 2016 *Agency Financial Report* is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements or the Funds' individual financial statements.

The consolidating information in Schedules 1 through 4 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional



procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information in Schedules 1 through 4 is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The information in the Table of Contents, Letter from the Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information sections of GSA's 2016 *Agency Financial Report* has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and Funds' individual financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

### ***Internal Control Over Financial Reporting***

In planning and performing our audits of the consolidated financial statements and the Funds' individual financial statements as of and for the year ended September 30, 2016, we considered GSA's and the individual Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements and the Funds' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA's and the individual Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of GSA's and the individual Funds' internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Exhibit I, that we consider to be significant deficiencies.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether GSA's consolidated financial statements and the Funds' individual financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

We also performed tests of GSA's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.



***GSA's and the Funds' Responses to Findings***

GSA's and the Funds' responses to the significant deficiencies identified in our audit are described in Exhibit I. GSA's and the Funds' responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and the Funds' individual financial statements and, accordingly, we express no opinion on the responses.

***Purpose of the Other Reporting Required by Government Auditing Standards***

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of GSA's and the individual Funds' internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Washington, DC  
November 8, 2016

**Independent Auditors' Report**  
**Exhibit I – FY 2016 Significant Deficiencies**

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**I. Classification of Capital and Operating Leases<sup>1</sup>**

GSA maintains a significant portfolio of leased real estate assets and processes approximately \$7 billion in lease payments annually. During fiscal year (FY) 2016, GSA continued to implement corrective actions to address internal control weaknesses and strengthen internal controls over lease accounting. However, we continue to note deficiencies in the area of classification of capital and operating leases.

*Conditions*

Controls over the classification analysis of leases to ensure the proper accounting for and disclosure of leases in accordance with applicable accounting standards did not operate effectively during the period under audit, as evidenced by the following conditions:

1. The lease classification analysis contained inaccurate data that did not agree with the final lease terms effective at lease inception (e.g., annual rent, operating costs, real estate taxes, insurance, maintenance and repair reserve, rent abatement, and rent commencement date).
2. Discount rates used in the lease classification analysis were incorrect.
3. Regional personnel did not consistently adhere to existing policies, procedures, and guidance to ensure the lease classification analysis is updated and accurate when lease terms and lease inception dates change from those initially estimated. In addition, regional personnel completing the lease classification analysis are not always knowledgeable of accounting standards for lease classification.
4. GSA monitoring procedures over the current lease classification process are not designed at a level of precision sufficient to identify, in a timely manner, situations in which a lease may have been initially misclassified and prevent misstatements in the year-end financial statements.

*Criteria*

1. Statement of Federal Financial Accounting Standards (SFFAS) No. 6: *Accounting for Property, Plant, and Equipment*.
2. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 840, *Leases*. (FASB ASC 840)
3. Office of Management and Budget (OMB) Circular No. A-11 (OMB Circular No. A-11), Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*.
4. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government – Principles 10 and 16 – Design Control Activities and Perform Monitoring Activities*, respectively.

*Cause and Effect*

GSA continues to primarily use OMB Circular No. A-11, Appendix B budget scoring analysis requirements to determine lease classification for financial reporting purposes rather than performing a separate and distinct lease classification analysis per applicable accounting standards (i.e., SFFAS No. 6 and FASB ASC 840). While the required analyses may overlap for certain leases, the purpose and timing of the analysis for budget scoring required by OMB Circular No. A-11, Appendix B, when requesting funding for a lease contract, differs from the purpose and timing of a lease classification analysis required by SFFAS No. 6 and FASB ASC 840 at lease inception.

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<sup>1</sup> This finding applies to the Federal Buildings Fund and GSA as a whole.

## **Independent Auditors' Report**

### **Exhibit I – FY 2016 Significant Deficiencies**

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In addition, we continue to note that regional personnel do not follow established policies and procedures on a consistent manner and have established practices over lease classification analysis that are not always consistent with the established policies and procedures. Further, certain monitoring procedures over the classification of leases are detective in nature and were not designed at the same level of precision as controls designed to ensure the accurate initial classification of capital and operating leases in accordance with applicable accounting standards.

If left uncorrected, these conditions present an increased risk that significant misstatements in the classification of leases in the financial statements and related disclosures will not be prevented, or detected and corrected by GSA management in the normal course of performing their assigned functions.

#### *Recommendations*

We recommend that GSA implement the following to improve controls over the classification of capital and operating leases from a financial reporting perspective:

1. Establish a separate and distinct process with appropriate controls to perform a lease classification analysis for financial statement purposes at lease inception, as required by applicable accounting standards separate from the budget scoring analysis performed. The lease classification analysis should include a comprehensive checklist or other standard documented steps based on relevant accounting criteria and guidance, and should be performed and reviewed by personnel familiar with and knowledgeable of the accounting criteria for capital and operating leases.
2. Include consideration of lease classification controls within the scope of OMB Circular No. A-123, *Management's Responsibility for Internal Control* testing to ensure these controls are designed properly, operating effectively, and performed in a consistent manner.
3. Consider the need for additional training and enforcement of policies and procedures to ensure personnel responsible for lease classification follow established policies and controls in a consistent manner.

#### **Management Response**

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

#### **II. Controls over Budgetary Accounts and Transactions<sup>2</sup>**

Budgetary accounts are a category of the general ledger accounts where transactions related to receipts, obligations, and disbursements of budgetary authority—the authority provided by law to incur financial obligations that will result in outlays—are recorded.

#### *Conditions*

During FY 2016, GSA continued the implementation of corrective actions to address internal control weaknesses and strengthen internal controls over budgetary accounts and transactions, including the implementation of an automated interface between the contract management system and the financial management system. Additional remediation is scheduled to continue in FY 2017. However, we continue to note weaknesses in controls over budgetary accounts and transactions. Specifically, we noted the following control deficiencies:

1. Controls did not operate effectively to provide reasonable assurance that contract and financial information, used to initiate and manage contract actions, and entered into GSA's contract management systems or generated manually outside of these systems, is accurately, timely, and completely interfaced with GSA's financial management system and properly reflected in the financial statements.

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<sup>2</sup> This finding applies to the Federal Buildings Fund and GSA as a whole.

**Independent Auditors' Report**  
**Exhibit I – FY 2016 Significant Deficiencies**

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2. Exception reports from the contract management system containing interface errors were not properly and timely reconciled and resolved.
3. In order to address the risk of contract financial information not being captured properly or timely into the financial management system, GSA continues to rely on a number of manual-intensive reconciliation controls. However, such controls are detective in nature and were not designed at the same level of precision as controls designed to ensure accurate initial recording and review of transactions entered in the contract management systems and in the financial management system.
4. The financial management system has automated funding and spending controls to ensure that budget authorities are not exceeded at each budget level. Such controls include a hard-edit feature, which denies the user the ability to process further obligating documents if the entry will exceed the respective authority available amount. However, we continue to note that GSA management can manually override these automated funding and spending controls while processing budgetary transactions. As a compensating control, GSA reviews the audit log to determine whether the automated funding and spending controls are turned off for a valid reason and subsequently turned back on after processing. However, the audit log monitoring control is manual in nature and is not designed properly to include all transactions entered in the financial management system when the automated budgetary funding and spending controls are manually overridden.

*Criteria*

1. OMB Circular No. A-11, Section 20.5 (c).
2. GAO *Standards for Internal Control in the Federal Government* – Principles 10 and 16 – *Design Control Activities* and *Perform Monitoring Activities*, respectively.

*Cause and Effect*

The main contributing factors for the control deficiencies over budgetary accounts and transactions continue to be:

1. Errors and discrepancies in the integration of financial and acquisition systems which result in delays in processing and recording of budgetary accounting transactions based on actual contracting activity. The volume of contract actions and frequent adjustments and modifications to contracts in the normal course of business, as well as discrepancies in the interface that records transactions in the financial system, result in a significant manual monitoring and processing burden which is susceptible to error.
2. Lack of sufficient oversight of the contracting function and overall operating discipline as evidenced by contracting and budgetary activities that impact financial reporting not being performed consistently at the regional level.
3. Mitigating controls are not properly designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

As a result of the ineffective controls above, GSA management continues to rely on a number of compensating processes, controls, and manual efforts to prepare reliable financial statements throughout the year and at fiscal year-end. Inaccurate financial information in budgetary accounts may lead to errors in funds control as records of available funds at any point in time may not fully reflect all actual contract actions impacting those funds. If not corrected, these deficiencies will continue to expose GSA to an increased risk of misstatements in its financial statements and possible violations of laws and regulations.

## Independent Auditors' Report

### Exhibit I – FY 2016 Significant Deficiencies

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#### *Recommendations*

We recommend GSA continue to implement the following to improve controls over budgetary accounts and transactions:

1. Continue efforts to fully integrate the contract management system, using system functionality consistently and as intended, with accurate interface to the financial management system.
2. Continue efforts to implement effective monitoring of the interface process.
3. Continue reconciliation efforts over contracts not properly reflected in the financial management system, including reconciliation procedures over contract management system interface exceptions reports, to ensure all exceptions are addressed timely and accurately.
4. Establish effective controls over reports used in the monitoring and reconciling process to ensure complete and accurate reports are used when monitoring and reconciling contract actions to accounting entries.
5. Continue to provide additional training on contract management system functionality.
6. Enforce policies and procedures with regional personnel to ensure that contracting and budgetary activities are consistently performed and accurately completed, contracting activities are recorded in the appropriate subsidiary ledger and the financial management system timely, and required documentation is completed and maintained.
7. As part of GSA monitoring functions, including OMB Circular No. A-123 testing, test relevant controls over the contract management system and its interface to the financial management system to ensure such controls are designed properly and operating effectively.
8. When budgetary funding and spending controls are lifted, documentation should be maintained to capture the detail of each transaction processed, when these controls are lifted, in the quarterly audit log. When completed, the audit log review should be documented and authorized as completed.
9. Design a completeness check to ensure no unauthorized budgetary funding and spending control lifts have occurred in the financial management system. If a system generated report is created, design procedures to ensure the report is capturing complete and accurate information related to the entries posted in the period the controls are lifted.

#### **Management Response**

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

#### **III. General Controls over Financial Management Systems<sup>3</sup>**

In FY 2016, we continued to note weaknesses in information technology controls designed to protect GSA's financial management systems as required by OMB Circular No. A-130 (Revised), *Management of Federal Information Resources*. Specifically, we identified control deficiencies over access, configuration management general controls, and the design of general information technology controls, as follows.

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<sup>3</sup> This finding applies to the Acquisition Services Fund and GSA as a whole.



## Independent Auditors' Report

### Exhibit I – FY 2016 Significant Deficiencies

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#### a. Access Controls

##### *Conditions*

Effective access to programs and data controls are implemented to prevent unauthorized access and users from performing tasks not assigned to them and logging and monitoring the activity performed to detect any unscrupulous, unauthorized, or inappropriate activity that could lead to a compromise of the confidentiality, integrity, and availability of the data residing on the information system. Specifically, throughout the period under audit, we identified the following weaknesses in controls over access to programs and data:

1. Controls were not designed properly, consistently implemented, or fully effective over user and administrator accounts included in applications, databases, and operating systems. Specifically, we noted control deficiencies over:
  - a. Access authorization (in 5 of 10 systems tested),
  - b. Periodic recertification of system access (in 3 of 10 systems tested), and
  - c. Timely removal of separated (in 3 of 10 systems tested) and inactive accounts (in 1 of 10 systems tested).
2. Controls were not designed properly, consistently implemented, or fully effective over logical access to key financial in-scope systems. Specifically, we noted control deficiencies over password configuration settings, session lockout and termination, and inactivity for applications, databases, and operating systems, (in 7 of 10 systems tested).
3. Controls were not designed properly, consistently implemented, or fully effective over audit logs including configuration, review, documentation of review, and access to audit logs for applications, databases, and operating systems (in 5 of 10 systems tested).
4. Risks related to separation of duties violations continued to exist in the application, development, and production environments (in 3 of 10 systems tested).

##### *Criteria*

1. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* – Principle 10 and 11 – *Design Control Activities* and *Design Activities for the Information System*, respectively.
2. The National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* (NIST 800-53, Revision 4): AC-2 *Account Management*, AU-2 *Audit Events*, IA-4 *Identifier Management*, and IA-5 *Authenticator Management*.

##### *Cause and Effect*

GSA did not enforce documented system-specific, GSA-wide, and NIST policies and procedures consistently. As a result, access to programs and data controls were not designed and implemented properly or operating effectively in FY 2016. In addition, certain GSA system-specific or GSA-wide policies and procedures did not require the documentation and maintenance of supporting control documentation or review evidence. Further, GSA's corrective actions for certain prior year conditions were not applied to all GSA applications and did not address the root causes of the control exceptions identified.

Without implementing effective access to programs and data controls, the risk increases that unauthorized users could perform tasks not assigned to them and activity performed would not be prevented, logged, and monitored, therefore increasing the risk that unscrupulous, unauthorized, or inappropriate activity could be performed and not detected, which could lead to a compromise in data confidentiality, integrity, and availability.

**Independent Auditors' Report**  
**Exhibit I – FY 2016 Significant Deficiencies**

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**b. Configuration Management Controls**

*Conditions*

Effective configuration management controls prevent unauthorized fraudulent data or malicious code into the application and/or database without detection, which could lead to the compromise of the confidentiality, integrity, and availability of the data residing on the information system. Throughout the period under audit, we identified the following weaknesses in controls over configuration management:

1. Database and operating system patches were not documented, authorized or tested prior to implementation into the production environment (in 4 of 10 systems tested).
2. A complete and accurate listing of operating system patches could not be generated (in 1 of 10 systems tested).
3. A feeder system was configured incorrectly to assign incorrect invoice acceptance date data (in 1 of 10 systems tested).
4. Vulnerability scans were performed and results were discussed by GSA on a periodic basis; however, evidence of review by the Information System Security Officer was not consistently documented or maintained (in 8 of 10 systems tested).

*Criteria*

1. GAO *Standards for Internal Control in the Federal Government* – Principles 10, 11, and 16 – *Design Control Activities, Design Activities for the Information System, and Perform Monitoring Activities*.
2. NIST 800-53, Revision 4: SI-2 *Flaw Remediation*.

*Cause and Effect*

Due to GSA management not enforcing documented system-specific, GSA-wide, and NIST policies and procedures, configuration management controls were not designed and implemented properly or operating effectively. In addition, certain GSA system-specific or GSA-wide policies and procedures did not require the documentation and maintenance of supporting control documentation or review evidence.

Without implementing effective configuration management controls, the risk increases that unauthorized access could be permitted to introduce fraudulent data or malicious code into the application and/or database without detection and therefore increase the risk that the confidentiality, integrity, and availability of the data residing on the information system is compromised.

Without evidence of periodic vulnerability scan reviews, GSA cannot properly monitor network security controls designed to protect the network and data from intruders and attackers. This increases the risk that these weaknesses could lead to unauthorized access or attacks against the network and therefore increases the risk that the confidentiality, integrity, and availability of the data residing on the information system could be compromised.

**c. Design of General Information Technology Controls**

*Conditions*

General information technology controls should be designed and implemented using the required criteria based on authoritative standards. In addition, existing processes and controls should align with internal documentation. Specifically, throughout the period under audit, we identified the following weaknesses in the design of and criteria used for general information technology controls for in-scope systems:

1. System security plans (SSPs) were not documented in accordance with NIST 800-53, Revision 4 (in 7 of 10 systems tested).

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### Exhibit I – FY 2016 Significant Deficiencies

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2. Certain control activities were not documented in the SSPs to accurately reflect implemented controls and processes. Specifically, we noted inconsistencies in controls over Vulnerability Scanning (in 6 of 10 systems tested), Account Management (in 5 of 10 systems tested), Audit Events (in 5 of 10 systems tested), Configuration Changes Controls (in 3 of 10 systems tested), Access Restrictions for Change (in 3 of 10 systems tested), Separation of Duties (in 3 of 10 systems tested), Identification and Authentication for Organizational Users (in 3 of 10 systems tested), Flaw Remediation (in 3 of 10 systems tested), and Boundary Protection (in 1 of 10 systems tested).

#### *Criteria*

1. NIST 800-53, Revision 4: PL-2 *System Security Plan*.
2. GAO *Standards for Internal Control in the Federal Government – Principles 10 and 11 – Design Control Activities and Design Activities for the Information System*, respectively.

#### *Cause and Effect*

GSA issued guidance allowing system owners to update SSPs to the latest NIST 800-53, Revision 4 standard at a frequency that does not align with the requirements of NIST 800-53, Revision 4.

The untimely compliance with NIST 800-53, Revision 4, increases the security risk to the confidentiality, integrity and availability of data. In addition, without updating SSPs to accurately reflect the implemented and existing control processes, GSA may not know which controls are implemented in the current environment or how to properly implement these controls. These conditions increase the security risk to the confidentiality, integrity and availability of the data in all systems and applications.

#### *Recommendations*

We recommend GSA implement the following:

##### **a. Access Controls**

1. Enforce NIST, GSA-wide, and system-specific configuration management policies and procedures to ensure access to programs and data controls are operating effectively.
2. Provide periodic training on NIST, GSA-wide, and system-specific access to programs and data policies and procedures.
3. Develop CAP actions and apply them to all GSA applications to address the root causes of the control deficiencies identified.
4. Enhance the process to monitor the completeness of the CAP actions to ensure they address the condition and root cause of the control exceptions identified.
5. Authorize, provision, and maintain documented evidence of authorization for employees and contractors in accordance with entity and system-specific policies and procedures.
6. Document, review and maintain documented evidence of review for all accounts, roles and job functions, in a timely manner for employees and contractors.
7. Terminate access in a timely manner, in accordance with entity and system-specific policies and procedures, and maintain documented evidence of termination, for employees and contractors.
8. Require authentication to information systems to be in accordance with entity and system-specific policies and procedures.
9. Review and maintain documented evidence of timely review of audit logs.
10. Configure information system audit logs to capture audit events as required in entity and system-specific policies and procedures.

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**Exhibit I – FY 2016 Significant Deficiencies**

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**b. Configuration Management Controls**

1. Enforce NIST, GSA-wide and system-specific configuration and patch management policies and procedures to ensure configuration and patch management controls are operating effectively.
2. Document and maintain all patch documentation, to include test plans and results.
3. Implement a mechanism to produce a complete and accurate listing of Linux and Windows operating system patches.
4. Develop CAP actions and apply them to all GSA applications to address the root causes of the control deficiencies identified.
5. Enhance the process to monitor the completeness of the CAP actions to ensure they address the condition and root cause of the control exceptions identified.
6. Formally and timely document the performance, review, and remediation actions taken for vulnerability scans results.

**c. Design of General Information Technology Controls**

1. Update SSPs to reflect the NIST SP 800-53, Revision 4 security controls.
2. Update SSPs to reflect existing and implemented control processes.
3. Develop CAP actions and apply them to all GSA applications to address the root causes of the control deficiencies identified.
4. Enhance the process to monitor the completeness of the CAP actions to ensure they address the condition and root cause of the control exceptions identified.

**Management Response**

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

**IV. Entity-level Controls<sup>4</sup>**

*Conditions*

Entity-level controls encompass the overall control environment throughout the entity. This includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance, and management concerning the entity's internal control and its importance in the entity. Entity-level controls are often categorized as environmental controls; risk assessment; information and communications; and monitoring, as defined by GAO's *Standards for Internal Control in the Federal Government* ("Green Book"). These controls must be effective, to create and sustain organizational structure that it is conducive to reliable financial reporting.

During FY 2016, GSA continued to implement corrective actions to address pervasive internal control weaknesses and strengthen internal controls and additional remediation actions are scheduled to continue in FY 2017. However, entity-level control deficiencies remain. These common themes are described below; however, they also contribute to several of the conditions presented in findings I through III above.

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<sup>4</sup> This finding applies to the Federal Buildings Fund, Acquisition Services Fund, and GSA as a whole.

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1. Because internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces, monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks. Internal control monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews. Corrective actions are a necessary complement to control activities in order to achieve objectives. Specifically, we noted the following conditions related to GSA's monitoring procedures:
  - a. GSA performs a significant amount of manually-intensive reconciliations operating at varying frequencies throughout the year, many as often as monthly. For the first half of FY 2016, GSA did not timely address and resolve reconciling items identified in certain reconciliations. Therefore, a backlog of reconciling items was created exposing GSA to additional risks that balances and transactions may be misstated, forcing GSA to implement additional manually intensive procedures to reduce the backlog. In addition, certain reports and other information produced by GSA, used in reconciliations contained either incomplete or inaccurate information. As a result, reconciling items were not properly and timely reconciled and resolved.
  - b. GSA does not have formalized policies, procedures, or processes established and in place to properly assess third party service providers that host or operate GSA financial systems. As a result, GSA does not consistently monitor user controls, as documented in third party service providers' reports, to ensure they are operating effectively.
  - c. Monitoring procedures do not consistently test the design, implementation, and operating effectiveness of relevant controls in relevant and significant accounts, as identified by risk assessment.
  - d. Corrective actions, established and implemented by GSA, do not consistently address the conditions or root causes identified in previously issued findings. Although GSA tracks the status of individual corrective actions included in Corrective Action Plans (CAPs), GSA does not have procedures, as a part of its CAPs process, to determine whether identified deficiencies have been corrected or to demonstrate that the findings and recommendations do not warrant management action.
2. Regional and operational personnel do not always share responsibilities for, and are not adequately supervised on financial management matters that affect the financial statements, including adhering to appropriate accounting policies and procedures and performing key internal control functions in support of financial reporting.
3. There are certain financial system functionality limitations that still contribute to control deficiencies. These system functionality limitations are inhibiting progress on corrective actions for GSA and are preventing the agency from improving the efficiency and reliability of its financial reporting process. Some of the financial system limitations lead to extensive manually intensive and redundant procedures to process transactions, to verify accuracy of data, and to prepare the financial statements. Specifically, we noted:
  - a. Controls over the interface between GSA's contract management system and financial management system did not operate effectively.
  - b. Lack of system functionality to capture the estimated completion date for multi-phased construction projects.
  - c. Funds controls in the financial management system that can be overridden without proper controls over transactions recorded when such edit checks were switched off.
  - d. Improper configuration of the financial management system relating to the proper accounting for recoveries of prior years' obligations.
  - e. Aging feeder systems that do not capture proper information for the correct recognition of expenses and related revenue for certain Federal Acquisition Service lines of businesses.

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**Exhibit I – FY 2016 Significant Deficiencies**

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- f. Numerous interfaces between feeder systems and the financial management system requiring manual journal entries to capture transactions properly that originally did not interface correctly.
- 4. Certain process controls are not properly designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. In addition, GSA has established a number of manual compensating controls that do not operate at a sufficient level of precision as the controls designed and implemented over the initiation of transactions.

*Criteria*

- 1. *GAO Standards for Internal Control in the Federal Government.*

*Cause and Effect*

Without the proper level of entity-level controls in place and operating effectively, GSA continues to run the risk that significant misstatements are neither prevented nor detected in the financial records and financial statements in a timely manner. In addition, there is an increased risk that GSA will continue to experience control deficiencies in financial reporting.

*Recommendations*

We continue to recommend that GSA management implement the following to improve the effectiveness of entity-level controls:

- 1. Continue to review and revise as necessary its internal control program to plan, establish, monitor, and report and communicate a comprehensive, adequate, and appropriate internal assessment of the operating effectiveness of GSA's internal controls.
- 2. Continue to strengthen the monitoring controls. GSA and each one of its components should design monitoring controls around its annual risk assessment to ensure transactions with higher risk of error are adequately monitored – including completeness and accuracy controls over the data used in monitoring controls. Components with effective detective controls should look for opportunities to implement more reliable controls earlier in processes to prevent errors at the transaction source.
- 3. Prioritize financial system and feeder system enhancements to resolve functionality limitations and reduce manually intensive and redundant procedures.
- 4. Provide training to financial and program personnel on internal controls.

**Management Response**

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.