Consolidating and Combining Financial Statements

General Services Administration
Office of Inspector General
Washington, DC 20405

February 28, 2000

MEMORANDUM FOR DAVID J. BARRAM
ADMINISTRATOR (A)

WILLIAM B. EARLY, JR.
CHIEF FINANCIAL OFFICER (B)

FROM: WILLIAM R. BARTON *William R. Barton*
INSPECTOR GENERAL (J)

Subject: **Audit of the General Services Administration's Fiscal Years 1999 and 1998 Financial Statements**

This memorandum transmits PricewaterhouseCoopers LLP's (PwC) report on its Fiscal Years 1999 and 1998 financial statement audit of the General Services Administration (GSA), and the Office of Inspector General's (OIG) report on internal controls over performance measures.

Results of Independent Audit

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires GSA's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the Agency's financial statements. Under a contract monitored by the OIG, PwC, an independent public accounting firm, performed the audit of GSA's Fiscal Years 1999 and 1998 financial statements. The contract required that the audit be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States, and the Office of Management and Budget's Bulletin No. 98-08, as amended, "Audit Requirements for Federal Financial Statements."

PwC issued unqualified opinions on GSA's Fiscal Years 1999 and 1998 consolidated and combined financial statements and individual funds' (Federal Buildings Fund, General Supply Fund, and Information Technology Fund) financial statements. Also, PwC issued unqualified opinions on GSA management's assertion regarding the effectiveness of internal control over financial reporting and substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). However, PwC did identify three reportable conditions concerning GSA's need to (1) improve GSA entity-wide system security management and oversight, (2) improve GSA system development and implementation efforts, and (3) improve the controls over the integrity of rent and leasing data. PwC also reported a potential instance of noncompliance with a law arising from an advance between two GSA funds, the Federal

Buildings Fund (FBF) and the Information Technology Fund (ITF). During the Fiscal Year 1998 audit, PwC requested the Counsel to the Inspector General to review this advance of funds. The OIG issued a legal opinion stating that GSA violated the "Purpose Statute" (31 U.S.C. § 1301) when the FBF advanced funds to the ITF, and these funds were "not properly used to carry out PBS [Federal Building Fund] activities." GSA's Office of General Counsel disagreed with the OIG opinion. This matter was reported in PwC's report on its Fiscal Year 1998 financial statement audit but was not resolved during the current fiscal year.

The General Services Administration financial statements were prepared, and the auditor's report was dated prior to the issuance of OMB Memorandum M-00-05 which amended OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements. Accordingly, many of the required changes to the statements are not reflected in GSA's Fiscal Years 1999 and 1998 financial statements.

OIG Evaluation of PwC's Audit Performance

To ensure the quality of the audit work performed, we conducted a review of PwC's audit of GSA's Fiscal Years 1999 and 1998 financial statements. Specifically, we:

- Reviewed PwC's approach and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the audit at key points;
- Examined working papers related to assessing internal controls over GSA's financial reporting process;
- Reviewed PwC's audit report;
- Coordinated issuance of the audit report; and
- Performed other procedures we deemed necessary.

However, due to the timing for completing the GSA Fiscal Year 1999 Annual Report, we have not completed our review of the working papers prepared by PwC.

PwC is responsible for the attached auditor's report dated December 22, 1999, and the conclusions expressed therein. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on GSA's financial statements, management's assertions about the effectiveness of its internal controls over financial reporting or substantial compliance with FFMIA, or GSA's compliance with certain laws and regulations. However, our review, as qualified above, disclosed no instances where PwC did not comply with generally accepted government auditing standards.

Report on Internal Controls Over Performance Measures

We did not contract with PwC to perform the audit work relating to internal control over performance measures. However, in accordance with the Office of Management and Budget Bulletin No. 98-08, as amended, we performed the necessary audit procedures to obtain an understanding of the design of the significant internal controls relating to the existence and completeness assertions, and determined whether they had been placed in operation to support the performance measures reported in GSA's Fiscal Year 1999 Annual Report Overview. Last year, we identified a reportable condition regarding the need to clearly assign responsibility and accountability within GSA for verifying and ensuring the reliability of the data supporting the reported performance measures. While we noted a similar problem this year, we also noted that steps are now underway to implement appropriate controls to ensure the integrity of performance measures appearing in future annual reports. Accordingly, we no longer consider these control problems to constitute a reportable condition.

The Office of Inspector General appreciates the courtesies and cooperation extended to PricewaterhouseCoopers LLP and to our audit staff during the audit and review. If you or your staff have any questions, please contact me or Eugene L. Waszily, Assistant Inspector General for Auditing.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Inspector General of the United States General Services Administration

This report presents our opinions :

- On the fiscal years 1999 and 1998 financial statements of the United States General Services Administration (GSA Consolidated and Combined) and its three primary revolving funds - the Federal Buildings Fund (FBF), the General Supply Fund (GSF), and the Information Technology Fund (ITF).
- Management's assertion that as of September 30, 1999, GSA maintained, in all material respects, effective internal control over financial reporting for GSA Consolidated and Combined, the FBF, the GSF, and the ITF.
- Management's assertion that except for two identified areas of non-conformance pertaining to Office of Management and Budget (OMB) Circulars No. 127, *Financial Management Systems,* and No. A-130, *Management of Federal Information Resources,* GSA's financial management systems substantially complied with all other requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996 for the fiscal year ended September 30, 1999.

This report also presents results of our tests of GSA's compliance with selected provisions of applicable laws and regulations. This report describes management's responsibilities for financial reporting, the internal control over financial reporting, compliance with FFMIA requirements, and compliance with other applicable laws and regulations. Finally, the report describes our responsibilities for auditing the financial statements, examining management's assertion regarding the internal control over financial reporting, examining management's assertion regarding GSA's substantial compliance with FFMIA requirements, and reporting on GSA's compliance with other applicable laws and regulations.

Opinion on the Financial Statements

In our opinion, the accompanying balance sheets of the General Services Administration (GSA Consolidated), the Federal Buildings Fund (FBF), the General Supply Fund (GSF), and the Information Technology Fund (ITF) as of September 30, 1999 and 1998, and the related GSA Consolidated and individual fund statements of net cost and changes in net position, and GSA Combined and individual fund statements of budgetary resources and financing for the fiscal years then ended, present fairly, in all material respects, the:

- financial position of GSA Consolidated, the FBF, the GSF, and the ITF as of September 30, 1999 and 1998,
- net cost and changes in net position of GSA Consolidated, the FBF, the GSF, and the ITF for the fiscal years ended September 30, 1999 and 1998, and
- financing and budgetary resources of GSA Combined, the FBF, the GSF, and the ITF for the fiscal years ended September 30, 1999 and 1998,

in conformity with generally accepted accounting principles.

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Consolidating and Combining Information

Our audits were performed for the purpose of expressing opinions on GSA Consolidated and Combined, the FBF, the GSF, and the ITF financial statements as of and for the fiscal years ended September 30, 1999 and 1998. The financial statements of Other Funds and the Intra-GSA Eliminations, presented in the consolidating and combining financial statements, are presented for purposes of additional analysis of GSA Consolidated and Combined financial statements. This consolidating and combining information has been subjected to the auditing procedures applied in our audits of GSA Consolidated and Combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the fiscal years 1999 and 1998 GSA Consolidated and Combined financial statements taken as a whole.

Supplemental Statements

Our audits were performed for the purpose of expressing opinions on GSA Consolidated and Combined, the FBF, the GSF, and the ITF financial statements as of and for the fiscal years ended September 30, 1999 and 1998 each taken as a whole. The supplemental consolidating statements of operations and cash flows for the years ended September 30, 1999 and 1998 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements referred to above and, in our opinion, is fairly stated, in all material respects, in relation to GSA Consolidated and Combined, the FBF, the GSF, and the ITF financial statements as of and for the fiscal years ended September 30, 1999 and 1998 each taken as a whole.

Other Information

Our audits were performed for the purpose of expressing opinions on GSA Consolidated and Combined, the FBF, the GSF, and the ITF financial statements as of and for the fiscal years ended September 30, 1999 and 1998. The other information contained in the Annual Report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the financial statements referred to above, and, accordingly, we express no opinion on it.

Opinion on Management's Assertion Regarding the Effectiveness of Internal Control over Financial Reporting

In our opinion, management's assertion included in its representation letter to us dated December 22, 1999, that, as of September 30, 1999, the internal control over financial reporting for GSA Consolidated and Combined, the Federal Buildings Fund (FBF), the General Supply Fund (GSF), and the Information Technology Fund (ITF) was effective, is fairly stated, in all material respects, based on the objectives stated below in relation to GSA's combined and consolidated financial statements and each fund's financial statements. Management has evaluated the effectiveness of the internal control over financial reporting for each of the aforementioned entities as of September 30, 1999, as part of the evaluation required under the Federal Managers' Financial Integrity Act (FMFIA). Based on this evaluation, management asserted that it believes that, as of September 30, 1999, the internal control over financial reporting for GSA Consolidated and Combined, the FBF, the GSF, and the ITF was effective in achieving the objectives described below:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition.
- Transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (ii) any other laws, regulations, and government-wide policies identified by the Office of Management and Budget (OMB) in Appendix C of OMB Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, as amended.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under standards established by the American Institute of Certified Public Accountants (AICPA), reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect GSA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that none of the three reportable conditions that follow is a material weakness as defined by the AICPA.

As discussed in management's assertion, the following reportable conditions involving the internal control over financial reporting and its operation existed as of September 30, 1999: (1) GSA entity-wide system security management and oversight need improvement; (2) development, implementation, and change controls over GSA's system environment need improvement; and (3) the controls over the integrity of rent and leasing data continue to need improvement.

We noted other matters involving the internal control and its operation that we will communicate in a separate management letter.

1. GSA Entity-Wide System Security Management and Oversight Need Improvement

GSA entity-wide system security management and oversight continue to need improvement. Weak access controls and inadequate security procedures were reportable conditions identified during the 1998 financial statement audit. While GSA has made improvements in both of these areas in the last year, we found that these conditions continue to be challenges facing GSA.

For fiscal year 1999, our systems audit work included an update of the general systems control environment work performed during 1998 as well as an assessment of the application controls for the following eight applications:

- Fleet Management System (FMS)
- Integrated Task Order Management System (ITOMS)
- Selected National Electronic Accounting and Reporting (NEAR) submodules:
  - ➢ Federal Supply Service Payment (FEDPAY) module
  - ➢ Invoice Tracking and Payment (ITAP) system
  - ➢ Visual Invoice Tracking and Payment (VITAP) system
  - ➢ Transportation Interface and Reporting System (TIRES)
  - ➢ Real Property Accounting and Depreciation System (RPADS)
- System for Tracking and Administering Real Property (STAR).

We believe that the disclosure of detailed information about these weaknesses may further compromise controls. We will provide additional details of the testing results in a separate management letter.

During our evaluation of general and application controls surrounding STAR, FMS, ITAP, VITAP, and ITOMS, we found the following control weaknesses affecting each application:

- Controls over physical and logical access to system resources needed improvement (repeat finding from 1998).
- Controls to monitor, detect and follow up on unauthorized access to systems from external sources were not adequate (repeat finding from 1998).
- Logical access granted to users was not consistent with their organizational or individual job responsibilities (repeat finding from 1998).
- Controls over server security needed improvement. Basic security features, such as password security and standard server security settings were not adequately implemented.

Our review, however, noted that GSA made significant progress in addressing the fiscal year 1998 reportable condition related to inadequate security procedures by establishing such policies and procedures. For example, the CIO office:

- Developed an entity-wide security policy.
- Developed an Information Technology Security Action Plan.
- Filled key system security roles such as the Critical Infrastructure Assurance Officer and IT Security Program Manager at the headquarters level.
- Filled some of the Information System Security Manager and Information Systems Security Officer positions in the Services, Staff Offices, and Regions (S/SO/R).
- Held information system security training.

However, there did not appear to be an effective mechanism established for implementing and enforcing security policies and plans.

Based on our analysis and discussions with security representatives at the Services, Staff Offices, and Regions (S/SO/R), following are the primary causes of the security weaknesses:

- S/SO/R personnel were not provided with procedures on how to implement and enforce the security plan.

- S/SO/R personnel were not receiving guidance on specific technical issues such as standard server security settings from the IT Security Program Manager Office.
- S/SO/R personnel were given security roles as additional duties and were not provided sufficient resources to complete assigned security tasks.

The IT Security Center of Expertise, conceptualized in the Information Technology Security Action Plan, could have alleviated some of these issues. However, the center has not yet been established. Establishing such a center would provide a focal point for issuing guidance and providing assistance as well as helping to standardize system security practices. In addition, the individuals in the Center could help enforce policies by reviewing and reporting on compliance.

As a result of the above items, GSA's systems environment is not in compliance with OMB Circulars No. 127 and No. A-130 and the system resources (data, programs, and equipment) continue to be susceptible to unauthorized access, modification, or destruction.

Recommendations

We recommend that the GSA CIO:

- Establish the IT Security Center of Expertise to provide technical security guidance.
- Establish procedures for the IT Security Program Manager to use when implementing and enforcing the new security policy.
- Consider shifting Y2K resources as they become available to help complete assigned security tasks.
- Establish follow-up procedures to help ensure the S/SO/R personnel are enforcing the security policy.

More specific recommendations regarding this issue will be provided to GSA management in a separate management letter.

2. Development, Implementation, and Change Controls over GSA's System Environment Need Improvement

System development and implementation efforts at GSA could be improved. In conjunction with the 1999 financial statement audit, we reviewed three recently implemented applications — ITOMS, STAR, and FEDPAY version 3. We found the following development and implementation weaknesses with each of these applications:

- A documented and agreed-upon system development life cycle (SDLC) methodology was not in place for development, implementation, and maintenance efforts.
- Design flaws noted in ITOMS and STAR indicated that not all functions had been adequately tested before the applications were placed into production.
- STAR user acceptance testing was not completed.

In addition, major application changes were allowed without adequate documentation or authorization controls. For example, the project leaders for STAR and ITOMS stated that changes were made continuously without a formal authorization and documentation process. We also found that changes were placed into production by application programmers without first going through an independent validation and verification (IV&V) process.

It should be noted that GSA has made progress towards improving the application development process. For example, they developed an instructional letter and an Information Technology Capital Planning and Investment Guide to comply with the Information Technology Management Reform Act (Clinger-Cohen Act) of 1996. In addition, GSA established an IT Architecture Planing Committee and an Application Development Subcommittee to help manage systems development. However, neither the IT Architecture Planning Committee nor the Application Development Subcommittee has been charged with establishing uniform agency-wide application development, implementation, and change control policies and procedures.

Inadequate systems development and implementation controls can lead to wasted resources, unauthorized changes, failure to meet business needs, and, in the case of GSA, may have contributed to system security weaknesses with regard to logical access and monitoring.

Recommendations

We recommend that the GSA CIO, in coordination with the IT Architecture Planning Committee:

- Require the Application Development Subcommittee to establish detailed agency-wide application development, implementation, and change control policies and procedures.
- Require the Application Development Subcommittee to assess and report on how well application development groups are following GSA application development policies and procedures.
- Consider shifting Y2K resources as they become available to help support the Application Development Subcommittee.
- Ensure that the Application Development Subcommittee has the appropriate authority and resources to enforce established policies and procedures across the entire GSA organization.
- Ensure that a process is in place to maintain the Information Technology Capital Planning and Investment Guide, and other GSA system development policies and procedures to help ensure that they continue to address significant aspects of GSA's technology environment.

More specific recommendations regarding this issue will be provided to GSA management in a separate management letter.

3. The Controls over the Integrity of Rent and Leasing Data Continue to Need Improvement

In fiscal year 1998, we found a reportable condition related to the rent and leasing data used to support the management of the Federal Buildings Fund. We continued to find many of the same issues during fiscal year 1999. The Public Buildings Service (PBS) has begun to move forward in addressing these issues with internal teams for developing corrective action plans, with some system enhancements for the System for Tracking and Administering Real Property (STAR), and with the start of plans for verification of STAR data.

PBS also focused on changes in its business practices by further implementing its new pricing policy. New pricing changes the rent pricing structure for GSA customers as well as requires the pass-through of lease costs and the use of signed occupancy agreements. We tested controls over new pricing at GSA's regional offices and identified instances where controls need improvement, or where PBS needs to complete action plans it has already initiated to address internal control weaknesses. In addition to testing various aspects of new pricing, we also evaluated the accuracy of data in STAR. We found several discrepancies that could have a financial statement impact such as inaccurate rent bills, overpayments to lessors, and inaccuracies in STAR's space inventory. Following is a summary of relevant findings:

- We found that rent billing terms were not always supported by occupancy agreements across regional offices.
- We found instances where occupancy agreements were either not fully executed or were not available.
- Lease costs were not always recovered in accordance with PBS' new pricing policy.
- Tools, such as a handbook that addresses all aspects of new pricing and fully functioning software to create occupancy agreements, were not always available across regional offices.
- We found instances where leasing transactions were based on unexecuted or missing supplemental lease agreements or on leasing data that had not been updated.
- Discrepancies existed between leasing data in STAR and source documents.
- STAR did not provide some critical information needed for space management such as transaction level history.

Recommendations

PBS needs to complete steps currently under way for improving the integrity of its rent and leasing data. We recommend that GSA:

- Closely monitor the conversion to new pricing for fiscal year 2000, especially the recovery of lease costs.
- Use the occupancy agreements as the basis for supporting space assignments in federally owned and leased buildings.
- Issue comprehensive guidance for PBS' new pricing policy.
- Consider costs vs. benefits of modifications to STAR.
- Continue with the steps identified in the corrective action plan for the prior year reportable condition.
- Move forward with plans to validate space in federally owned and leased buildings, if funding from prior year carryovers becomes available.

More specific recommendations regarding this issue will be provided to GSA management in a separate management letter.

Opinion on Management's Assertion Regarding Substantial Compliance with FFMIA

In our opinion, management's assertion included in its representation letter to us dated December 22, 1999, that except for two identified areas of non-conformance pertaining to OMB Circulars No. 127 and No. A-130, GSA's financial management systems substantially complied with all other Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level during fiscal year 1999 is fairly stated, in all material respects.

The two areas of non-conformance identified in management's assertion are described below and are considered to represent substantial noncompliance with the Federal financial management systems requirements under the Federal Financial Management Improvement Act (FFMIA) of 1996:

- GSA entity-wide system security management and oversight need improvement.
- Development, implementation, and change controls over GSA's system environment need improvement.

All significant facts pertaining to noncompliance referred to above and recommended remedial actions are included in the first two reportable conditions presented with our opinion on management's assertion regarding the effectiveness of internal control over financial reporting. In its fiscal year 1999 Federal Managers' Financial Integrity Act (FMFIA) report, GSA stated that the Office of the Chief Information Officer had agreed to identify a comprehensive set of corrective actions and complete such corrective actions by April 14, 2001, to ensure improved entity-wide system security management and management oversight and to improve controls for systems development and implementation processes.

Results of Tests of Compliance with Certain Laws and Regulations

During our fiscal year 1998 audit, we identified a potential instance of noncompliance arising from a $50 million transaction characterized as an advance from the FBF to the ITF. We requested the Office of Inspector General to review this advance of funds. Subsequently, the Counsel to the Inspector General issued a legal opinion that GSA violated the "Purpose Statute," 31 U.S.C. § 1301, when the FBF advanced to the ITF funds, "which were not properly used to carry out PBS [Federal Buildings Fund] activities." The OIG opinion was based on the fact that GSA did not liquidate the advance as the FBF placed orders with the ITF; rather, the FBF paid for the orders separately on a monthly basis. The OIG opinion also stated that advanced funds may only be spent by an activity receiving the funds when the advancing agency or activity has placed orders against that advance, and then only in the amount of the orders actually so placed. GSA's Office of General Counsel (OGC) does "not believe that the advance for the Information Technology Fund resulted in a violation of law." In OGC's opinion, "because the advance was properly made for a proper purpose, and subsequently returned to the Federal Buildings Fund within a reasonable time, it did not violate the Purpose Statute or any other provision of law." OGC also concluded "that it was legally permissible to intermingle the advance into the corpus of the Information Technology Fund." Although GSA changed its practice by liquidating the advance quarterly instead of annually, this issue was not resolved in fiscal year 1999.

Except as noted in the preceding paragraph and in our opinion on management's assertion regarding substantial compliance with the FFMIA, our tests of compliance with selected provisions of applicable laws and regulations disclosed no other matters that are required to be reported under Government Auditing Standards or OMB Bulletin No. 98-08, as amended.

GSA Management's Responsibilities

Management is responsible for:

- Preparing the annual financial statements referred to above in conformity with generally accepted accounting principles and preparing the other information contained in the Annual Report.
- Establishing, maintaining, and assessing internal control over financial reporting.
- Complying with laws and regulations applicable to the agency, including the requirements of the FFMIA.

Auditors' Responsibilities

We have audited the accompanying balance sheets of the General Services Administration (GSA Consolidated), the FBF, the GSF, and the ITF as of September 30, 1999 and 1998, and the related GSA Consolidated and individual fund statements of net cost and changes in net position, and GSA Combined and individual fund statements of budgetary resources and financing for the fiscal years then ended. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the financial statements in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Also, except for the provisions of paragraph 6.c. relating to internal control over performance measures, we conducted our audits in accordance with OMB Bulletin No. 98-08, as amended[PWC2].The work required by paragraph 6.c. was performed by the GSA Office of Inspector General, and the objective of that work was to gain an understanding of and report deficiencies in the design of internal control over performance measures, rather than to plan the financial statement audit. Generally accepted auditing standards and *Government Auditing Standards* require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

We have examined management's assertion, included in its representation letter to us dated December 22, 1999, that as of September 30, 1999, it maintained effective internal control over financial reporting for GSA Consolidated and Combined, the FBF, the GSF, and the ITF. Our responsibility is to express an opinion on management's assertion regarding the effectiveness of internal control over financial reporting based on our examination. Our examination was conducted in accordance with attestation standards established by the AICPA and *Government Auditing Standards*, issued by the Comptroller General of the United States, and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We have examined management's assertion included in its representation letter to us dated December 22, 1999, that except for two identified areas of non-conformance pertaining to OMB Circulars No. A-127 and No. A-130, GSA's financial management systems substantially complied with all other Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level during fiscal year 1999. Our responsibility is to express an opinion on management's assertion about GSA's compliance based on our examination. Our examination was conducted in accordance with attestation standards established by the AICPA, *Government Auditing Standards*, issued by the Comptroller General of the United States, and using implementation guidance included in OMB Bulletin No. 98-08 as amended. Accordingly, it included examining, on a test basis, evidence about GSA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion and to meet the requirement of

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FFMIA that we report on whether GSA's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level. Our examination does not provide a legal determination on GSA's compliance with specified requirements.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of GSA's compliance with certain provisions of applicable laws and regulations, 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.

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This report is intended solely for the information and use of the management and the Inspector General of GSA, the OMB and the Congress, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

Arlington, Virginia
December 22, 1999

General Services Administration
Office of Inspector General
Washington, DC 20405

February 28, 2000

MEMORANDUM FOR DAVID J. BARRAM
ADMINISTRATOR (A)

WILLIAM B. EARLY, JR.
CHIEF FINANCIAL OFFICER (B)

FROM: WILLIAM R. BARTON William R. Barton
INSPECTOR GENERAL (J)

Subject: **Report on Internal Controls Over Performance Measures**

This report presents our conclusions regarding the design and operation of the internal controls over the performance measures reported in the Overview of the General Services Administration's (GSA) Fiscal Year 1999 Annual Report. This report also describes our audit responsibilities with regard to conducting a review of performance measures.

Results of Audit

Last year, we identified a reportable condition regarding the need to clearly assign responsibility and accountability within GSA for verifying and ensuring the reliability of the data supporting the reported performance measures. A reportable condition per the Office of Management and Budget (OMB) guidance involves matters related to significant deficiencies in the design or operation of the internal controls that, in the auditor's judgement, could adversely affect an agency's ability to record, process, summarize, and report performance information.

While we noted a similar problem this year, we also noted that steps are now underway to implement appropriate controls to ensure the integrity of performance measures. The Chief Financial Officer has initiated an action plan that will identify and define Agency managers' responsibilities with regard to performance measures, and require managers to formally assert that the data supporting performance exist and are complete. In addition, the plan establishes accountability requirements for the measures and supporting data at both the Service and Agency-wide levels. As a result, we no longer consider these control problems to be a reportable condition as defined by OMB.

Scope and Methodology

We conducted our audit in accordance with generally accepted government auditing standards and the provisions in OMB Bulletin No. 98-08, as amended, which sets forth the audit requirements for Federal financial statements. These requirements include the annual audit of organization-wide financial statements. Under a contract monitored by the Office of Inspector General (OIG), PricewaterhouseCoopers LLP, an independent external auditor, performed the audit of GSA's Fiscal Year 1999 financial statements. However, the OIG conducted the portion of the audit related to internal control over performance measures. Accordingly, with respect to performance measures reported in GSA's Fiscal Year 1999 Annual Report Overview, we obtained an understanding of the design of the significant internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation, as required by OMB Bulletin No. 98-08, as amended. Our procedures, however, were not designed to provide assurance on internal controls over the reported performance measures. Therefore, we do not provide an opinion on such controls.

U.S. General Services Administration

Consolidating Statements of Net Cost

For the Fiscal Years Ended September 30, 1999 and 1998
(Dollars in Millions)

	1999	1998
Federal Buildings Fund:		
Revenues:		
Building Operations - Owned	$ 3,169	$ 2,782
Building Operations - Leased	3,188	2,928
Expenses:		
Building Operations - Owned	2,678	2,429
Building Operations - Leased	3,274	3,033
Net Income From (Cost of) Operations	405	248
General Supply Fund:		
Revenues:		
Supply Operations	1,385	1,373
Vehicle Acquisition and Leasing	1,400	1,326
Other Programs	21	17
Expenses:		
Supply Operations	1,346	1,351
Vehicle Acquisition and Leasing	1,261	1,213
Other Programs	21	19
Net Income From (Cost of) Operations	178	133
Information Technology Fund:		
Revenues:		
Network Services	1,079	1,012
IT Solutions	3,099	2,403
Expenses:		
Network Services	1,073	1,070
IT Solutions	3,100	2,398
Net Income From (Cost of) Operations	5	(53)
Other Funds:		
Revenues:		
Working Capital Fund	212	212
GSA Operating Expense Fund	10	3
Other Funds	3	61
Expenses:		
Working Capital Fund	226	207
GSA Operating Expense Fund	151	110
Other Funds	(63)	249
Net Income From (Cost of) Operations	(89)	(290)
Less: Intra-GSA Eliminations:		
Revenues	370	422
Expenses	370	422
GSA Consolidated:		
Revenues	13,196	11,695
Expenses	12,697	11,657
Net Income From (Cost of) Operations	$ 499	$ 38

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

Consolidating Balance Sheets

As of September 30, 1999 and 1998
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND	
ASSETS	**1999**	**1998**	**1999**	**1998**
Intragovernmental Assets:				
Funds with U.S. Treasury (Note 1-D)	**$ 3,385**	$ 2,766	**$ 380**	$ 312
Accounts Receivable - Federal, Net (Note 7)	**352**	468	**264**	306
Prepaid Expenses and Advances - Federal	**-**	-	**1**	-
Total Intragovernmental	**3,737**	3,234	**645**	618
Inventories (Note 1-E)	**4**	4	**178**	192
Accounts Receivable - Public, Net (Note 7)	**6**	7	**24**	10
Prepaid Expenses and Advances - Public	**-**	-	**18**	22
Other Assets	**1**	1	**-**	-
Property and Equipment (Notes 1-F,2,8):				
Buildings	**16,753**	15,306	**-**	-
Leasehold Improvements	**284**	230	**8**	6
Telecommunications and ADP Equipment	**-**	-	**-**	-
Motor Vehicles	**-**	-	**2,803**	2,573
Other Equipment	**62**	56	**68**	62
Less: Accumulated Depreciation and Amortization	**(6,901)**	(6,172)	**(834)**	(771)
Subtotal	**10,198**	9,420	**2,045**	1,870
Land	**1,116**	1,056	**-**	-
Construction in Process	**1,676**	2,017	**-**	-
Total Property and Equipment	**12,990**	12,493	**2,045**	1,870
Total Assets	**$ 16,738**	$ 15,739	**$ 2,910**	$ 2,712
LIABILITIES AND NET POSITION				
Intragovernmental Liabilities:				
Accounts Payable and Accrued Expenses - Federal	**$ 84**	$ 94	**$ 19**	$ 25
Deferred Revenue and Advances - Federal	**48**	54	**4**	1
Intragovernmental Debt (Note 3)	**2,572**	1,879	**-**	-
Workers' Compensation Actuarial Liability (Note 1-J)	**113**	107	**28**	27
Other Intragovernmental Liabilities (Note 9)	**98**	854	**6**	6
Total Intragovernmental	**2,915**	2,988	**57**	59
Accounts Payable and Accrued Expenses - Public	**763**	681	**138**	149
Deferred Revenue and Advances - Public	**8**	12	**-**	1
Environmental and Disposals (Notes 6-B, 8-B)	**95**	64	**-**	-
Obligations Under Capital Leases (Note 2)	**279**	284	**-**	-
Annual Leave Liability (Note 1-H)	**35**	32	**14**	13
Deposit Fund Liability	**-**	-	**-**	-
Earnings Payable to U.S. Treasury	**-**	-	**-**	-
Other Liabilities (Note 9)	**125**	100	**-**	5
Total Liabilities	**4,220**	4,161	**209**	227
Net Position (Note 5):				
Cumulative Results of Operations	**12,518**	11,578	**2,701**	2,485
Unexpended Appropriations	**-**	-	**-**	-
Total Net Position	**12,518**	11,578	**2,701**	2,485
Total Liabilities and Net Position	**$ 16,738**	$ 15,739	**$ 2,910**	$ 2,712

The accompanying notes are an integral part of these statements.

INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
1999	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
$ 43	$ 79	**$ 420**	$ 385	**$ -**	$ -	**$ 4,228**	$ 3,542
1,044	998	**18**	862	**29**	877	**1,649**	1,757
-	-	**14**	2	**-**	-	**15**	2
1,087	1,077	**452**	1,249	**29**	877	**5,892**	5,301
2	1	**-**	-	**-**	-	**184**	197
17	5	**28**	13	**-**	-	**75**	35
1	2	**-**	-	**-**	-	**19**	24
-	-	**2**	2	**-**	-	**3**	3
-	-	**-**	-	**-**	-	**16,753**	15,306
4	-	**-**	-	**-**	-	**296**	236
294	292	**-**	-	**-**	-	**294**	292
-	-	**-**	-	**-**	-	**2,803**	2,573
49	39	**17**	10	**-**	-	**196**	167
(215)	(202)	**(5)**	(3)	**-**	-	**(7,955)**	(7,148)
132	129	**12**	7	**-**	-	**12,387**	11,426
-	-	**-**	20	**-**	-	**1,116**	1,076
1	1	**-**	-	**-**	-	**1,677**	2,018
133	130	**12**	27	**-**	-	**15,180**	14,520
$ 1,240	$ 1,215	**$ 494**	$ 1,291	**$ 29**	$ 877	**$ 21,353**	$ 20,080
$ 9	$ 105	**$ 95**	$ 106	**$ 29**	$ 50	**$ 178**	$ 280
216	119	**2**	1	**-**	-	**270**	175
-	-	**-**	784	**-**	-	**2,572**	2,663
10	10	**17**	15	**-**	-	**168**	159
2	2	**39**	60	**-**	827	**145**	95
237	236	**153**	966	**29**	877	**3,333**	3,372
619	589	**32**	27	**-**	-	**1,552**	1,446
-	-	**-**	-	**-**	-	**8**	13
-	-	**84**	211	**-**	-	**179**	275
-	1	**-**	-	**-**	-	**279**	285
9	8	**14**	14	**-**	-	**72**	67
-	-	**47**	53	**-**	-	**47**	53
-	-	**56**	44	**-**	-	**56**	44
33	55	**8**	7	**-**	-	**166**	167
898	889	**394**	1,322	**29**	877	**5,692**	5,722
342	326	**(17)**	(98)	**-**	-	**15,544**	14,291
-	-	**117**	67	**-**	-	**117**	67
342	326	**100**	(31)	**-**	-	**15,661**	14,358
$ 1,240	$ 1,215	**$ 494**	$ 1,291	**$ 29**	$ 877	**$ 21,353**	$ 20,080

The accompanying notes are an integral part of these statements.

U.S. General Services Administration

Consolidating Statements of Changes in Net Position

For the Fiscal Years Ended September 30, 1999 and 1998
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		GSA CONSOLIDATED TOTALS	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
Beginning Balance of Net Position	**$ 11,578**	$11,352	**$ 2,485**	$ 2,320	**$ 326**	$ 371	**$ (31)**	$ (205)	**$ 14,358**	$13,838
Results of Operations:										
Net Income From (Cost of) Operations	**405**	248	**178**	133	**5**	(53)	**(89)**	(290)	**499**	38
Appropriations Used (Note 1-C)	**450**	-	**-**	-	**-**	-	**187**	412	**637**	412
Non-Exchange Revenue (Notes 1-C, 1-G)	**-**	-	**-**	-	**-**	-	**62**	85	**62**	85
Imputed Financing Provided By Others	**51**	45	**25**	20	**11**	9	**19**	39	**106**	113
Transfer of Earnings Paid and Payable to U.S. Treasury	**-**	-	**(4)**	-	**-**	-	**(36)**	(27)	**(40)**	(27)
Receipts Appropriated to Finance Special Funds Activities	**-**	-	**-**	-	**-**	-	**(14)**	(17)	**(14)**	(17)
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	**35**	(4)	**17**	11	**-**	(1)	**(39)**	4	**13**	10
Receipts Paid and Reclassified as Payable From (To) the Land and Water Conservation Fund	**-**	-	**-**	-	**-**	-	**(18)**	(35)	**(18)**	(35)
Other	**(1)**	1	**-**	1	**-**	-	**9**	1	**8**	3
Net Results of Operations	**940**	290	**216**	165	**16**	(45)	**81**	172	**1,253**	582
Prior Period Adjustment (Note 8-B)	**-**	(64)	**-**	-	**-**	-	**-**	-	**-**	(64)
Net Change in Cumulative Results	**940**	226	**216**	165	**16**	(45)	**81**	172	**1,253**	518
Increase in Unexpended Appropriations	**-**	-	**-**	-	**-**	-	**50**	2	**50**	2
Net Position Ending Balance	**$ 12,518**	$11,578	**$ 2,701**	$ 2,485	**$ 342**	$ 326	**$ 100**	$ (31)	**$ 15,661**	$14,358

The accompanying notes are an integral part of these statements.

Combining Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 1999 and 1998
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		GSA COMBINED TOTALS	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
Budgetary Resources:										
Budget Authority	**$ 213**	$ -	**$ (5)**	$ -	**$ -**	$ -	**$ 252**	$ 419	**$ 460**	$ 419
Unobligated Balance, Net - Beginning Balance	**3,087**	1,665	**388**	367	**853**	999	**67**	98	**4,395**	3,129
Spending Authority From Offsetting Collections	**5,862**	6,104	**3,422**	3,275	**4,741**	3,810	**228**	219	**14,253**	13,408
Adjustments	**(161)**	188	**19**	11	**269**	119	**14**	(81)	**141**	237
Total Budgetary Resources	**9,001**	7,957	**3,824**	3,653	**5,863**	4,928	**561**	655	**19,249**	17,193
Status of Budgetary Resources:										
Obligations Incurred	**6,667**	5,919	**3,409**	3,265	**5,165**	4,075	**443**	568	**15,684**	13,827
Unobligated Balance - Available	**2,329**	2,019	**415**	388	**698**	853	**92**	54	**3,534**	3,314
Unobligated Balance - Not Available	**5**	19	**-**	-	**-**	-	**26**	33	**31**	52
Total Budgetary Resources	**9,001**	7,957	**3,824**	3,653	**5,863**	4,928	**561**	655	**19,249**	17,193
Outlays:										
Obligations Incurred	**6,667**	5,919	**3,409**	3,265	**5,165**	4,075	**443**	568	**15,684**	13,827
Less: Spending Authority From Offsetting Collections and Adjustments	**(5,996)**	(6,390)	**(3,441)**	(3,286)	**(5,010)**	(3,929)	**(245)**	(231)	**(14,692)**	(13,836)
Obligated Balance, Net - Beginning Balance (Note 1-L)	**217**	1,435	**(76)**	(50)	**(774)**	(900)	**81**	177	**(552)**	662
Less: Obligated Balance, Net - Ending Balance	**(1,109)**	(196)	**35**	76	**655**	774	**(88)**	(102)	**(507)**	552
Total Outlays (Note 1-L)	**$ (221)**	$ 768	**$ (73)**	$ 5	**$ 36**	$ 20	**$ 191**	$ 412	**$ (67)**	$ 1,205

The accompanying notes are an integral part of these statements.

Combining Statements of Financing

For the Fiscal Years Ended September 30, 1999 and 1998
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		GSA COMBINED TOTALS	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
Obligations and Nonbudgetary Resources:										
Obligations Incurred	**$ 6,667**	$ 5,919	**$ 3,409**	$ 3,265	**$5,165**	$ 4,075	**$ 443**	$ 568	**$ 15,684**	$ 13,827
Less: Spending Authority From Offsetting Collections and Adjustments	**(5,996)**	(6,390)	**(3,441)**	(3,286)	**(5,010)**	(3,929)	**(245)**	(231)	**(14,692)**	(13,836)
Financing Imputed for Cost Subsidies	**51**	45	**25**	20	**11**	9	**19**	39	**106**	113
Other	**56**	-	**3**	4	**(17)**	2	**(36)**	1	**6**	7
Total Adjusted Obligations and Nonbudgetary Resources	**778**	(426)	**(4)**	3	**149**	157	**181**	377	**1,104**	111
Resources That Do Not Fund Net Cost of Operations:										
(Increase)/Decrease in Goods and Services Ordered But Not Yet Received	**(247)**	552	**(18)**	(46)	**(692)**	(465)	**18**	76	**(939)**	117
Increase/(Decrease) in Unfilled Customer Orders	**(473)**	394	**(6)**	9	**563**	365	**3**	(1)	**87**	767
Costs Capitalized on the Balance Sheet	**(1,175)**	(1,516)	**(616)**	(535)	**(28)**	(17)	**(8)**	(2)	**(1,827)**	(2,070)
Financing Sources Funding Prior Year Costs	**(31)**	73	**-**	-	**1**	(7)	**-**	(158)	**(30)**	(92)
Other	**(45)**	2	**2**	(24)	**-**	-	**16**	(94)	**(27)**	(116)
Total Resources That Do Not Fund Net Cost of Operations	**(1,971)**	(495)	**(638)**	(596)	**(156)**	(124)	**29**	(179)	**(2,736)**	(1,394)
Costs Not Requiring Current Resources:										
Depreciation and Amortization	**759**	709	**243**	232	**25**	22	**3**	2	**1,030**	965
Net Book Value of Property Sold	**11**	-	**216**	220	**-**	-	**-**	-	**227**	220
Other	**4**	-	**2**	7	**(1)**	(2)	**1**	2	**6**	7
Total Costs Not Requiring Current Resources	**774**	709	**461**	459	**24**	20	**4**	4	**1,263**	1,192
Financing Sources Yet to Be Provided:										
Unfunded Capitalized Costs	**(26)**	(45)	**-**	-	**-**	-	**-**	-	**(26)**	(45)
Unfunded Current Expenses	**40**	9	**3**	1	**(22)**	-	**(125)**	88	**(104)**	98
Total Financing Sources Yet to Be Provided	**14**	(36)	**3**	1	**(22)**	-	**(125)**	88	**(130)**	53
Net (Income From) Cost of Operations	**$ (405)**	$ (248)	**$ (178)**	$ (133)	**$ (5)**	$ 53	**$ 89**	$ 290	**$ (499)**	$ (38)

The accompanying notes are an integral part of these statements.

Notes to Consolidating and Combining Financial Statements

For the Fiscal Years Ended September 30, 1999 and 1998
(Dollars in Millions)

ORGANIZATION

The U.S. General Services Administration (GSA) was created by the U.S. Federal Property and Administrative Services Act of 1949, as amended (the Act). The U.S. Congress enacted this legislation to provide for the Federal Government an economic and efficient system for the procurement and operation of buildings, procurement and distribution of general supplies, acquisition and management of a motor vehicle fleet, management of automated data processing resources, and management of telecommunications programs.

The Administrator of General Services, appointed by the President of the United States with the advice and consent of the U.S. Senate, oversees the operations of GSA. GSA carries out its responsibilities through the operation of several appropriated and revolving funds.

1. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For its principal financial statements, GSA uses consolidating and combining formats to display its three largest revolving funds: the Federal Buildings Fund (FBF), General Supply Fund (GSF), and Information Technology Fund (ITF). All other funds have been combined under Other Funds.

The accompanying financial statements of GSA include the accounts of all funds under GSA control, which have been established and maintained to account for resources of GSA management. The entities included in the Other Funds category are as follows, with a discussion of the different fund types.

Revolving Funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by the U.S. Congress. The revolving funds in the Other Funds category consist of the following:

Consumer Information Center Fund
Land Acquisition and Development Fund
Pennsylvania Avenue Activities Fund
Working Capital Fund

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. GSA manages 12 General Fund accounts of which three are funded by current year appropriations, two by no-year appropriations, and seven cannot incur new obligations. The general funds included in the Other Funds category are as follows:

Allowances and Office Staff for Former Presidents
Excess and Surplus Real and Related Personal Property Holding Account
Expenses, Presidential Transition
Office of Inspector General
Office of Inspector General (Automation Program)
Operating Expenses, Federal Property Resources Service

Operating Expenses, General Services Administration
Operating Expenses, Information Resources Management
Operating Expenses, Personal Property
Real Property Relocation
Salaries and Expenses, General Management and Administration
Salaries and Expenses, Pennsylvania Avenue Development Corporation

Special Funds are accounts established for receipts earmarked by law for a specific purpose, but are not generated by a cycle of operations for which there is continuing authority to reuse such receipts. GSA uses Special Fund receipts to pay certain costs associated with the disposal of surplus real property and for funding of the Transportation Audits Program. GSA's special funds consist of the following:

Expenses, Disposal of Real and Related Personal Property
Expenses, Transportation Audits
Operating Expenses, Disposal of Real and Related Personal Property
Other Receipts, Surplus Real and Related Personal Property
Receipts of Rent, Leases and Lease Payments for Government Owned Real Property
Receipts, Transportation Audits
Transfer of Surplus Real and Related Personal Property

Miscellaneous Receipt and Deposit Fund accounts are considered Non-entity funds since GSA management does not exercise control over how the monies in these accounts can be used. Miscellaneous Receipts Fund accounts hold receipts and accounts receivable resulting from miscellaneous activities of GSA where, by law, such monies may not be deposited into funds under GSA management control. The U.S. Department of the Treasury automatically transfers all cash balances in these receipt accounts to general funds of the Treasury at the end of each fiscal year. Deposit Fund accounts hold monies outside the budget. Accordingly, their transactions do not affect budget surplus or deficit. These accounts include (1) deposits received for which GSA is acting as an agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods and services received, and (4) monies whose distribution awaits a legal determination or investigation. The receipt and deposit funds in the Other Funds category consist of the following:

Budget Clearing Account
Credits for Withholding and Contributions, Civil Service Retirement and Disability Fund
Employees' Payroll Allotment Account, U.S. Savings Bonds
Fines, Penalties, and Forfeitures, Not Otherwise Classified
Forfeitures of Unclaimed Money and Property
General Fund Proprietary Interest, Not Otherwise Classified
General Fund Proprietary Receipts, Not Otherwise Classified, All Other
Proceeds from Sale of Surplus Property
Reserve for Purchase Contract Projects
Suspense
Suspense, Transportation Audits
Unconditional Gifts of Real, Personal or Other Property
Withheld State and Local Taxes

B. Basis of Accounting

The principal financial statements are prepared in accordance with generally accepted accounting principles as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the hierarchy prescribed in OMB Bulletin 97-01, "Formats and Instructions for the Form and Content of Agency Financial Statements," as amended, which states the following:

1. Individual standards agreed to by the Director of OMB, the Controller General, and the Secretary of theTreasury and published by the General Accounting Office.

2. Interpretations related to the SFFASs issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards".

3. Requirements contained in OMB's Form and Content Bulletin in effect for the period covered by the financial statements.

4. Accounting principles published by other authoritative standard-setting bodies and other authoritative sources (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.

GSA's financial statements are prepared in accordance with formats prescribed in OMB Bulletin 97-01, as amended. These formats are considerably different from business-type formats. The Statements of Net Cost present the operating results of GSA by major programs and responsibilities. The Balance Sheets present the financial position of GSA using a format clearly segregating intra-governmental balances. The Statements of Changes in Net Position displays the changes in equity accounts. The Statements of Budgetary Resources present the sources, status, and uses of GSA's budgetary resources. Lastly, the Statements of Financing bridge the gap between the uses of budgetary resources with the operating results reported as the net cost of operations on the Statements of Net Cost.

Certain prior year balances have been reclassified to conform with the current year's presentation.

On the Statements of Net Cost, Balance Sheets, Supplemental Statements of Operations and Supplemental Statements of Cash Flows, all significant intra-agency balances and transactions have been eliminated in consolidation. No such eliminations have been made on the Combining Statements of Budgetary Resources and Financing.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

In fiscal year 1999, GSA made changes to accounting estimates for certain environmental and legal matters based on new information and events. These changes have been reflected as reductions to current year expenses.

C. Revenue Recognition and Appropriations Used

Generally, Revolving Fund and reimbursable General Fund revenue is recognized when goods have been delivered or services rendered. Revenue under nonrecurring reimbursable building repair and alteration projects is recognized under the percentage-of-completion method. Non-Exchange revenues are recognized on an accrual basis on the Statements of Changes in Net Position for sales of surplus real property, reimbursements due from the audit of payments to transportation carriers, and other miscellaneous items resulting from GSA's operations where ultimate collections must be deposited in miscellaneous receipt accounts of the Treasury. Non-Exchange revenues are reported net of associated bad debt expense on uncollectable accounts.

Appropriations for General Fund and Special Fund activities are recorded as a financing source on the Consolidating Statements of Changes in Net Position when expended. Unexpended appropriations are reported as an element of Net Position on the Balance Sheets.

D. Funds with U.S. Treasury

This total represents all unexpended balances for GSA's accounts with the U.S. Treasury. Amounts in Funds with U.S. Treasury are based on the balances recorded by GSA in the National Electronic Accounting and Reporting (NEAR) system. Differences existing between the total balance reported by GSA that were greater or (less than) those reported by the Department of the Treasury at September 30, 1999 were as follows (dollars in millions):

Federal Buildings Fund	$ 1
General Supply Fund	26
Information Technology Fund	13
Other Funds	-
Total	$ 40

Included in GSA's accounts are certain amounts that may be transferred to either the U.S. Treasury or the Land and Water Conservation Fund (see Note 1-G). These amounts, related to the Transportation Audits program and surplus real property disposals, are subject to transfer subsequent to GSA's determination of the internal working capital needs of these programs. Such amounts totaled $127 million and $85 million at September 30, 1999 and 1998, respectively, of which $93 million and $51 million were recorded as liabilities in the Consolidating Balance Sheets. $3 million in Funds with Treasury were no longer available for expenditure for both fiscal years 1999 and 1998. Of these amounts, $2 million and $3 million, respectively, were transferred back to the Special Fund Receipt Accounts from which they were appropriated, and the balance returned to Treasury.

In accordance with Statement of Federal Financial Accounting Standards Number 1, "Accounting for Selected Assets and Liabilities," the following information is provided to further identify amounts in Funds with U.S. Treasury as of September 30, 1999, against which obligations have been made, and for unobligated balances, to identify amounts budgetarily available for future expenditures and those only available to liquidate prior obligations (dollars in millions).

	Obligated Balance, Net	Unobligated Balance Available	Unobligated Balance Unavailable	Total
FBF	$ 1,083	$ 2,093	$ 209	$3,385
GSF	(35)	415	-	380
ITF	(655)	698	-	43
Others	88	92	240	420
Total	$ 481	$ 3,298	$ 449	$4,228

E. Inventories

Operating supplies, which are consumed in operations, are valued at the lower of cost, determined principally on the first-in, first-out method, or market. Inventories held for sale to other Federal agencies consist primarily of General Supply Fund inventories which are valued at the lower of cost, generally determined on a moving average basis, or market. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical counting plan.

In the Federal Buildings Fund, inventory balances consist of operating supplies. In all other instances, inventory balances reported are inventories held for sale. In the General Supply Fund, $1 million of the balances in inventories held for sale are excess inventories. Excess inventories are defined as those exceeding the economic retention limit (i.e., the number of units of stock which may be held in inventory without incurring excessive carrying costs). Excess inventories are generally transferred to another Federal agency, sold, or donated to state or local governments.

F. Property and Equipment (See Note 8)

Property and equipment purchases and additions in fiscal years 1999 and 1998 of $10,000 and $5,000, respectively, or more and having a useful life of 2 or more years are capitalized and valued at cost. Property and equipment transferred to GSA from other Federal agencies on the date GSA was established is stated at the transfer value which approximates historical cost. Subsequent thereto, equipment transferred to GSA is stated at net book value, and surplus real and related personal property transferred to GSA is stated at the lower of net book value or appraised value. Expenditures for major additions, replacements, and alterations are capitalized. Normal repair and maintenance costs are expensed as incurred. The cost of repair and alteration and of leasehold improvements performed by GSA, but financed by other agencies, is not capitalized in GSA's financial statements as such amounts are transferred to the other agencies upon completion of the project. Substantially all land, buildings, and leasehold improvements are leased to other Federal agencies under short-term cancellable agreements. Generally, these agencies are billed for leased space at rent based upon commercial rates for comparable space.

Depreciation and amortization of property and equipment, exclusive of that acquired under capital leases, are calculated on a straight-line basis over their initial or remaining useful lives. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease term. Buildings capitalized by the Federal Buildings Fund at its inception in 1974 were assigned remaining useful lives of 30 years. Prior to 1974, no depreciation was recorded by GSA. Upon completion, construction costs are capitalized in the Land and Buildings accounts. Major and minor building renovation projects carry estimated useful lives of 20 years, and 10 years, respectively. In fiscal year 1999, GSA recorded capitalized interest costs of $1 million in the Construction in Process account associated with debt provided by the U.S. Treasury's Federal Financing Bank, as discussed in Note 3. Interest capitalized in fiscal year 1998 amounted to $7 million.

Telecommunications equipment and automated data processing equipment are used in operations to perform services for other Federal agencies for which billings are rendered. Most of the assets comprising other equipment are used internally by GSA. Telecommunications and other equipment, exclusive of that acquired under capital leases, is depreciated over periods generally ranging from 3 to 10 years. Telecommunications equipment under capital leases are generally depreciated over their estimated useful lives (approximately 10 years). Automated data processing equipment is depreciated over periods generally ranging from 3 to 5 years.

Motor vehicles are generally depreciated over 4 to 6 years.

G. Receipts from Disposal of Property and Equipment

GSA acts as a disposal agent for surplus Federal real and personal property. In some cases, public law entitles the owning agency to the sales proceeds, net of disposal expenses incurred by GSA. Proceeds from the disposal of equipment are generally retained by GSA to replace equipment. Under GSA's legislative authorities, the gross proceeds from some sales are deposited in GSA's Special Fund receipt accounts and recorded as Non-Exchange Revenues in the Consolidating Statements of Net Position. A portion of these proceeds is subsequently transferred to a Special Fund to finance expenses incurred in disposing of surplus property. The remainder is periodically accumulated and transferred, by law, to the Land and Water Conservation Fund administered by the U.S. Department of the Interior. Transfers in fiscal years 1999 and 1998 were $8 million and $1 million, respectively.

H. Annual, Sick, and Other Types of Leave

Annual leave is accrued as it is earned and the accrual is relieved as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Sick leave and other types of nonvested leave are expensed as taken.

I. Supplemental Consolidating Statements of Cash Flows

These statements identify cash receipts and payments and classify them into operating, financing, and investing activities. This additional disclosure of information is intended to help assess the ability to generate funds from current operations, to identify financing acquired from outside sources, and to identify the major non-operating (investing) uses of funds. Cash, for the purposes of these schedules, equals Funds with U.S.Treasury as defined in Note 1-D.

J. Workers' Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL) which initially pays valid claims and subsequently seeks reimbursement from the Federal agencies employing the claimants. The DOL provides the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases. The present value of these estimates at the end of fiscal year 1999 was calculated by DOL using discount rates by fiscal year as follows: 2000 - 5.50 percent; 2001 - 5.50 percent; 2002 - 5.55 percent; and 2003 and thereafter - 5.60 percent. At the end of fiscal year 1998, the discount rate used was 5.6 percent for all years. The actuarial liability recorded by GSA totaled $168 million and $159 million as of September 30, 1999 and 1998, respectively.

K. Statements of Net Cost

Revenues reported by GSA's funds on the Statements of Net Cost are primarily generated from intra-governmental sales of goods and services. Each fund has established rate setting processes governed by the laws authorizing their activities. In most cases, the rates charged are intended to cover the full cost that the funds will pay to provide such goods and services and to provide capital maintenance. In accordance with the governing laws, rates are generally not designed to recover costs covered by other funds or entities of the U.S. Government, such as for post-employment and other inter-entity costs. Revenues from non-Federal entities make up an immaterial portion of GSA's total sales. Accordingly, where not otherwise governed by law, unique rates for non-Federal customers have generally not been established.

L. Statements of Budgetary Resources

Due to timing differences between dates required by the U.S.Treasury for reporting of fund balances and budget execution results versus the timing of this report, additional adjustments to the balances reported to Treasury have been made to more fully reflect the activity for the fiscal year ending and for balances as of September 30, 1999, as reported on the Statements of Budgetary Resources. The most significant impact of this timing difference is that outlays reported on the Statements of Budgetary Resources are greater (less) than amounts reported to Treasury as follows (dollars in millions):

Federal Buildings Fund	$ 1
General Supply Fund	(18)
Information Technology Fund	(23)
Other Funds	(3)
Total	$ (43)

Also, in the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (Public Law 105-277 dated October 21, 1998), GSA was authorized to merge the assets, liabilities and fund balances of the Pennsylvania Avenue Activities Fund into the Federal Buildings Fund. As a result, a $21 million balance of net obligations were transferred between the funds and is included under the caption Obligated Balance, Net - Brought Forward on this statement.

2. LEASING ARRANGEMENTS

As of September 30, 1999, GSA was committed to various noncancellable operating leases primarily covering administrative office space and storage facilities maintained by the Federal Buildings Fund (FBF), and for motor vehicles in the General Supply Fund (GSF). Many of these leases contain escalation clauses tied to inflationary and tax increases, and renewal options.

The following are schedules of future minimum rental payments required under leases that have initial or remaining noncancellable lease terms in excess of one year, and under capital leases together with the present value of the future minimum lease payments (dollars in millions).

Operating Leases

Fiscal Year	FBF	GSF	Total
2000	$ 2,267	$ 30	$ 2,297
2001	1,973	10	1,983
2002	1,751	-	1,751
2003	1,518	-	1,518
2004	1,274	-	1,274
2005 and thereafter	6,934	-	6,934
Total minimum lease payments	$15,717	$ 40	$15,757

Capital Leases

Fiscal Year	FBF	Total
2000	$ 25	$ 25
2001	25	25
2002	25	25
2003	25	25
2004	25	25
2005 and thereafter	411	411
Total minimum lease payments	536	536
Less: Amounts representing- Interest	(257)	(257)
Executory costs	-	-
Total obligations under capital leases	$ 279	$ 279

Substantially all leased space maintained by the Federal Buildings Fund is sublet to other Federal agencies at rent charges based upon approximate commercial rates for comparable space. The agreements covering the sublease arrangements allow customer agencies, among other things, to terminate the sublease at any time. In most cases, however, GSA believes the subleases will continue without interruption. Rental income under subleasing agreements approximated $2.9 billion and $2.7 billion for the fiscal years ended September 30, 1999 and 1998, respectively. Rent expense under all operating leases, including short-term non-cancellable leases, was approximately $2.6 billion and $2.5 billion in fiscal years 1999 and 1998, respectively.

The Consolidating Balance Sheets as of September 30, 1999, includes capital lease assets of $293 million for buildings, and $33 million of aggregate accumulated amortization on such structures and equipment.

For substantially all of its leased property, GSA expects that in the normal course of business such leases will be either renewed or replaced in accordance with the needs of its customer agencies.

3. DEBT FINANCING

A. Federal Buildings Fund

Purchase Contract and Lease Purchase Debt

Purchase contract debt consists of two distinct financing methods employed to finance construction of Federal buildings. The Dual System provided monies via publicly issued Participation Certificates and Participation Certificates of the Department of the Treasury's Federal Financing Bank (FFB). The Package System, originally consisted of mortgage notes where construction and financing were arranged by the same party. GSA is not authorized to obtain any additional purchase contract debt without congressional approval.
In fiscal years 1993 through 1995, GSA refinanced all outstanding publicly issued Participation Certificates and Package System mortgage notes with the FFB. GSA now has title to all purchase contract buildings.

Starting in fiscal year 1991, GSA entered into several agreements to fund the purchase of land and construction of buildings under the Federal Buildings Fund (FBF) lease purchase authority. Under these agreements, the FBF borrows monies through the FFB or executes lease-to-own contracts to finance the lease purchases. The program authorizes total expenditures of $1,945 million for 11 projects. In fiscal years 1999 and 1998, the FFB made advance payments on the behalf of GSA totaling $8 million and $49 million, respectively. As of September 30, 1999, $233 million of borrowing authority under the lease purchase program remains available for obligation.

Resources to retire debt are obtained from annual revenues generated by the FBF. Aggregate debt maturities are as follows (dollars in millions): 2000 - $113; 2001 - $79; 2002 - $79; 2003 - $85; 2004 - $56; 2005 and beyond - $1,370.

B. Pennsylvania Avenue Debt

The Land Acquisition and Development Fund (LADF), transferred to GSA from the Pennsylvania Avenue Development Corporation (PADC) on April 1, 1996, accounted for various borrowings from the Department of the Treasury that financed several of PADC's property development activities from 1978 through 1994.
The terms of the loan agreements provided for the accumulation and deferral of interest over

the 40-year life of the loans, with no payment required prior to the end of the loan term. At the loan expiration date, all principal and accrued interest was to become due. Periodically, PADC made payments to pay off portions of the accrued interest. As resources from the former PADC's property development activities were not expected to be sufficient to retire these loans and the associated accrued interest, GSA sought and received legislation to provide additional resources to extinguish these balances. Included in theTreasury and General Government Appropriation Act, 1998 (Public Law 105-61) enacted October 10, 1997, GSA was provided appropriations to retire the entire amount of this debt and associated accumulated and deferred interest. On March 31, 1998, the original principal and accumulated interest balances totaling $85 million and $172 million, respectively, were retired.

The former PADC also had authority to borrow from the FFB to finance construction of the Ronald Reagan Building (RRB) in Washington, D.C., with a project budget of $738 million. In 1990, PADC entered into a long-term lease agreement with the FFB and GSA, whereby GSA leased and would ultimately receive title to the building. The agreement required GSA to make rental payments over a 30-year period to retire the PADC debt with the FFB. Through fiscal year 1998, balances financed for this project were accounted for in GSA's Pennsylvania Avenue Activities Fund (PAAF).

In the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (Public Law 105-277 dated October 21, 1998), GSA was authorized to merge the assets, liabilities and fund balances of the PAAF into the FBF. The most significant impact of this action was to close out the capital lease agreement between the two funds for the RRB and reflect the debt as a liability of the FBF.

In fiscal year 1999 and 1998, the FFB made $15 million and $93 million, respectively, in advance payments on the behalf of GSA for this project (see Note 11).

Aggregate maturities on debt related to the RRB are as follows (dollars in millions): 2000 - $10; 2001 - $11; 2002 - $12; 2003 - $13; 2004 - $13; 2005 and beyond - $729.

C. Schedules of Debt Arrangements

GSA's outstanding debt arrangements at September 30, 1999 and 1998 were as follows (dollars in millions):

	1999	1998
Purchase Contract Debt:		
Dual System:		
Participation certificates held by the Federal Financing Bank, due at various dates from November 1, 2000 through November 15, 2004, at interest rates ranging from 4.703 percent to 9.162 percent.	**$ 260**	$ 340
Package System:		
Mortgage loans held by the FFB due at various dates from March 25, 2003 through March 25, 2005, at interest rates ranging from 6.399 percent to 7.939 percent.	**26**	31
Lease Purchase Debt:		
Mortgage loans and construction advances held by the FFB, due at various dates from January 30, 2002 through October 1, 2026, at interest rates ranging from 5.833 percent to 8.561 percent	**1,497**	1,508
Pennsylvania Avenue Debt:		
Ronald Reagan Building, mortgage loans due November 2, 2026, at interest rates ranging from 5.198 percent to 8.323 percent	**788**	784
Total FBF Debt	**$2,571**	$2,663

4. EMPLOYEE BENEFIT PLANS

A. Background

Although GSA funds a portion of pension benefits for its employees under the Civil Service Retirement System and the Federal Employees Retirement System and makes the necessary payroll withholdings from them, GSA is not required to disclose the assets of the systems or the actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. Reporting such amounts is the direct responsibility of the Office of Personnel Management (OPM). Reporting of health care benefits for retired employees are also the direct responsibility of OPM.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 5, "Accounting for Liabilities of the Federal Government," GSA recognizes the normal cost of pension programs and the normal cost of other post-employment health and life insurance benefits, as defined in that standard, on the Consolidating Statements of Net Cost. While these costs will ultimately be funded out of direct appropriations made to OPM and do not require funding by GSA activities, they are an element of government-wide costs incurred as a result of GSA's operations.

B. Civil Service Retirement System

In fiscal year 1999, 45.6 percent of GSA employees were covered by the Civil Service Retirement System (CSRS), a defined benefit plan. Total GSA (employer) contributions (9.01 percent of base pay for law enforcement employees, and 8.51 percent for all others) to CSRS for all employees in fiscal years 1999 and 1998 were $32 million and $31 million, respectively.

C. Federal Employees Retirement System

On January 1, 1987, the Federal Employees Retirement System (FERS), a defined contribution plan, went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. As of September 30, 1999, 53.8 percent of GSA's employees were covered under FERS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the Federal Government's Thrift Savings Plan (TSP) for each employee. Under CSRS, employees can invest up to 5 percent of their base pay in the TSP. Employees under FERS can invest up to 10 percent of base pay, plus GSA will automatically contribute 1 percent of base pay and then match employee contributions up to an additional 4 percent of base pay. During fiscal years 1999 and 1998, GSA (employer) contributions to FERS (23.3 percent of base pay for law enforcement employees and 10.7 percent for all others) totaled $38 million and $34 million, respectively. Additional GSA contributions to the TSP correspondingly totaled $15 million and $13 million.

D. Social Security System

GSA also makes matching contributions to the Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA). For employees covered by FERS, GSA contributed matching amounts of 6.20 percent of gross pay (up to $72,600) to SSA's Old-Age, Survivors, and Disability Insurance (OASDI) program in calendar year 1999. Additionally, GSA makes matching contributions for all employees of 1.45 percent of gross pay to SSA's Medicare Hospital Insurance program in calendar year 1999. Only 0.6 percent of GSA's employees are covered exclusively by these Social Security programs. Payments to these programs in fiscal years 1999 and 1998 amounted to $36 million and $33 million, respectively.

E. Schedule of Unfunded Benefit Costs

Amounts recorded in fiscal year 1999 in accordance with SFFAS Number 5 for post-employment benefits are as follows (dollars in millions.)

	Pension Benefits	Health/Life Insurance	Total
FBF	$ 14	$ 17	$ 31
GSF	7	7	14
ITF	3	3	6
Other Funds	7	5	12
Total	$ 31	$ 32	$ 63

5. STATEMENTS OF CHANGES IN NET POSITION

A. Cumulative Results of Operations

Cumulative results of operations for Revolving Funds include the net cost of operations since their inception, reduced by funds returned to the U.S. Treasury, by congressional rescissions, and by transfers to other Federal agencies; in addition to balances representing invested capital. Invested capital includes amounts provided to fund certain GSA assets, principally land, buildings, construction in process, and equipment, as well as appropriated capital provided as the corpus of a fund (generally to meet operating working capital needs). Increases to invested capital are recorded only when assets were acquired with direct appropriations or with monies transferred to GSA for that purpose, when existing properties were transferred to or out of GSA without reimbursement, or when appropriated capital was received to supplement a fund's capital position. Under FASAB and OMB reporting guidance, changes in invested capital are now reflected on the Statement of Changes in Net Position as elements of Net Results of Operations. As a result, balances previously reported as invested capital have been combined with Cumulative Results of Operations.

GSA's Federal Buildings Fund (FBF), General Supply Fund (GSF), Information Technology Fund (ITF), Working Capital Fund (WCF), and Consumer Information Center Fund (CICF) have legislative authority to retain portions of their cumulative results for specific purposes. The FBF retains cumulative results to finance future operations and construction, subject to appropriation by Congress. In the GSF, earnings are retained to cover the cost of replacing the motor vehicle fleet and supply inventory. The ITF retains cumulative results to provide financing for major systems acquisitions and improvements, contract conversion costs, major contingencies, and to maintain sufficient working capital. The WCF retains earnings to finance future operations. The CICF retains cumulative results to finance future operations, subject to appropriation by Congress.

B. Unexpended Appropriations

Unexpended Appropriations of GSA's general appropriated and special funds consist of unobligated balances, and undelivered orders, net of unfilled customer orders. Undelivered orders are orders placed by GSA with vendors for goods and services that have not been received. Unfilled customer orders are reimbursable orders placed with GSA by other agencies, other GSA funds or from the public where GSA has yet to provide the good or service requested. At September 30, 1999, balances reported as unexpended appropriations were as follows (dollars in millions):

Unobligated Balances:	
Available	$ 53
Unavailable	27
Undelivered Orders, Net	37
Total Unexpended Appropriations	$ 117

6. COMMITMENTS AND CONTINGENCIES

A. Commitments

In addition to future lease commitments discussed in Note 2, GSA is committed under obligations for goods and services which have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all GSA activities amounted to $4.2 billion in fiscal year 1999 and $3.7 billion in 1998.

In fiscal year 1999, GSA awarded two contracts for long-distance telecommunications services (FTS2001) to replace the existing FTS2000 contracts that provide state-of-the-art integrated voice, data, and video telecommunications. Costs for services to be provided over the eight-year term of the contracts are estimated to be $5 billion. The contracts provide minimum revenue guarantees to each vendor of $750 million.

B. Contingencies

GSA is a party in various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. In the opinion of GSA management and legal counsel, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or results of operations of GSA.

Contingencies Covered by GSA Funds

As of September 30, 1999 and 1998, GSA recorded contingent liabilities in total of $149 million and $143 million, respectively, for pending and threatened legal matters for which, in the opinion of GSA management and legal counsel, GSA funds will probably incur losses. Of these balances, $147 million and $141 million, respectively, were reported as Other Liabilities on the Consolidating Balance Sheets, with the remainder reported as Accounts Payable - Public, therein.

In addition, GSA had another $131 million and $63 million in contingencies at September 30, 1999 and 1998, respectively, where it is reasonably possible, but not probable, that GSA funds will incur some cost. Accordingly, no balances have been recorded in the financial statements for these contingencies.

In most cases, legal matters which directly involve GSA relate to contractual arrangements GSA has entered into either for property and services it has obtained or procured on behalf of other Federal agencies. The costs of administering, litigating, and resolving these actions are generally borne by GSA unless it can recover the cost from another Federal agency. Certain legal matters in which GSA may be named party are administered and, in some instances, litigated by other Federal agencies. Amounts to be paid under any decision, settlement, or award pertaining thereto are sometimes funded by those agencies.

Contingencies Covered by the Judgment Fund

In most cases, tort and environmental claims are administered and resolved by the U.S. Department of Justice and any amounts necessary for resolution are obtained from a special Judgment Fund maintained by the Department of theTreasury. In accordance with the FASAB's Interpretation Number 2, "Accounting for Treasury Judgment Fund Transactions," costs incurred by the Federal government are to be reported by the agency responsible for incurring the liability, or to which liability has been assigned, regardless of the ultimate source of funding. In accordance with this interpretation, GSA reported $73 million and $224 million in fiscal years 1999 and 1998, respectively, of Environmental and Disposals and Other Liabilities for contingencies, which will require funding exclusively through the Judgment Fund. Of those amounts, $71 million and $211 million, result from several environmental cases outstanding at the end of fiscal years 1999 and 1998, respectively, where GSA has been named as a potentially responsible party.

Additional contingencies subject to ultimate funding from the Judgment Fund where the risk of loss is reasonably possible but not probable ranged from $303 million to $3.7 billion at September 30, 1999, and ranged from $177 million to $3.6 billion at September 30, 1998. GSA has also been named as a potentially responsible party in two environmental cases that are in very early stages of litigation. As crucial facts needed to estimate liability for these cases are not yet known, estimates of possible losses cannot be made at this time.

The recognition of claims to be funded through the Judgment Fund on GSA's Consolidating Statements of Net Cost and Consolidating Balance Sheets is, in effect, recognition of these liabilities against the Federal government as a whole, and should not be interpreted as claims against the assets, or resources of any GSA fund, nor will any future resources of GSA be required to liquidate any resulting losses. Further, for most environmental claims, GSA has no managerial responsibility other than as custodian and successor on claims made against former Federal entities, particularly former World War II defense related activities.

Amounts paid from the Judgment Fund on behalf of GSA were $40 million and $51 million in fiscal years 1999 and 1998, respectively. Of these amounts $32 million and $25 million, respectively, related to claims filed under the Contract Disputes Act for which payments have been or will be made to reimburse the Judgment Fund by the GSA funds liable under the contacts in dispute. The balance of claims paid on behalf of GSA do not require reimbursement to the Judgment Fund.

7. ACCOUNTS AND NOTES RECEIVABLE

Substantially all accounts receivable are from other Federal agencies. Unbilled accounts receivable result from the delivery of goods or performance of services for which bills have not yet been rendered. Allowances for doubtful accounts are recorded using aging methodologies based on analysis of historical collections and writeoffs.

Notes receivable are from the sale of surplus real and related personal property, from motor vehicle damage claims, and from contract claims. Interest rates range from 0.0 percent to 12.6 percent.

A summary of Accounts and Notes Receivable is as follows (dollars in millions).

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
Current:												
Accounts receivable - Billed	**$ 242**	$ 309	**$ 122**	$ 145	**$ 118**	$ 328	**$ 32**	$ 16	**$ -**	$ 3	**$ 514**	$ 795
Accounts receivable - Unbilled	**139**	186	**174**	179	**943**	675	**17**	859	**29**	874	**1,244**	1,025
Allowance for doubtful accounts	**(23)**	(20)	**(8)**	(8)	**-**	-	**(4)**	(4)	**-**	-	**(35)**	(32)
	358	475	**288**	316	**1,061**	1,003	**45**	871	**29**	877	**1,723**	1,788
Add: Notes receivable - Current	**-**	-	**-**	-	**-**	-	**-**	3	**-**	-	**-**	3
Subtotal Receivables - Current	**358**	475	**288**	316	**1,061**	1,003	**45**	874	**29**	877	**1,723**	1,791
Add: Notes Receivable - Noncurrent (Net of allowance of $22 and $58 in 1999 and 1998, respectively)	**-**	-	**-**	-	**-**	-	**1**	1	**-**	-	**1**	1
Total Accounts and Notes Receivable	**$ 358**	$ 475	**$ 288**	$ 316	**$ 1,061**	$ 1,003	**$ 46**	$ 875	**$ 29**	$ 877	**$ 1,724**	$ 1,792

8. PROPERTY AND EQUIPMENT

A. Summary of Balances

Balances in GSA's Property and Equipment accounts are summarized below (dollars in millions).

	Buildings	Leasehold Improvements	Telecom & ADP Equipment	Motor Vehicles	Other Equipment	Land	Construction In Process	Total
Federal Buildings Fund:								
Cost	$ 16,753	$ 284	$ -	$ -	$ 62	$ 1,116	$1,676	$ 19,891
Accumulated Depreciation	6,664	200	-	-	37	-	-	6,901
Net Book Value	10,089	84	-	-	25	1,116	1 ,676	12,990
General Supply Fund:								
Cost	-	8	-	2,803	68	-	-	2,879
Accumulated Depreciation	-	3	-	798	33	-	-	834
Net Book Value	-	5	-	2,005	35	-	-	2,045
Information Technology Fund:								
Cost	-	4	294	-	49	-	1	348
Accumulated Depreciation	-	3	187	-	25	-	-	215
Net Book Value	-	1	107	-	24	-	1	133
Other Funds:								
Cost	-	-	-	-	17	-	-	17
Accumulated Depreciation	-	-	-	-	5	-	-	5
Net Book Value	-	-	-	-	12	-	-	12
Total:								
Cost	16,753	296	294	2,803	196	1,116	1,677	23,135
Accumulated Depreciation	6,664	206	187	798	100	-	-	7,955
Net Book Value	$ 10,089	$ 90	$ 107	$ 2,005	$ 96	$ 1,116	$1,677	$ 15,180

B. Cleanup Costs

In GSA's Federal Buildings Fund, certain properties contain environmental hazards that will ultimately need to be removed and/or require containment mechanisms to prevent health risks to the public. Cleanup of such hazards is governed by various Federal and State laws. The laws most applicable to GSA are the Comprehensive Environmental Response Compensation and Liability Act of 1980, the Clean Air Act, and the Resource Conservation and Recovery Act.

In accordance with the Federal Accounting Standards Advisory Board's Statements of Federal Financial Accounting Standards (SFFAS) Numbers 5 and 6, "Accounting for Liabilities of the Federal Government," and "Accounting for Property Plant and Equipment," respectively, and interpretive guidance in "Federal Financial Accounting and Auditing Technical Release Number 2" issued by the Accounting and Auditing Policy Committee, if an agency is required by law to clean up such hazard, the estimated amount of cleanup cost must be reported in the financial statements. Accordingly, GSA recognized liabilities totaling $95 million and $64 million for Environmental and Disposals costs as of September 30, 1999 and 1998, respectively, for properties currently in GSA's property inventory. In fiscal year 1998, since the environmental hazards arose in prior years, the related costs were reflected as Prior Period Adjustments on the Statements of Changes in Net Position in accordance with SFFAS 6. In instances where no reasonable estimate of the cost to clean up a particular site could be made, GSA recognized the estimated costs for related environmental studies as is prescribed in the guidance noted above. In some instances, GSA has been named as a party in certain environmental cases where the subject property is no longer in the GSA or Federal property inventory. GSA's liability for such cases is further discussed in Note 6.

9. OTHER LIABILITIES

As of September 30, 1999, amounts reported on the balance sheet as Other Intragovernmental Liabilities and Other Liabilities consisted of the following (dollars in millions):

	FBF	GSF	ITF	Others	Total GSA Consolidated
Other Intragovernmental Liabilities:					
Workers' Compensation Due to DOL	$ 23	$ 6	$ 2	$ 4	$ 35
Deposits Held in Suspense	-	-	-	35	35
Payments Due to the Judgment Fund	75	-	-	-	75
Total	$ 98	$ 6	$ 2	$ 39	$ 145
Other Liabilities:					
Contingencies	$ 117	$ -	$ 33	$ 1	$ 151
Installment Purchase Liabilities	8	-	-	-	8
Pensions for Former Presidents	-	-	-	7	7
Total	$ 125	$ -	$ 33	$ 8	$ 166

10. UNFUNDED LIABILITIES

As of September 30, 1999 and 1998, budgetary resources were not yet available to fund certain liabilities reported on the balance sheet. For the balances in question, most are long-term in nature where funding is generally made available in the year payments are anticipated. These Unfunded Liabilities consist of amounts reported on the Balance Sheet for fiscal years 1999 and 1998, under the captions: Workers' Compensation Actuarial Liability, Other Intragovernmental Liabilities, Annual Leave Liability, Environmental and Disposals, and Other Liabilities. In addition, balances reported as Intragovernmental Debt for fiscal years 1999 and 1998, include unfunded balances totaling $141 million and $158 million, respectively. Certain other balances reported in the Balance Sheet under the captions: Deposit Fund Liability, and Earnings Payable to Treasury, as well as amounts shown as Deposits Held in Suspense in Note 9, while unfunded by definition, will be liquidated from resources outside of the traditional funding process.

11. NON-ENTITY ASSETS

As of September 30, 1999, certain amounts reported on the balance sheet are not available to management for use in ongoing operations and are classified as Non-entity assets (see Note 1.A). These balances consisted of the following (dollars in millions):

	1999	**1998**
Funds with U.S. Treasury	**$ 88**	$ 132
Accounts Receivable - Public	**1**	2
Prepaid Expenses - Federal	**14**	2
Total	**$ 103**	$ 136

Required Supplemental Information

DEFERRED MAINTENANCE

As of the end of fiscal year 1999, GSA had no material amounts of deferred maintenance cost to report. GSA administers the Building Maintenance Management Program that, on an ongoing basis, maintains the Building Class inventory in acceptable condition, as defined by GSA management. GSA utilizes a condition assessment survey methodology, applied at the overall portfolio level, for determining reportable levels of deferred maintenance. Under this methodology, GSA defines "acceptable condition" and "acceptable level of service" in terms of certain National Performance Measures, formulated under the provisions of the Government Performance and Results Act (GPRA) of 1993.

GSA expenses normal repair and maintenance costs as incurred. Although GSA has no substantive backlog of deferred maintenance tasks, the average building in the GSA inventory is 45 years old, and only 25 percent of these buildings have had extensive modernization. This has led to a large inventory of capital Repair and Alteration (R&A) work items of which approximately $3 billion are over 1 year old and not yet included in a PBS R&A project. For fiscal year 2000, GSA has obtained new obligational authority of approximately $599 million for the GSA R&A program.

INTRA-GOVERNMENTAL REVENUES

For fiscal year 1999, the following schedule identifies major customers of GSA's Intra-governmental revolving funds and the associated amount of sales representing over 70 percent of GSA's total consolidated revenues (dollars in millions):

Agency	Amount
Department of the Army	$ 1,437
Department of Justice	1,402
Department of the Treasury	1,195
Department of the Navy	1,044
Department of the Air Force	940
Department of Defense	847
Judiciary	760
Social Security Admin.	525
Dept. of Health and Human Services	436
Department of the Interior	432
Department of Commerce	353
Total	$ 9,371

U.S. General Services Administration

Supplemental Consolidating Statements of Operations

For the Fiscal Years Ended September 30, 1999 and 1998
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND	
	1999	1998	**1999**	1998	**1999**	1998
Operating Revenues (Note 1):						
Building Rents and Services	**$ 6,321**	$ 5,708	**$ -**	$ -	**$ -**	$ -
Sales of Supplies	**-**	-	**1,742**	1,734	**-**	-
Information Technology Services	**-**	-	**-**	-	**4,178**	3,415
Motor Vehicle Services	**-**	-	**908**	864	**-**	-
Reimbursements	**-**	-		-	**-**	-
Other	**36**	2	**156**	118	**-**	-
Total Operating Revenues	**6,357**	5,710	**2,806**	2,716	**4,178**	3,415
Expenses (Note 1):						
Cost of Supply Sales	**-**	-	**1,468**	1,470	**-**	-
Personnel Salaries and Benefits	**460**	411	**210**	187	**111**	100
Rent	**2,648**	2,495	**47**	45	**12**	10
Information Technology	**-**	-	**-**	-	**4,008**	3,324
Motor Vehicles	**-**	-	**368**	362	**-**	-
Contracted Services	**1,484**	1,315	**87**	89	**-**	-
Depreciation and Amortization	**759**	709	**243**	232	**25**	22
Utilities	**255**	249	**-**	-	**-**	-
Operating Supplies	**62**	69	**121**	110	**5**	5
Interest	**203**	202	**-**	-	**-**	-
Travel and Transportation	**23**	11	**6**	5	**5**	4
Shipping Expenses	**-**	-	**52**	51	**-**	-
Workers' Compensation Actuarial Expense (Note 1-J)	**6**	(15)	**1**	(4)	**-**	(1)
Other Expenses	**52**	16	**25**	36	**7**	4
Total Operating Expenses	**5,952**	5,462	**2,628**	2,583	**4,173**	3,468
Net Income From (Cost of) Operations	**405**	248	**178**	133	**5**	(53)
Other Results of Operations:						
Appropriations Used (Note 1-C)	**450**	-	**-**	-	**-**	-
Non-Exchange Revenue (Note 1-C, 1-G)	**-**	-	**-**	-	**-**	-
Imputed Financing Provided By Others	**51**	45	**25**	20	**11**	9
Transfers of Assets and Liabilities, Net	**35**	(4)	**17**	11	**-**	(1)
Transfers and Reclassifications of Earnings	**-**	-	**(4)**	-	**-**	-
Other	**(1)**	1	**-**	1		-
Net Results of Operations	**$ 940**	$ 290	**$ 216**	$ 165	**$ 16**	$ (45)

OTHER FUNDS		LESS INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS			
				1999		1998	
1999	1998	1999	1998	Amount	Percent of Revenues	Amount	Percent of Revenues
$ -	$ -	**$ 83**	$ 79	**$ 6,238**	**47.3 %**	$ 5,629	48.1 %
-	-	**32**	34	**1,710**	**13.0**	1,700	14.5
-	-	**78**	53	**4,100**	**31.1**	3,362	28.8
-	-	**7**	7	**901**	**6.8**	857	7.3
213	200	**170**	192	**43**	**0.3**	8	0.1
12	76	**-**	57	**204**	**1.5**	139	1.2
225	276	**370**	422	**13,196**	**100.0**	11,695	100.0
-	-	**32**	34	**1,436**	**10.9**	1,436	12.3
207	186	**-**	-	**988**	**7.5**	884	7.6
25	24	**83**	79	**2,649**	**20.1**	2,495	21.3
-	-	**78**	53	**3,930**	**29.8**	3,271	28.0
-	-	**7**	7	**361**	**2.7**	355	3.0
182	148	**170**	192	**1,583**	**12.0**	1,360	11.6
3	2	**-**	-	**1,030**	**7.8**	965	8.3
-	-	**-**	-	**255**	**1.9**	249	2.1
4	4	**-**	-	**192**	**1.4**	188	1.6
-	65	**-**	51	**203**	**1.5**	216	1.9
8	7	**-**	-	**42**	**0.3**	27	0.2
-	-	**-**	-	**52**	**0.4**	51	0.4
1	(2)	**-**	-	**8**	**0.1**	(22)	(0.2)
(116)	132	**-**	6	**(32)**	**(0.2)**	182	1.6
314	566	**370**	422	**12,697**	**96.2**	11,657	99.7
(89)	(290)	**-**	-	**499**	**3.8**	38	0.3
187	412	**-**	-	**637**	**4.8**	412	3.5
62	85	**-**	-	**62**	**0.5**	85	0.8
19	39	**-**	-	**106**	**0.8**	113	1.0
(39)	4	**-**	-	**13**	**0.1**	10	0.1
(68)	(79)	**-**	-	**(72)**	**(0.6)**	(79)	(0.7)
9	1	**-**	-	**8**	**0.1**	3	0.0
$ 81	$ 172	**$ -**	$ -	**$ 1,253**	**9.5 %**	$ 582	5.0%

U.S. General Services Administration

Supplemental Consolidating Statements of Cash Flows

For the Fiscal Years Ended September 30, 1999 and 1998
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND	
	1999	**1998**	**1999**	**1998**
Cash Flows from Operating Activities:				
Net Income From (Cost of) Operations	**$ 405**	$ 248	**$ 178**	$ 133
Adjustments to Net Income From (Cost of) Operations -				
Depreciation and Amortization	**759**	709	**243**	232
Non-Exchange Revenues	**-**	-	**-**	-
Other Adjustments and Write-offs	**4**	8	**2**	-
(Gain) Loss on Disposal of Equipment	**(20)**	-	**8**	5
Changes in Current Assets and Liabilities - (Increase)/Decrease				
Accounts Receivable, Net	**117**	(169)	**28**	(40)
Inventories	**-**	1	**12**	8
Prepaid Expenses and Advances to Others	**-**	-	**3**	(10)
Increase/(Decrease)				
Accounts Payable and Accrued Expenses	**72**	8	**(17)**	(27)
Deposit Fund Liability	**-**	-	**-**	-
Deferred Revenue and Advances From Others	**(10)**	(36)	**2**	(2)
Other Liabilities	**36**	4	**(3)**	(4)
Total Adjustments	**958**	525	**278**	162
Net Cash Provided by (Used in) Operating Activities	**1,363**	773	**456**	295
Cash Flows from Investing Activities:				
Proceeds from Sales of Property and Equipment	**34**	1	**208**	215
Payments Received from Notes Receivable, Net	**3**	-	**-**	-
Capital Expenditures	**(1,175)**	(1,516)	**(616)**	(535)
Other	**(2)**	4	**(1)**	-
Net Cash (Used in) Provided by Investing Activities	**(1,140)**	(1,511)	**(409)**	(320)
Cash Flows from Financing Activities:				
Principal Payments Under Capital Lease Obligations	**(6)**	(12)	**-**	-
Additional Appropriated Capital, Net	**466**	-	**-**	-
Principal Payments on Long-Term Debt	**(115)**	(102)	**-**	-
Financing Sources Provided By Others	**51**	45	**25**	20
Receipts Transferred Out, Net	**-**	-	**(4)**	-
Net Cash Provided by (Used in) Financing Activities	**396**	(69)	**21**	20
Net Increase (Decrease) in Funds with U.S. Treasury	**619**	(807)	**68**	(5)
Funds with U.S. Treasury at Beginning of Year	**2,766**	3,573	**312**	317
Funds with U.S. Treasury at End of Year	**$ 3,385**	$ 2,766	**$ 380**	$ 312
Supplemental Disclosure of Cash Flow Information:				
Total Interest Paid	**$ 203**	$ 200	**$ -**	$ -
Supplemental Schedule of Financing and Investing Activities:				
Property and Equipment Acquired Under Capital Lease Obligations	**$ 3**	$ 346	**$ -**	$ -
Property Acquired Under Long-Term Financing Arrangements	**$ 26**	$ 48	**$ -**	$ -

INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
1999	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
$ 5	$ (53)	**$ (89)**	$ (290)	**$ -**	$ -	**$ 499**	$ 38
25	22	**3**	2	**-**	-	**1,030**	965
-	-	**62**	85	**-**	-	**62**	85
1	-	**-**	-	**-**	-	**7**	8
-	-	**-**	-	**-**	-	**(12)**	5
(58)	(226)	**18**	(28)	**848**	(109)	**(743)**	(354)
(1)	-	**-**	-	**-**	-	**11**	9
1	-	**(12)**	-	**-**	-	**(8)**	(10)
(66)	165	**9**	(8)	**(21)**	(4)	**19**	142
-	-	**(6)**	(4)	**-**	-	**(6)**	(4)
97	30	**1**	-	**-**	-	**90**	(8)
(22)	54	**(146)**	(27)	**(827)**	113	**692**	(86)
(23)	45	**(71)**	20	**-**	-	**1,142**	752
(18)	(8)	**(160)**	(270)	**-**	-	**1,641**	790
-	-	**-**	-	**-**	-	**242**	216
-	-	**-**	-	**-**	-	**3**	-
(28)	(17)	**(8)**	(2)	**-**	-	**(1,827)**	(2,070)
(1)	-	**1**	4	**-**	-	**(3)**	8
(29)	(17)	**(7)**	2	**-**	-	**(1,585)**	(1,846)
-	(3)	**-**	-	**-**	-	**(6)**	(15)
-	-	**229**	422	**-**	-	**695**	422
-	-	**-**	(91)	**-**	-	**(115)**	(193)
11	9	**19**	39	**-**	-	**106**	113
-	-	**(46)**	(23)	**-**	-	**(50)**	(23)
11	6	**202**	347	**-**	-	**630**	304
(36)	(19)	**35**	79	**-**	-	**686**	(752)
79	98	**385**	306	**-**	-	**3,542**	4,294
$ 43	$ 79	**$ 420**	$ 385	**$ -**	$ -	**$ 4,228**	$ 3,542
$ -	$ -	**$ -**	$ 220	**$ -**	$ 48	**$ 203**	$ 372
$ -	$ -	**$ -**	$ -	**$ -**	$ 80	**$ 3**	$ 266
$ -	$ -	**$ -**	$ 92	**$ -**	$ -	**$ 26**	$ 140