



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

November 15, 2021

TO: ROBIN CARNAHAN
ADMINISTRATOR (A)

GERARD BADORREK
CHIEF FINANCIAL OFFICER (B)

FROM: CAROL F. OCHOA ROBERT ERICKSON
INSPECTOR GENERAL (J) Digitally signed by
ROBERT ERICKSON
Date: 2021.11.15
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SUBJECT: Independent Auditors' Report
U.S. General Services Administration's
Financial Statements – Fiscal Years 2021 and 2020
November 12, 2021

The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, requires the U.S. General Services Administration's (GSA's) Inspector General, or an independent external auditor, as determined by the Inspector General, to audit GSA's consolidated financial statements. Under a contract awarded by GSA and monitored by my office, KPMG LLP (KPMG), an independent public accounting firm, audited GSA's consolidated, Acquisition Services Fund, and Federal Buildings Fund financial statements as of September 30, 2021, and 2020.

The contract required KPMG to perform the audit in accordance with U.S. generally accepted government auditing standards; the Office of Management and Budget's Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*; and the U.S. Government Accountability Office *Financial Audit Manual*, which is maintained by the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency.

This memorandum transmits KPMG's *Independent Auditors' Report on the U.S. General Services Administration's Financial Statements – Fiscal Years 2021 and 2020*. The Fiscal Years 2021 and 2020 audits resulted in an unmodified opinion on the financial statements. An unmodified opinion means that the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.

In its audit of GSA's Fiscal Years 2021 and 2020 financial statements, KPMG found:

- The consolidated, Acquisition Services Fund, and Federal Buildings Fund financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- No material weaknesses in internal control over financial reporting;

- No instances in which GSA’s financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996; and
- No reportable noncompliance with provisions of laws tested.

However, KPMG identified certain deficiencies in internal control that it considered to be significant. As described in Exhibit I of the audit report, the significant deficiencies related to: (1) information technology general controls associated with GSA’s financial management systems and supporting infrastructure and (2) periodic management review control over Undelivered Orders. KPMG reports that GSA concurred and will implement corrective actions that address the identified deficiencies.

Details regarding KPMG’s conclusions are included in the “Opinions on the Financial Statements,” “Internal Control Over Financial Reporting,” and “Compliance and Other Matters” sections, as well as in Exhibit I of this report. Also, on November 12, 2021, KPMG issued a separate Management Letter to GSA regarding deficiencies in internal control and other, less significant matters that came to its attention during the audit.

KPMG is responsible for the attached independent auditors’ report and the opinions and conclusions expressed therein. My office is responsible for technical and administrative oversight regarding KPMG’s performance under the terms of the contract.

To fulfill our oversight responsibilities under the Inspector General Act of 1978, as amended, to assure that KPMG complied with U.S. generally accepted government auditing standards, we performed a moderate level of review, which included:

- Evaluating the independence and qualifications of the firm and the auditors;
- Reviewing KPMG’s audit approach and planning documents;
- Monitoring the progress of the audit at key milestones;
- Performing periodic reviews of KPMG’s workpapers;
- Attending key meetings with GSA management and KPMG auditors to discuss audit progress, findings, and recommendations; and
- Performing other procedures that we deemed necessary.

In connection with the contract, we reviewed KPMG’s report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on GSA’s financial statements, conclusions about the effectiveness of internal control over financial reporting, conclusions on whether GSA’s financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act, or opinions on compliance with laws and other matters. KPMG is responsible for the attached independent auditor’s report dated November 12, 2021, and the conclusions expressed therein. However,

our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

I appreciate the courtesies and cooperation your office has extended to KPMG and my staff during the audit. If you have any questions, you may contact me at (202) 501-0450. If your staff needs any additional information, they may also contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachment



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

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, 2021 and 2020, 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 accompanying financial statements of the Acquisition Services Fund (ASF), which comprise the balance sheets as of September 30, 2021 and 2020, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended (presented in Schedules 1-4), and the related notes to the ASF financial statements (hereinafter referred to as "ASF financial statements").

We have also audited the accompanying financial statements of the Federal Buildings Fund (FBF), which comprise the balance sheets as of September 30, 2021 and 2020, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended (presented in Schedules 1-4), and the related notes to the FBF financial statements (hereinafter referred to as "FBF financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated, ASF, and FBF 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 consolidated, ASF, and FBF 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, ASF, and FBF 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. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated, ASF, and FBF financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated, ASF, and FBF financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated, ASF, and FBF 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, ASF, and FBF 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, ASF, and FBF financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. General Services Administration as of September 30, 2021 and 2020, 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 ASF financial statements referred to above present fairly, in all material respects, the financial position of the Acquisition Services Fund as of September 30, 2021 and 2020, 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 FBF financial statements referred to above present fairly, in all material respects, the financial position of the Federal Buildings Fund as of September 30, 2021 and 2020, 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 or other forms of interactive data outside the GSA's 2021 *Agency Financial Report* to provide additional information for the users of its consolidated, ASF, and FBF financial statements. Such information is not a required part of the basic consolidated, ASF, and FBF financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data 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 referenced in the Table of Contents be presented to supplement the basic consolidated, ASF, and FBF financial statements. Such information, although not a part of the basic consolidated, ASF, and FBF financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated, ASF, and FBF 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, ASF, and FBF financial statements, and other knowledge we obtained during our audits of the basic consolidated, ASF, and FBF 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 as a whole, ASF financial statements as a whole, and FBF 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 (herein referred to as “consolidating information”), the GSA Websites, Table of Contents, Brief Overview of the AFR, Understanding the Agency Financial Report and its Components, Letter from the Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General’s Transmittal Memorandum, and Other Information sections of GSA’s 2021 *Agency Financial Report* is presented for purposes of additional analysis and is not a required part of the basic consolidated, ASF, and FBF financial statements.

The consolidating information 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 audits 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 is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The information in the GSA Websites, Table of Contents, Brief Overview of the AFR, Understanding the Agency Financial Report and its Components, Letter from the Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General’s Transmittal Memorandum, and Other Information sections of GSA’s 2021 *Agency Financial Report* has not been subjected to the auditing procedures applied in the audits of the basic consolidated, ASF, and FBF 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, ASF, and FBF financial statements as of and for the year ended September 30, 2021, we considered GSA’s, ASF’s, and FBF’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated, ASF, and FBF financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA’s, ASF’s, and FBF’s internal control. Accordingly, we do not express an opinion on the effectiveness of GSA’s, ASF’s, and FBF’s 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 audits 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, ASF's, and FBF's financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the consolidated, ASF, and FBF financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04.

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 audits, and accordingly, we do not express such an opinion. The results of our tests 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 Responses to Findings

GSA's responses to the findings identified in our audits are described in Exhibit I. GSA's responses were not subjected to the auditing procedures applied in the audits of the consolidated, ASF, and FBF 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 results of that testing, and not to provide an opinion on the effectiveness of GSA's, ASF's, and FBF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 12, 2021

Independent Auditors' Report
Exhibit I – Significant Deficiencies

1. Deficiencies Noted in Certain Information Technology (IT) Controls

During fiscal year 2021, we noted certain deficiencies surrounding IT general controls associated with the GSA's financial management systems and supporting infrastructure that we considered collectively to be a significant deficiency.

Condition

Access controls and segregation of duties. The objectives of limiting access are to ensure that users have only the access needed to perform their duties; that access to sensitive computing resources, such as system source code, is limited to few individuals; and that employees are restricted from performing incompatible functions or duties beyond their responsibility. For several of GSA's financial systems, we noted deficiencies in access and segregation of duties controls in the areas of (1) termination and recertification of system access, and (2) segregation of duties and least privilege access.

Configuration management controls. The objectives of change and configuration management controls are to ensure that hardware, software and firmware programs, and program modifications are properly authorized, tested, and approved; that access to and distribution of programs is carefully controlled; and that integrity of the application controls is maintained. For one of GSA's financial systems, we noted deficiencies in change and configuration management controls in the areas of (1) logical access associated with changes to the information system, and (2) approving and testing of changes made to the system.

Criteria

- (1) The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, dated September 2014,
- (2) National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, and
- (3) GSA Information Technology (IT) Security Policy.

Cause

GSA did not fully enforce its access administration policies. Additionally, GSA management indicated individuals serve multiple roles and require elevated access to the environment and therefore, a formal process to restrict such access had not been fully developed. Finally, evidence supporting change request approvals and testing was not formally documented and retained for certain system changes because of the lack of fully defined configuration management procedures.

Effect

The IT control deficiencies noted above increase the risk of unauthorized access, disclosure, modification, and/or destruction of GSA's system programs and data.

Recommendations

We recommend that GSA management:

1. Enforce procedures to remove access of terminated users from GSA's systems in a timely manner and perform periodic user account access reviews as required by GSA's policy.
2. Evaluate, develop, and implement a formal process to restrict and properly separate access to GSA's systems and supporting infrastructure.
3. Evaluate, develop, and implement a formal process to ensure that changes to GSA's systems and supporting infrastructure are appropriately approved and tested prior to migration into the production environment. Such approval and testing should be documented and maintained.

Management's Response

Management concurs. GSA will implement corrective actions that address these deficiencies.

Independent Auditors' Report
Exhibit I – Significant Deficiencies

2. Deficiency Noted in Periodic Management Review Control over Undelivered Orders (UDOs)

GSA incurs obligations and outlays to carry out its activities. Obligations are legally binding agreements that will result in outlays, immediately or in the future. When GSA places an order or signs a contract, an obligation is incurred. As of September 30, 2021, GSA's obligations balance for UDOs was \$14 billion.

Condition

During our testwork, we noted that management's review control over the UDOs balance as of September 30, 2021 was not effectively designed to include the review of obligations recorded in the general ledger through certain types of adjustments. Specifically, management's review control did not detect invalid UDOs of approximately \$264 million that were recorded as an adjustment to the UDOs balance in fiscal year 2020. This error was corrected in the final fiscal year 2021 financial statements.

Criteria

GAO Standards for Internal Control in the Federal Government, dated September 2014, Principle 7, *Identify, Analyze, and Respond to Risks*, and Principle 16, *Perform Monitoring Activities*.

Cause

This adjustment was not reversed in fiscal year 2020 through the established reversal process due to management oversight. GSA's risk assessment process did not identify obligations recorded in the general ledger through certain types of adjustments as a risk that required periodic reviews.

Effect

The condition noted above resulted in an overstatement of obligations incurred and an understatement of unobligated balances by approximately \$264 million in the initial draft of the fiscal year 2021 financial statements. Without proper controls in place to ensure that the UDOs balance represent valid obligations, there is an increased risk that material misstatements in GSA's financial statements will not be detected and corrected in a timely manner.

Recommendations

We recommend that GSA:

1. Revise the design of its semi-annual UDO review control to include a review of all UDOs reported in the general ledger.
2. Design and implement periodic management review controls over transactions recorded through adjusting entries to ensure the continued validity of such transactions.

Management's Response

Management concurs. GSA will implement corrective actions that address these deficiencies.