GSA

U.S. General Services Administration

Creating a Successful Future at GSA

2001 Annual Accountability Report

2001

Stephen A. Perry

Letter from the Administrator

I am honored to have been appointed by President George W. Bush to serve as the 17th Administrator of the U.S. General Services Administration (GSA). Since joining the GSA team on May 31, 2001, I have been actively involved with all my associates here in responding to the President's call for each Federal department and agency to provide improved services to the American public. GSA certainly has a critical role to play in this regard, because it is our responsibility to provide other Federal agencies with the efficient and effective procurement and property management services they need to fulfill their own missions.

As shown in this year's annual report, GSA met or exceeded most of the performance goals and measures that had been established for FY 2001. Among the highlights of our performance achievements are the following:

- We achieved increased customer satisfaction ratings for GSA's procurement and property management services.
- We launched a performance improvement initiative, "Creating a Successful Future at GSA," to achieve high performance and continuous improvement for customer agencies and taxpayers and career success for GSA associates.
- We implemented an improved property portfolio management process that includes aggressively reducing the large backlog of deferred maintenance in government-owned buildings,

legislative reform to enable modern property management practices and reducing the amount of non-revenue producing space in GSA buildings.
- We continued to sustain highly efficient operations in GSA facilities and contained operating costs well below private sector benchmarks.
- We significantly increased Federal agencies' use of GSA sources of supply and the number of products and services available.
- We were instrumental in developing and initiating the process for using the Internet and electronic commerce technology to enable citizen and business transactions with the government.

While we are pleased with the achievements of FY 2001, we recognize that our customers' needs are increasing, and we must continue to improve our performance to meet those needs. We are confident that we can do just that in FY 2002 and beyond.

Creating a Successful Future at GSA

Building upon the existing foundation at GSA, we have taken a number of important steps in FY 2001 that will help us achieve our full potential as a high performing and continuously improving agency. First, we have attracted to our central office and regional offices an outstanding group of talented, experienced leaders who are committed to answering President Bush's call for improved government performance.

Our goal is to enable our customers to transform the way they interact with the American public

Additionally, the GSA leadership team and our fellow associates throughout GSA have embarked on an aggressive performance improvement initiative called "Creating a Successful Future at GSA." We have engaged GSA associates, customers, suppliers and other stakeholders in a dialogue about the importance of GSA's mission, values and goals. GSA team members are committed to achieving the agency's mission, by living our values every day and working together to achieve our goals. We will significantly strengthen our strategic management processes. We will accomplish our challenging, customer-focused goals. We will implement a more rigorous approach for objective performance measurement and accountability.

In FY 2001, we took the initial steps and challenged ourselves to meet or exceed the following six GSA-wide goals in FY 2002 and beyond:

Provide Best Value for Customer Agencies and Taxpayers

GSA's performance for procurement and property management services has a significant impact on the ability of other Federal agencies to achieve their missions of service to the American public. Therefore, it is essential that we achieve high performance that consistently yields best value to our customer agencies. We begin by improving our understanding of our customer's needs so that we can set the appropriate goals and action plans to meet those needs.

In FY 2001, we launched an initiative to significantly enhance our understanding of customer needs. We held a number of "customer service visits" with the national and regional leadership of several of our major customer agencies, and we have used our customer relationship management process and other means to gather important information about their program requirements. We are using this information to establish specific, customer-focused goals, action plans and performance measures. We will monitor customer satisfaction ratings and use customer feedback to identify opportunities to continuously improve the quality, cost, speed and effectiveness of services we provide.

Achieve Responsible Asset Management

The largest category of assets GSA manages is real property. GSA is the Federal Government's largest civilian property management organization, providing buildings and facilities where over 1.1 million Federal associates work. GSA is committed to providing world-class workplaces. That means providing space that is properly laid out and well-suited to productively achieving the work of the agency located there, while at the same time providing a safe and healthy environment for the agency's workers and visitors.

One of the most significant challenges facing the Federal Government is the need to address the large backlog of repair and deferred maintenance in government-owned buildings. In FY 2001, we took a major step toward the long-term resolution of this challenge by initiating property management reform, including proposed legislation to enable the use of modern property management practices government-wide. We must sustain a long-term program of applying appropriate asset management principles to government-owned buildings.

To achieve our goal of having a world-class workforce, GSA is developing and integrating a more robust process of workforce recruitment.

Operate Efficiently and Effectively

GSA has specialized expertise, skills and supply market knowledge necessary for efficient and effective procurement and property management services. We provide these services to other Federal departments and agencies so they do not have to incur the expense of duplicating the same functions within each of their agencies. Rather, each agency can focus its resources on its core mission.

At GSA, we're working to improve the effectiveness and consistency of our overall performance management processes. This includes improving our goal-setting process and our performance measurement process. It also includes linking budget and management decisions to performance. Additionally, we have taken steps to increase the speed of decision-making, achieve lower overhead expense and improve operational efficiency.

Ensure Financial Accountability

GSA has achieved an enviable record of fourteen consecutive years with a "clean" financial audit. Still, we recognize the need for continuous improvement in making our accounting and financial systems more up-to-date, efficient and useful for management decision-making purposes. Accordingly, we are implementing a new accounting system that will replace the existing legacy system by October 2002.

In FY 2001, the original scope of this project, called Pegasys, was revised. Since then, Phase I was successfully completed, and we have continued to keep the project on schedule and on budget. We are now in the final phase of development, and the project will be completed by October 2002. In the future, we plan to integrate this system with other components of our existing financial management system, yielding a more efficient and effective system for linking budget to performance and other aspects of financial accountability.

Maintain a World-Class Workforce and a World-Class Workplace

To achieve our goal of having a world-class workforce, GSA is developing and integrating a more robust process of workforce recruitment, development, retention and succession planning into our overall process of strategic management of the agency. After setting the GSA-wide goals and the related goals for each Service and Staff Office, we identified the mission critical occupations and positions. These include positions in acquisitions, technology, real estate, security and financial management. We are implementing plans for targeted recruitment, as well as training and development of the current workforce, to assure that we have associates in mission critical occupations with the necessary competencies, skills and commitment necessary to achieve the specific goals we have set for ourselves.

Achieving a world-class workplace requires that we develop and sustain a positive and productive work environment—a workplace where every day we live our values: ethics and integrity in everything we do, respect for fellow associates, teamwork, results orientation and professionalism.

Carry Out Social, Environmental and Other Responsibilities as a Federal Government Agency

Many of GSA's activities are very much like the activities of a private sector business, and yet GSA is different because we are a Federal Government agency. Consequently, we have social, environmental and other responsibilities that we must incorporate into our work in a manner that a private sector business does not. This extends from our work to foster competition, to being a catalyst to local economic development, to providing contracting opportunities to small businesses, to providing computer access for individuals with disabilities, to energy efficiency initiatives and other responsibilities we take pride in achieving as a Federal agency.

* * * * *

Through our intensive review of the GSA mission, values and goals during FY 2001, we have strengthened the commitment of our team to build upon the successes of the past to "Create a Successful Future at GSA." We have developed a long-term strategic plan and a detailed annual performance plan for FY 2002; these enumerate the customer-focused goals we will accomplish in the months and years ahead. We will sharpen our focus on our mission of helping Federal agencies better serve the public by providing procurement and property management services that yield best value to our customer agencies and taxpayers.

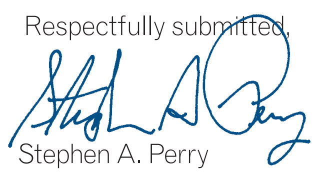
As we do so, we will increase Federal agencies' use of GSA as the preferred source of products and services they need. We will continue to take the steps necessary to achieve our full potential for high performance and continuous improvement, and we will take the steps necessary to achieve significant reductions in operating expense and improved operational efficiency.

As we look back on the accomplishments of FY 2001, we must also reflect on the adversities we faced, most notably, the tragic events of September 11th and the subsequent anthrax incidents. Lives were lost in these terrible attacks on America and Federal agency operations were devastated. These agencies turned to GSA for assistance, and our team of professionals delivered. For example, GSA's Federal Protective Service played a critical role in participating in the search and rescue efforts in New York and Washington, D.C. GSA's Public Buildings Service, Federal Technology Service, Federal Supply Service and all areas of GSA worked around the clock to assist Federal agencies in relocating to new space and obtaining the furnishings, telecommunication and computer equipment, vehicles and supplies needed to re-establish their operations.

We also recall with sadness that Federal Protective Service Officer Ronald C. Sheffield was killed in the line of duty while protecting Federal workers and the public in the Patrick McNamara Federal Building in Detroit, Michigan, on September 21, 2001. While we hope that we will not face such adversities in FY 2002, we recognize the grim reality that our country is continuing to fight a long-term war against terrorism.

On a more positive note, I am very excited and optimistic about the bright future at GSA. We have a great team of talented associates with the skills and competencies necessary to implement President Bush's Management Agenda. GSA is strongly committed to the high performance and continuous improvement necessary to achieve the GSA mission. I am very confident that we will strive to live our values every day and that we will work together as a team to achieve our goals. Consequently, we look forward to successfully meeting the challenges and opportunities ahead.

Respectfully submitted,



Stephen A. Perry
Administrator

Table of Contents

The FY 2001 GSA Annual Accountability Report is produced under the guidelines of the Government Management Reform Act of 1994 as amended by the Reports Consolidation Act of 2000 with performance information. The report provides a performance-based view of the U. S. General Services Administration's achievements by augmenting the traditional audited consolidated financial information, as required under the Chief Financial Officers Act of 1990 with performance information.

Overview

Overview

Creating A Successful Future At GSA

The Mission of GSA

"GSA helps Federal agencies better serve the public by offering, at best value, superior workplaces, expert solutions, acquisition services and management policies."

GSA is the central management agency of the Federal Government for regulating administrative services other than information technology, personnel and financial management. The administrative services under GSA's regulatory purview include the management of real and personal property, travel and transportation, motor vehicles and aircraft, and mail.

GSA is also a significant provider of procurement and property management services to other Federal agencies. GSA's property management service provides offices and workspace for more than one million Federal workers in over 8,300 government-owned and leased buildings located in 1,600 communities nationwide. GSA's procurement service assists Federal agencies in the acquisition of the products and services they need to conduct their operations. By providing these property management and procurement services centrally, GSA enables other Federal agencies to focus their resources on fulfilling their core missions.

The GSA organization includes three major units that provide property management and procurement services to Federal agencies: the GSA Public Buildings Service (PBS), the GSA Federal Supply Service (FSS) and the GSA Federal Technology Service (FTS). A fourth unit, the GSA Office of Governmentwide Policy (OGP), provides management policy development. GSA provides its services through the coordinated efforts of eleven regional offices and its central office in Washington, D.C.

Consistent with its mission, GSA's strategic goals are to:

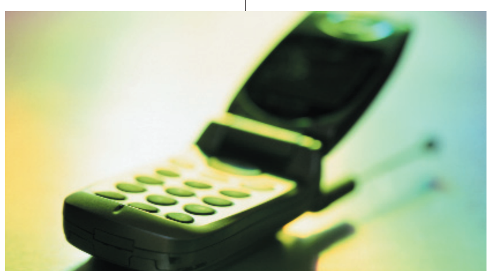
- Provide best value for customer agencies and taxpayers
- Achieve responsible asset management
- Operate efficiently and effectively
- Ensure financial accountability
- Maintain a world-class workforce and a world-class workplace
- Carry out social, environmental and other responsibilities as a Federal Government agency.

In 2001, GSA associates worked to meet or exceed the challenging goals the agency had set for itself. They were also mindful of the mission and the values GSA has chosen to embrace as an agency. Following are some examples of the ways GSA found opportunities to accomplish the goals set forth in FY 2001, as associates worked together to create a successful future at GSA.

Providing Best Value

Performance-Based Management: GSA continuously seeks to create best value for its various constituents through good business performance practices. GSA's Performance Plan accelerates efforts to systematically measure how well the business units and the entire enterprise perform. The Plan has led, in turn, to improvements in key processes, as well as several initiatives that affect how GSA serves its customers.

One very successful PBS program, *Linking Budget to Performance,* has resulted in substantial income and savings for GSA and other Federal agencies. The net effect on performance was a 7.3 percent decline overall in non-revenue producing space from 15 percent to 7.7 percent. Operating costs fell by $1.04 per square foot to a level 16 percent below private sector costs. Funds from operations climbed to $1.3 billion.



Reliable and fast voice and data telecommunication networks, capable of handling a large amount of information, are critical to mission success.

Similarly, FSS implemented a balanced scorecard approach to performance management that is the cornerstone of the Service's strategic and business planning system. The scorecard measures financial performance, as well as business processes, and reveals ways to achieve greater success by looking at workforce efficiency and customer satisfaction measures within the context of FSS unique responsibilities. This new model for FSS brings performance targets into its every day work activities, and is intended to ensure that we provide the best value to our customers by providing the best prices available.

Ensuring Financial Accountability

Responsible Stewardship of Taxpayer Dollars: Accurate and timely financial management is also critical to successful performance. GSA has made significant strides in improving its internal financial processes and systems and its customer billing systems. These improvements increase GSA's billing accuracy and efficiency, improve customer relations and strengthen GSA's financial management controls, leading to improved productivity and resource utilization.

Developing Expert Solutions

Property Management Reform: GSA continually seeks to provide new and higher levels of service. Understanding the needs of customers and developing expert solutions for them drives innovative thinking at GSA. For example: GSA's commitment to innovation resulted in a comprehensive review of the *Federal Property and Administrative Services Act of 1949* and could lead to groundbreaking reform in the area of property management. The new *Federal Property Asset Management Reform Act,* as drafted, would implement four concepts designed to improve the management of Federal assets and promote a total asset management approach to real and personal property issues. It would introduce life-cycle planning and management; authorize agencies to sub-lease, out-lease, exchange and sell capital assets; allow agencies to keep some portion of the proceeds from sales of surplus real and personal property; and streamline asset management.

Achieving Efficient and Effective Public Service

Telecommunications—The Next Generation: Meeting the public's expectations for rapid access to government information and assistance is one new definition of efficient and effective public service. Reliable and fast voice and data telecommunication networks, capable of handling a large amount of information, are critical to mission success, but keeping costs low is equally vital.

These factors inspired the FTS2001 and Metropolitan Area Acquisition (MAA) programs. They offer superior long-distance and local telecommunications at the lowest possible rates by taking advantage of increased competition in the deregulated telecommunications marketplace.

In FY 2001, GSA completed the final stage of moving the Federal Government's long-distance telecommunications services to new FTS2001 contracts with MCI WorldCom and Sprint. FTS2001 brings state-of-the-art, commercial-grade services to the Federal Government. Customers now have access to a wide range of modern and flexible voice and data network services, including the latest wireless, satellite and Internet capabilities. Savings to the taxpayers are substantial, with per-minute, Federal long-distance rates falling from 4.5 cents to less than one cent over the life of the contracts.

Also in FY 2001, GSA began the third phase of its MAA program, designed to realize the benefits in the competitive local telecommunications market. The MAA program offers dial tone, voice and data services; sustained price reductions for services in selected metropolitan areas; a flexible contractual vehicle with high-quality services; and a contractual structure that encourages agency cooperation and aggregation of requirements.

Linking Government to Its Stakeholders

The Era of E-Government: While telecommunications provide a vital link between Government and the public, the Internet is increasingly the access medium of choice. GSA is a pioneer in Federal marketing online. GSA's Web site, *GSA.gov*, makes it easier for GSA Federal customers to do business with GSA electronically. *GSA.gov* provides information on opportunities for GSA construction contracts, emergency disaster relief and sales of surplus government property, to name a few. The system is user-friendly and fully compliant with section 508 requirements. With *GSA.gov*, GSA presents one face to customers—whether they are Federal agencies, vendors or individual citizens.

In FY 2001, GSA launched *GSAAuctions*™, a Web site that allows the public to bid online for surplus, excess and seized goods in the Federal Government's possession. During FY 2001, GSA held 7,136 auctions with proceeds totaling $13.3 million.

Continuing to lead the way in the Federal electronic marketplace, GSA expanded its online ordering system for supplies and services—*GSA Advantage!* ™. The Web site gives Federal customers online access to 2.4 million services and products offered by GSA's Federal Supply Service. Furthermore, customers can compare prices, place orders and make payments over the Internet. In FY 2001, GSA did over $157 million in sales on the site. In June 2001, GSA added a new electronic Request for Quotes system called *E-Buy!*, simplifying procurements for Federal agencies and giving them more time to focus on their core missions.

To provide best value to customers and taxpayers in the handling of its real estate assets, GSA posts online information about owned and leased real estate on the Web. The information helps customer agencies track building occupancy data. It gives prospective lessors and other interested parties access to public information on some 1,900 government-owned buildings and 7,000 lease agreements, including date of lease, expiration date and amount of space. In addition, GSA makes billing information available online for its customers.

Delivering on its promise to provide customer-centric information on the Internet, GSA expanded the official Federal Government Web portal it launched last year—*FirstGov.gov.* In a fraction of a second, the site searches over 30 million pages on more than 22,000 Federal Web sites. A state government search capability was added in June 2001, providing access to an additional 16 million pages of information for all 50 states and the District of Columbia.

In the aftermath of the terrorist attacks, *FirstGov.gov* was an invaluable resource for many Americans, providing a comprehensive list of disaster-related phone numbers and links on its *U.S. Government Responds to September 11th* page. The

While telecommunications provide a vital link between Government and the public, the Internet is increasingly the access medium of choice. GSA is a pioneer in Federal marketing online and leads the way in the Federal electronic marketplace.

Web site had 1.75 million hits that week, with 448,552 unique visitors—triple the usual number. The enhanced *FirstGov.gov* is truly a one-stop center for Government information and services. The site was a finalist for the *Innovations in American Government Award* administered by Harvard University's John F. Kennedy School of Government. The award is one of the most prestigious given for public service.

Streamlining Business Functions to Cut Costs

Consolidation of Resources: GSA challenges its associates to optimize value for clients and customers, ultimately leading to improved benefits for taxpayers. GSA constantly searches for options and innovative practices that make operating Government less costly without detriment to its effectiveness.

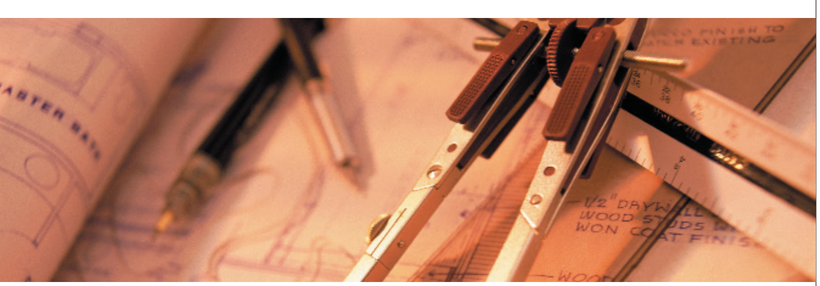
As part of its strategy to refine its business model and reshape its organization to reduce overhead costs, GSA announced in FY 2001 the closure of six of its eight supply warehouses. The closings were a logical outcome of customers' increasing reliance on a vendor-to-customer, E-commerce system. GSA consolidated the nationwide network into two facilities, one in Burlington, New Jersey, and the other in Stockton, California. GSA also split its supply and procurement business line into two units—one offering full-service supply support and the other offering self-service acquisition solutions.

Achieving Responsible Asset Management

Construction, Restoration and Renovation in the GSA Real Estate Portfolio: GSA continues to be a responsible steward of the Federal Government's extensive real estate assets. In response to the needs of the Federal Judiciary, GSA is moving forward with the largest courthouse construction program in 50 years. In FY 2001, PBS awarded construction contracts for courthouses in Laredo, Texas; Seattle, Washington; Gulfport, Mississippi; and Youngstown, Ohio. GSA also completed five more courthouses in FY 2001 in Phoenix, Arizona; Corpus Christi, Texas; Montgomery, Alabama; Albany, Georgia; and Greenville, Tennessee. GSA's courthouse building program continues to be a hallmark of excellence with courthouses in Phoenix, Las Vegas, and Central Islip, winning awards and numerous accolades.

While new construction is exciting, GSA is also renovating and preserving many of the nation's historic building treasures. Responsibly managing GSA assets is a key goal at GSA. A large part of the GSA inventory is comprised of buildings constructed between 1960 and 1980. Many buildings from this era are nearing eligibility for designation as historic structures and will require significant upgrades if they are to remain healthy and efficient workplaces. To aid in prioritizing renovation needs, GSA implemented a new survey tool. Web BER (Web Building Evaluation Report) provides an intuitive, easy-to-use approach for evaluating the condition of GSA-owned properties. The system ranks each facility's condition against industry standards and calculates the level of investment required to bring the building up to standard.

GSA works with individual agencies to accommodate their space needs. GSA is modernizing offices with new designs and technologies that help agencies better meet the needs of the public.



Maintaining a World-Class Workforce...

Investment in GSA's Human Capital: GSA's workforce, consisting of approximately 14,200 associates, is vital to keeping the Federal Government running smoothly and safely on a day-to-day basis. GSA is committed to a set of proactive strategies to create and sustain a World-Class Workforce. These strategies vary among business units, but include recruiting, in-service training, boot camps and performance incentives.

...And World-Class Workplaces

Efficient Work Environments: Just as Government has to adapt to changes in society, so too must the buildings that house Government operations. GSA works with individual agencies to accommodate their changing space needs. In pursuit of its goal for creating superior workplaces, GSA is modernizing offices with new designs and technologies that help agencies better meet the needs of the public.

Carrying Out Social and Other Responsibilities as a Federal Agency

Small Business Procurement Opportunities: As mandated by Congress, GSA ensures that minority-, small disadvantaged 8(a)-, women-, HUBZone-, veteran-, and service-disabled veteran-owned small businesses are given every opportunity to engage in the Federal procurement process. GSA maintains regional small business centers that offer procurement process counseling, training and technical assistance to thousands of small businesses nationwide. GSA's success is measured against the annual goaling program, established by Congress and administered through the Small Business Administration (SBA), where targets are set for Federal small business procurement dollars. In FY 2001, GSA awarded 38 percent of its own procurement dollars to small businesses, including nearly 12 percent to small minority-owned firms 4.6 percent to small women-owned firms, and .58 percent to small HUBZone businesses.

Disaster Assistance: Two basic expectations citizens have of their Government are protection from harm and swift, expert response when public emergencies occur. While public protection and disaster response are primary missions for other agencies, GSA shares an important responsibility in these areas because it is the caretaker of the properties and systems on which so many people depend.

The events of September 11, 2001, and their aftermath called on all the resources GSA had at its disposal. Within minutes of the attacks, GSA mobilized to join Federal, state and local officials in the rescue and recovery efforts. The agency secured more than 1.5 million square feet of warehouse and office space for the Federal Emergency Management Agency (FEMA) and displaced Federal agencies in New York City. In addition to office supplies, computer equipment and telephone service, GSA also provided 65,000 protective suits, 5,000 facemasks and 3,000 respirators for rescue workers. GSA contacted banks to increase the credit card limit for stranded Federal travelers and quickly procured 100 vehicles for the recovery effort.

The events of September 11, 2001, and their aftermath, called on all the resources GSA had at its disposal. Within minutes of the attacks, GSA mobilized to join Federal, state and local officials in the rescue and recovery efforts.

In Washington, DC, GSA found 850,000 square feet of office space, as well as computers, furniture and 2,000 office supply kits for Defense Department employees whose workspace had been destroyed in the attack on the Pentagon. Space was ready for occupancy on September 17th. GSA associates across the country put in long hours, donated blood, volunteered to backstop their exhausted colleagues and gave generously to charities assisting the victims of the September 11th attacks. GSA's industry partners also did their part in ensuring smooth delivery of services and products.

GSA's efficiency in the wake of the terrorist attacks came from years of experience in responding to hurricanes, earthquakes, wildfires, floods and other catastrophic events. As a Federal agency, GSA has a social responsibility beyond its business operations. GSA is proud to be an active participant in relief efforts whenever and wherever disaster strikes.

Conclusion

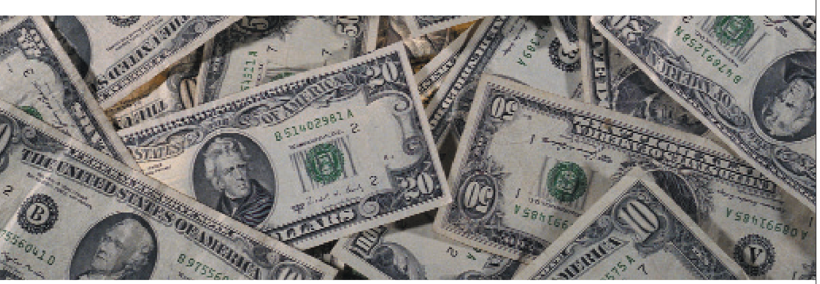
GSA is continually embarking on new projects, designing new systems and introducing new practices to enable it to better address customer needs and expectations. GSA is proud to be forging a new era of delivering quality services and products to its customers, providing value and accountability to the public and demonstrating commitment to the Federal workforce.

William B. Early

Letter from the GSA Chief Financial Officer

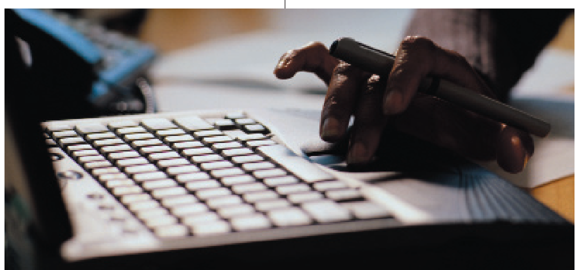
Fiscal Year 2001 was a year of continued success for the CFO team. Our independent auditors provided a "clean" opinion for the 14th consecutive year. We can all be proud of this record of sound financial accountability.

The purpose of the FY 2001 Accountability Report is to provide meaningful financial and program performance information, discuss GSA's accomplishments and most serious challenges and present our audited financial statements. In June 2001, we completed the implementation of the first phase of *Pegasys*—GSA's new integrated financial system. This first phase provided more than 6,000 GSA associates with new funds management and credit card management capabilities. The second phase of *Pegasys*, focusing on accounts payable and general ledger functionality, will be implemented by October 2002. Beginning with FY 2003, *Pegasys* will be GSA's official financial reporting system. With the full implementation of *Pegasys*, GSA will realize the benefits of a commercial-off-the-shelf product, with improved processes and standard accounting procedures. Additionally, we will be fully compliant with the Federal Financial Managers' Integrity Act requirements for use of Standard General Ledger accounts at the transactions level.



In March 2001, we concluded an assessment of GSA's existing financial management architecture that also mapped out our desired target architecture. This assessment helped us determine a strategy for delivering financial services and will help with decisions about future systems development efforts throughout the agency's financial community. As a result of the architecture assessment, the Office of the CFO has adopted a discretionary services model to provide flexible and responsive delivery of financial services. Using this model, we will deliver basic accounting services through the commercial software product and will offer additional financial management services to our internal GSA and client agency customers on a cost-reimbursable basis.

During FY 2001, GSA reached a new high mark for associate participation in the payroll Direct Deposit Program with 99 percent of GSA's 14,216 associates being paid electronically. Our goal continues to be 100 percent participation. GSA also provided payroll services to 9,794 client agency associates and we added OPM as a payroll client in October of 2001.



E-commerce plays a major role in GSA's payment functions and continues to expand. In FY 2001, GSA paid 79 percent of all invoices electronically, eight percent more than last year.

GSA's business lines continued to expand their business in FY 2001 with revenues from sales of supplies and services to Federal customers reaching $16 billion, an 11 percent increase over FY 2000. The percentage of revenues collected electronically through OPAC, the Treasury's electronic bill paying system, moved up to 88 percent in FY 2001 from 85 percent in FY 2000. However, even with the high percentage of electronic billings we still had to distribute 295,754 bills to nonparticipating customers. We are continuing to work aggressively with customers to expand their use of Treasury's electronic bill paying systems. For accounts receivable management to operate more efficiently and effectively, we need to continue reducing the manual-billing paper burden. Average monthly delinquencies declined 25 percent to $238.5 million in FY 2001.

E-commerce plays a major role in GSA's payment functions and continues to expand. In FY 2001, GSA paid 79 percent of all invoices electronically, eight percent more than last year. They account for 89 percent of the disbursement total, a six percent increase from FY 2000. The percentage of invoices GSA received electronically increased from 12 percent to 24 percent in FY 2001. Also in FY 2001, the percentage of GSA payments made on time rose to 91 percent and GSA took 91 percent of all possible early payment discounts, earning the agency $3 million.

GSA continues to make substantial progress in performance measurement and implementation of the Government Performance and Results Act. The General Accounting Office issued a highly favorable report on our most recent Performance Plan and Performance Report. We will be issuing a new Strategic Plan to reflect our enhanced Mission, Values, and Goals. Equally important, we are concentrating on the internal implementation of the Results Act, especially the improvement of performance measurement. This will focus GSA on becoming one "operating unit" instead of a loose conglomerate of separate business units. The Office of the CFO's ongoing goal is to provide top quality service and best value and I am committed to providing the financial stewardship necessary for GSA's continued success.

Respectfully,

William B. Early

Management Discussion and Analysis

While fulfilling the same mission in 2001 as it has for the past 51 years, today's GSA is as fundamentally different as the Internet-influenced information economy is different from the centralized industrial economy in which GSA was molded. Today, GSA works in different ways by:

- Outsourcing nearly 94 percent of its operational tasks through private contractors
- Vying for Federal business as a non-mandatory source of space, supplies, and services for Federal agencies
- Relying increasingly on reimbursements from other agencies for its funding, so that less than 1 percent of GSA's operating budget—$188.6 million—is directly appropriated
- Downsizing to just over a third the size it was at its peak in 1971; the GSA workforce in FY 2001 was 29 percent lower than the 1993 level.

Some of these factors have worked to GSA's advantage; others present challenges. The agency's position as provider to Federal agencies makes it able to play a major role in E-Government. It is positioned to move many of its own functions online, e.g., GSA *Advantage!*™, and to play a critical role in bringing the entire Federal Government into the information economy. GSA products, such as wireless technology, digital signature capability, smart cards and SmartPay cards, support E-Government. At the same time, other agencies have been authorized to develop and award Government-wide acquisition contracts (GWACs), which increases the pressure on GSA to perform well. Such developments make it extremely important for GSA to attend to its customers' needs and bring its underlying strengths and better prices to play in the Federal marketplace.

Management Issues

GSA continues to respond to several management issues. While some issues remain unresolved, GSA has made significant progress. The General Accounting Office (GAO), the GSA Office of the Inspector General (OIG) and the agency's outside auditors, PricewaterhouseCoopers, identified some of these issues. The following discussion addresses the major management issues facing the agency as of September 30, 2001.

Management of the GSA Federal Supply Service Distribution Centers

In July 1999, GSA began a process to transition its Government-owned and operated supply distribution network toward increased reliance on alliances with private companies. With the evolution of new acquisition and logistics tools within Government and the marketplace, GSA has positioned itself to capitalize on the increased capabilities of E-commerce systems. By Fall 2001, GSA had reduced its supply distribution sites from eight to two. The new distribution strategy increases responsiveness, breadth of items, and brand reliability of goods made available to Federal agencies.

Termination costs (severance and buyout) were calculated and accrued for $7 million. One of the closing facilities, in Palmetto, Georgia, was covered under a long term leasing agreement and the net present value of future lease payments was accrued for $26 million. Actual payments for the restructuring associates' costs will be incurred in FY 2002, and the payment for the accrued leasing agreement will be incurred over the remaining commitment period of the lease.

GSA Systems Security Development and Implementation

GSA relies on its automated information systems to perform its mission and manage its operations. The agency faces a number of security issues related to the control of existing systems and the replacement of a number of old systems.

An FY 1999 review of eight significant GSA financial management system applications disclosed weaknesses in the control and oversight systems relating to technological and physical access, access monitoring and follow up, security awareness, and information technology (IT) security program implementation and management oversight. As a result, GSA's systems remain susceptible to unauthorized access, modification or undue risk. A follow-up review during FY 2000 concluded that the control weaknesses had not been resolved. During FY 2001, GSA took the following major steps to correct these weaknesses:

- The development and funding of a new IT Security Center of Expertise
- The development and execution of an IT Security Action Plan
- The development and distribution of agency-wide IT security guidelines and procedures
- The development and implementation of procedures for performing vulnerability and risk assessments
- The monitoring of access attempts and security violations

GSA has positioned itself to capitalize on the increased capabilities of E-commerce systems and by Fall 2001, reduced its number of supply distribution sites from eight to two. The new strategy increases responsiveness, breadth of items, and brand reliability of goods made available to Federal agencies.

- The development and implementation of security awareness training for all users and systems administrators
- The monitoring and reporting of policies and guidelines for compliance by services, staff offices, and regions
- The development and implementation of guidelines for periodic review and updating of security policies and procedures by April 2002.

Another FY 1999 review of three GSA financial management systems (ITOMS, STAR, and FEDPAY) found a need for better controls over systems development and implementation processes to eliminate schedule delays and cost overruns, the need for frequent redesign, and difficulties sharing usable data between systems. The Office of the Chief Information Officer (CIO) has instituted a number of corrective actions to meet these challenges and ensure the integrity of all GSA-wide systems. These actions include establishing processes to monitor implementation of control objectives that support the IT security policy; developing and implementing procedures and processes that address, identify, analyze and manage/track changes to a system; and providing a structural methodology for applying technical and administrative direction and surveillance throughout the life cycle.

Controls Over the Accuracy of Rent Data

PBS' FY 2001 data accuracy measure concentrated on correcting missing building, lease, and space assignment data in the STAR System. That effort positively affected the health of the Federal Buildings Fund. PBS' focus on continuous improvement in maintaining the accuracy and completeness of STAR data has led to the development of a second data accuracy measure. The new measure compares a random sample of STAR data with source occupancy agreements and lease contract documents. Updated baseline data will be provided in FY 2002 and performance targets will be set annually. The results of this measure will enable PBS to assess the effectiveness of its data accuracy efforts and aid in the development of future data-improvement initiatives.

Cash Flow in the Information Technology Fund

With the explosive business growth in the Government IT market, the IT Fund often shows a very low cash balance. This is in part the result of increased business volumes and the 30-to-60-day lag time between payments to contractors and cash receipts from customers.

The Department of Defense (DoD) continues to be GSA's most problematic client. Therefore, GSA established a joint solutions team in August 2000 to address billing issues and improve communications. Through this initiative, GSA reduced the number of chargeback billings and increased the number of electronic billings to DoD. Beginning in FY 2002, GSA will bill DoD twice a month for services rendered; thus reducing the lag time between payments and cash receipts.

In addition, GSA re-engineered some of its business practices, resulting in improved customer ordering processing and improved billing accuracy. Other efforts include reducing discretionary costs, improving net operating results of the IT Fund, and improving the working capital position of the Fund to ensure financial stability.

Workforce Planning

GSA struggles with two significant problems—loss of institutional memory stemming from senior management attrition and an aging workforce eligible for retirement. As the GSA workforce has become smaller through downsizing, restructuring, buyouts, and attrition, its average age has increased to 46.5 years—slightly higher than the Government-wide average. Only five percent of GSA's workforce is less than 30 years old. By the end of FY 2005, 29 percent of the workforce will be eligible for regular retirement and an additional 23 percent for early retirement. GSA's remaining associates, including those recently hired, have shown considerable initiative in taking on all the responsibilities of the agency, and GSA scores remarkably high for employee job satisfaction. Nonetheless, the agency's continuous downsizing over the past decade has resulted in a loss of institutional memory especially in key senior management areas. This has resulted in the movement of some associates into positions of increased responsibility without adequate training or experience. The competencies that GSA will need in the future are similar to those needed today—project, acquisition, and financial management skills, as well as leadership and business acumen. GSA is addressing the "competency gap" through a comprehensive workforce planning effort that includes a nationwide recruiting strategy, college internships, leadership development, linking performance management to agency mission and goals, knowledge sharing, and use of contractors to supplement the expertise of GSA's workforce.

GSA Performance in FY 2001

GSA accomplished its mission at a high level of performance in most of its programs. Total obligations for these programs were $18 billion in FY 2001, a 12 percent increase over the $16.1 billion in FY 2000. GSA's key performance measures are in the areas of cost control, customer satisfaction, meeting socioeconomic responsibilities, and E-Government.

The differences in GSA's services and their own broad mandates make it necessary to look at a variety of measures to ascertain the agency's overall performance results. GSA identified 11 key performance measures for PBS, FSS, and FTS operations.

Key Performance Measures

	FY00 Actual	FY01 Actual	FY01 Goal
Goal 1: Promote Responsible Asset Management			
Generate a capital investment contribution of 2.5-4.5 percent of the functional replacement value (FRV) of the PBS owned inventory	3.7%*	3.5%	3.1%
Reduce the amount of non-revenue producing space in the PBS Government-owned inventory to 12 percent in FY 2001	12.2%	11.8%	12.0%
Maintain PBS building operations costs in office and office-like space to 12 percent below private sector benchmarks	17%	16%	12%
Reduce costs while expanding FSS supply and procurement support to Federal agencies, thereby reducing the cost per $100 sales by over 6 percent	$2.35	$2.36	$2.37**
Goal 2: Compete Effectively for the Federal Market			
Provide quality FTS products and services at competitive prices and achieve significant savings for Federal agencies by reducing the monthly average line rate	$19	$18	$17
Goal 3: Excel at Customer Service* **			
Improve overall PBS customer satisfaction with GSA-owned space to an overall 82 percent in FY 2002	81%*	86%	82%
Achieve a customer satisfaction rating in all PBS leases of 82 percent	80%	85%	82%
Increase customer satisfaction with FSS supply and procurement programs	72%	75%	72%
Be customer centric – reduce FTS acquisition cycle times (number of days from quote to award)	11	7	10
Goal 4: Meet Federal Social and Environmental Objectives			
Promote socioeconomic goals by increasing the proportion of dollars awarded to small and small disadvantaged businesses	N/A	38%****	38%
Goal 5: Anticipate Future Workforce Needs			
Increase the number of FSS products and services available to Federal customers via electronic systems and Internet connectivity	35%	77%	95%

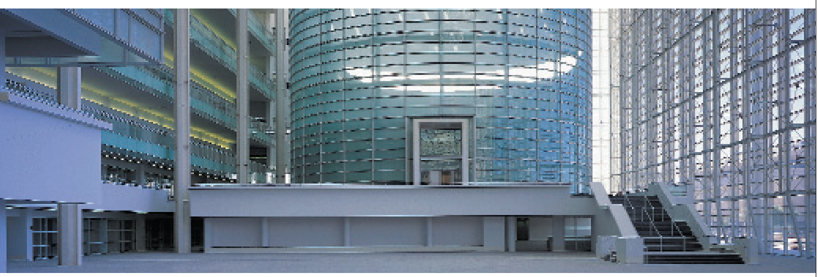
** Revised from FY 2000*

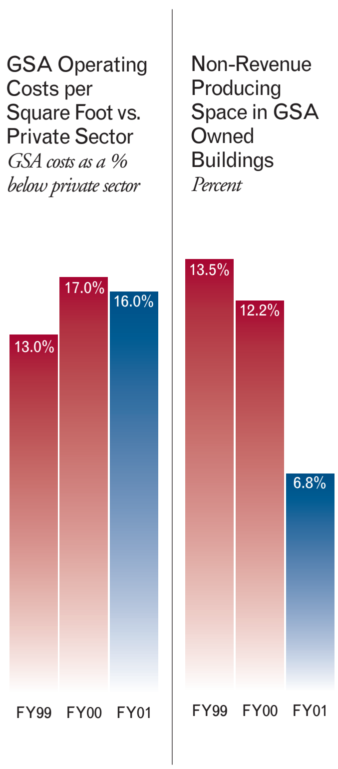
***Target of $2.37 was appropriate since FY 2001 was a period of transition and increased costs were anticipated from spliting supply and procurement into separate business lines*

**** In the past, FTS has obtained information from customers through personal visits, focus groups, telephone interviews, surveys, and other methods. The objective is to better understand customers' needs, their levels of satisfaction with FTS services and products and FTS representatives, and why they do business with FTS competitors. Past survey efforts consisted of professional surveys specifically tailored to our IT Solutions and Network Services business lines and various programs. FTS had planned to utilize this same survey effort during FTS 2001; however, FTS decided to discontinue the use of the types of surveys that it has done in the past. FTS has worked with GSA management to significantly improve its performance goals and associated measures to more accurately reflect the vision of FTS and GSA leadership. The new FTS measures provide a focus that will assist FTS in guiding the organization toward achievement of the FTS and GSA vision. This vision will be clarified through the FTS Blueprint Project, and it will include professionally developed and administered customer survey efforts as part of this effort.*

***** Confirmation data from the Small Business Administration will be available February 2002.*

U.S. Courthouse, Phoenix, AZ





The GSA Public Buildings Service's vision is to be recognized as the best public real estate organization in the world and to provide quality work environments for Federal employees, as well as superior value for the American taxpayer. Each GSA office building, laboratory, and courthouse is a symbol of American democracy, a significant public investment that must contribute to the vitality of its neighboring community. To achieve this vision, PBS improved its internal business practices by implementing accountability standards, maintaining internal benchmarks against commercial standards, and meeting financial and performance targets. By managing for results, PBS efficiently and effectively manages and maintains its workplace solutions. PBS works diligently to improve how its customers and private partners perceive GSA. PBS aims to be the provider of choice for Federal agencies, to help Federal agencies utilize real estate more efficiently, and to provide lasting value in everything it does.

To continue GSA's tradition as an innovator in design and construction, PBS' internationally recognized Design and Construction Excellence programs engage the best private sector architects, construction managers, and engineers to design and build award-winning courthouses and office buildings. This year was the tenth anniversary of the Design Excellence program, and the first time projects initiated under the program were eligible to receive Design Awards. Three new courthouses in Las Vegas, Phoenix, and Central Islip received *Honor Awards*, the highest award given.

Key Performance Measures

PBS constantly strives to improve its financial performance to save taxpayer money. One of the ways PBS measures financial results is by the implementation of a performance measurement program. One of the key measures is Funds from Operations (net income minus depreciation), which measures how efficiently regions are operating. Another measure estimates the value of space that is not producing revenue so PBS can minimize space that does not have tenants. In FY 2001, 7.7 percent of the inventory was non-revenue producing space, which is 6.8 percent of potential revenue.

Major Management Challenges

The age of buildings in the PBS inventory is a significant management concern for GSA. Over 41 percent of Government owned buildings are 50 or more years old. Of these buildings, 35 are National Historic Landmarks; 166 are on, or eligible for, the National Register at the National, State, or local level; and 74 buildings are potentially eligible for the National Register. In addition, over 150 buildings are 50 or more years old that have not been evaluated for National Register eligibility, but would likely qualify. GSA must preserve these national treasures for future generations. Obtaining the resources to manage the approximately $4.2 billion backlog of building maintenance and repair work remains GSA's biggest financial challenge. Financial resources available to PBS are well short of the capital reinvestment needs of the current portfolio. Generation of net income and funds from operations are markedly concentrated in only a portion of the owned inventory. GSA has made a commitment to Congress to institute an overall portfolio strategy to restructure the owned inventory so that it consists primarily of strong income-producing properties generating sufficient funds to meet their own capital reinvestment needs.

Over 41 percent of Government owned buildings like the Dwight D. Eisenhower Executive Office Building are 50 or more years old. Of these buildings, 35 are National Historic Landmarks, and hundreds are either on or eligible to be on on the National Register. GSA must preserve these national treasures for future generations.

Real Property Disposal

GSA is working to identify and implement strategies and tools that promote efficient use of property slated for disposal and to provide flexible options that will satisfy the needs of agencies, communities and taxpayers. GSA is part of a three-way partnership with the National Park Service and the United States Coast Guard to dispose of historic lighthouses and light stations using the National Historic Lighthouse Preservations Act of 2000. GSA was also responsible for the successful disposition of the Lorton Correctional Complex in Fairfax County, Virginia this year. GSA had both custodial and disposal responsibility for this site and was able to ensure that the majority of the property will be used for recreation and open space.

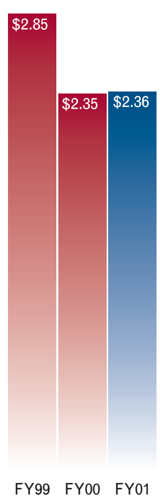
Federal Protective Service

As a building manager, GSA is vigilant about the safety and security of Federal employees and visitors to Federal properties. FPS has enhanced training for its security and law enforcement personnel, standardized security guard contracts and increased the number of Criminal Investigators and Law Enforcement Security Officers.

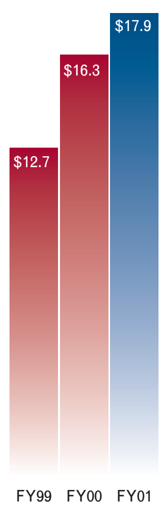
As a result of the bombing at the Murrah building in Oklahoma City and the terrorist attacks in New York and at the Pentagon, FPS intensified its efforts to protect Federal employees and buildings. To aid in Federal building threat identification, FPS implemented annual Regional Threat Assessments (RTA). An RTA is an internal management tool that examines various factors to determine the major threats to GSA buildings. In addition to increased security, GSA's Office of the Chief Architect completed a report to Congress on window glass fragmentation, developed an evaluation program of construction contractors, developed GSA standards for blast analysis, and conducted 12 construction peer reviews.

GSA Federal Supply Service

Supply and Procurement Cost per $100 Sales
Cost per $100 Sales



Supply and Procurement Business Volume
Dollars in Billions



The GSA Federal Supply Service manages the largest, most diverse and innovative Federal marketplace in the world, bringing hundreds of thousands of Federal customers together with over 9,000 contractors. FSS' total business volume in FY 2001 was approximately $19 billion (excluding Utilization and Donation cost avoidance activity which was included in previous annual report submissions). FSS programs provide customers with economical, efficient, and effective service delivery with significant savings in time and administrative costs. FSS carefully manages its procurement and supply, vehicle acquisition and leasing, travel and transportation, and property management programs, incorporating new technology and other innovations to enhance business practices and processes.

Through the organization's $16.8 billion Multiple Award Schedules Program, FSS provides customers with access to more than four million professional services and commercial products. For example, FSS offers Management, Organizational and Business Improvement Services (MOBIS) contracts that provide process improvement, problem resolution, planning surveys and project management and training services. In FY 2001, MOBIS service purchases totaled more than $1 billion. A few examples of FSS' commercial products with related services include information technology, furniture, office supplies, scientific equipment, and hardware and appliances. FSS also offers its customers full-service catalog ordering for an array of commercial items. Through FSS' commercially based, global delivery network, its supply distribution system shipped nearly nine million orders worldwide.

By leveraging more than $1 billion in annual purchasing power and cost effectively managing a fleet of more than 180,000 vehicles, FSS is able to supply economical vehicle acquisition and leasing. The Fleet maintains an extensive variety of vehicles, including 24,849 alternative fuel vehicles.

FSS' travel program offers total travel solutions, including travel agency services, discount airfares, and travel charge cards. Transportation programs include employee relocation, express small package delivery, and freight and household goods transportation services. Many transactions are now being conducted online, resulting in the elimination of paper processes, while leveraging administrative, financial, and information technology best practices.

Through the personal property disposal system, FSS redistributes excess Federal property among Federal agencies, donates surplus property to local and state governments and non-profit organizations, and sells surplus property to the public.

FSS uses its enormous buying power to achieve significant discounts. In FY 2001, FSS Airline City-Pairs contracts saved Federal agencies an average of 70 percent off the commercial value of each fare. Annual savings totaled approximately $2.8 billion.

Internet Based Services

GSA *Advantage!*™, an award-winning online ordering system with 35,000 transactions daily, offers online access to over 2.4 million services and products. In FY 2001, FSS made important enhancements to GSA *Advantage!*™ that will simplify procurements and leverage previous technology investments.

Key Performance Measures

FSS works to increase customer use of its programs to maximize service to Federal agencies and enhance taxpayer return on investment. In FY 2001, the volume of supply and procurement purchases was $17.9 billion—a significant increase from $16.3 billion in FY 2000. FSS also strives to reduce costs while expanding supply and procurement support to Federal agencies. In FY 2001, the cost per $100 sales was $2.36. FSS continues to manage its business efficiently, minimizing in-house expenses while increasing outsourced business volume.

FSS also uses its enormous buying power to achieve significant discounts. In FY 2001, FSS Airline City-Pairs contracts saved Federal agencies an average of 70 percent off the commercial value of each fare. Annual savings totaled approximately $2.8 billion. For vehicle acquisitions, FSS continued to save customers 20 percent off the invoice prices listed in the *Black Book Lease Guide*. The automotive industry recognizes the *Black Book* as the authoritative baseline for invoice and retail prices. For freight and household goods transportation services, FSS saved customers 46 percent ($53.1 million) and 54 percent ($92.5 million), respectively.

FSS actively promotes the Government's socioeconomic goals and provides support for natural disaster relief and national defense efforts. To this end, FSS reaches out to the small business community to increase its participation in Government contracting. In FY 2001, GSA awarded 78 percent (7,387) of the contracts in the Multiple Award Schedules Program to small businesses. FSS also provided over $49 million in fire suppression equipment and supplies to support the U.S. Forest Service's wild land fire-fighting efforts.

Major Management Challenges

FSS initiatives have been designed to take advantage of private sector practices, improve performance, and create a culture that encourages excellence and teamwork. In FY 2002, FSS will enhance its performance management system and cascade corporate measures down to work units. Data verification and validation issues for calculating established measurement targets are the greatest FSS management challenges.

The constant churn and turbulence within the travel and transportation sector is a continuing area of focus for FSS. Commercial transportation and shipping offerings change frequently due to emerging technologies, as well as security concerns, especially in the wake of terrorist activity within the United States. Balancing the management of these concerns with increasing customer demands for convenience and speed is a major challenge. FSS will meet this challenge with online tools and integrated solutions. End-to-end travel solutions will include online authorization and approval, electronic booking, travel agent services, and travel vouchering and payment services. Web-enabled transportation solutions will allow agencies to seamlessly integrate all transportation procurement, payment, and audit functions.

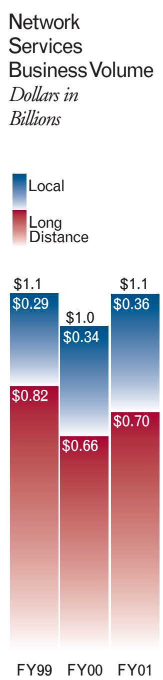
Federal agencies want customized "virtual stores" designed to reflect their preferences. The challenge is for FSS to offer this customization while satisfying acquisition regulations. In FY 2002, FSS will make this possible by linking the vast array of Multiple Award Schedule contracts through new capabilities in the upgraded GSA *Advantage!*™.

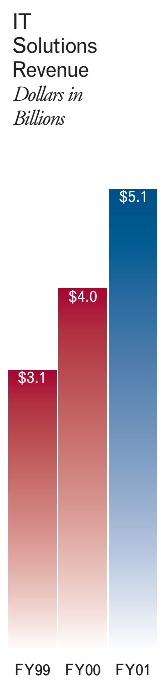
Federal agencies want customized "virtual stores" designed to reflect their preferences. The challenge is for FSS to offer this customization while satisfying acquisition regulations.

GSA Federal Technology Service

The GSA Federal Technology Service provides cost-efficient tailored solutions and world-class services to support its customers' missions worldwide. FTS provides local and long-distance telecommunications services, IT solutions, and information security services to Federal agencies and other authorized entities, such as the Native American Tribal Nations, on a fee-for-service basis.

As a customer-centric organization, FTS delivers superior customer service by fully understanding customers' requirements and delivering industry solutions. Customer Action Teams focus on supporting customers' constantly evolving missions. Using customer relationship management tools, FTS associates share customer information resulting in better customer service. At the same time, FTS provides advanced training for associates, challenging work environment, and other associate-centric initiatives.





Key Performance Measures

FTS operations are financed on a reimbursable basis through the Information Technology Fund. Less than one percent of FTS activities—only $8 million in FY 2001—are funded by congressional appropriations directly to the Policy and Operations Account of GSA. FY 2001 revenue was $6.2 billion, an increase of more than 21 percent over FY 2000.

FTS met or exceeded its FY 2001 targets for the following performance goals:

- Small business volume equaled 29 percent of prime contracts, over the 26 percent goal
- The FTS business volume as a percent of the Federal IT market was 15 percent, which meets the target of 15 percent
- The average number of days to award task and delivery orders over $2,500 from request for quotation to award was 7 days, which is faster than the goal of 10 days
- Number of industry partnerships using FTS contracts of 296, which is higher than the goal of 186
- Number of industry partnerships using other GWACs of 44, which is higher than the goal of 33
- Outbound switched voice rates of 3 cents per minute, which is lower than the goal of 3.51 cents.

FTS Business Lines

GSA's two technology business lines are Network Services and IT Solutions. There is substantial coordination and interaction between the two business lines because of the growing relationship between telecommunications and integrated IT solutions.

Network Services Business Line

GSA provides end-to-end telecommunications services, supporting local and long-distance Federal users. Network Services revenues for FY 2001 totaled $1.1 billion, slightly higher than the FY 2000 total of $1 billion. This is a significant accomplishment considering the price reductions being achieved through aggressive pricing competition by local and long distance carriers.

FTS also provides local voice and data telecommunications services to Federal agencies nationwide. FTS provides switched services through more than 400 local telecommunications systems that offer customers state-of-the-art products and services. GSA achieved significant cost savings in FY 2001 through its local telecommunications program, which primarily includes the MAA and the Washington Interagency Telecommunications System (WITS). MAA contracts deliver immediate and substantial price reductions in local telephone markets by taking advantage of increased competition as permitted by the Telecommunications Act of 1996. With MAA contracts awarded in 21 cities nationwide thus far, FTS offers customers the potential to significantly reduce costs. WITS provides up-to-date and cost-effective communications services to all Federal agencies and other authorized users in the Washington, DC, metropolitan area. WITS2001 serves 70 percent of the Federal agencies in the area. In FY 2001, WITS provided switched voice and data services to more than 349,794 Federal users.

FTS provides local voice and data telecommunications services to Federal agencies nationwide. FTS provides switched services through more than 400 local telecommunications systems that offer customers state-of-the-art products and services.

Within the long distance arena, FTS completed the transition to FTS2001 this past fiscal year. Transitioning 138 customer agencies required the execution of a complex logistics plan that included emergency procedures, planning, testing, and project management support. The FTS2001 program provides Federal agencies integrated voice, data, video, and wireless telecommunications, as well as flexible billing options and direct access to industry partners. The cost of Federal long-distance services declined from an average 27 cents per minute in FY 1988 to 3 cents per minute in FY 2001 under FTS contracts.

IT Solutions Business Line

GSA's IT Solutions (ITS) business line is a fully cost-reimbursable information technology solutions provider to Federal agencies. ITS offers virtually all types of IT products and services, primarily through contracts with private sector firms that include FTS contracts, FSS contracts, and contracts negotiated by other agencies.

The IT Solutions business line earned $5.1 billion in FY 2001 revenues, an increase of $1.1 billion over the FY 2000 level. In technology as well as in other areas, ITS is employing the effectiveness of online commerce. The IT Solutions Shop (ITSS) was established in FY 1999. This Web-based electronic purchase and order-tracking system supports approximately 1,800 customers, vendors, and FTS staff. ITSS fully automates the procurement process, allowing users to place, award, and track orders for any IT product or service over the Internet—from any place, at any time.

Office of Information Assurance and Critical Infrastructure Protection

The Office of Information Assurance and Critical Infrastructure Protection (OIACIP) is the only operational unit within FTS that is fully funded through a direct appropriation through the Policy and Operations Account of GSA, which totaled $8 million for FY 2001. This program assists the Federal community in meeting the challenges of securing operations in the open systems environment of the Internet. OIACIP programs include the Federal Computer Incident Response Center, the Federal Public Key Infrastructure Steering Committee, and Federal PKI Policy Authority/Federal Bridge Certification Authority.

Major Management Challenges

The perception that MAA Program fees are too high constitutes a major management challenge for FTS. As the cost of local service dramatically decreases, FTS overhead appears disproportionate to service cost. To attack this problem, FTS plans an independent study to evaluate costs of performing FTS-like activities and plans to initiate a campaign to raise awareness of FTS value. Improving the MAA implementation progress is also a significant challenge for FTS. FTS will continue to emphasize its cradle-to-grave support that allows agencies to concentrate on core missions. FTS will also increase its dialogue with industry, the Federal Communications Commission and State Public Utilities Commissions.

GSA Office of Governmentwide Policy

In FY 2001, the GSA Office of Governmentwide Policy's performance goals continued to center on GSA's roles in building and maintaining a policy framework, identifying best practices and providing education and training.

Federal and GSA Acquisition Policy

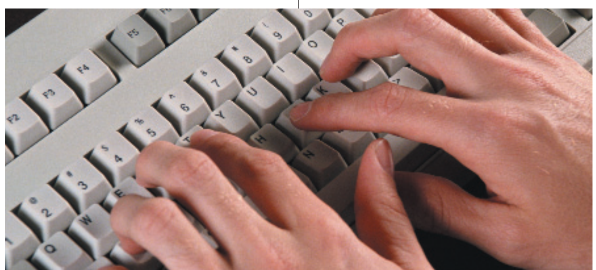
OGP conducted the first Federal Acquisition Conference, co-sponsored by the Procurement Executives Council in April 2001. New Government-wide acquisition performance measures resulted from this initiative. OGP completed phase one of a Government-wide acquisition knowledge management portal. The portal will enable acquisition professionals from both the public and private sectors to access and share various kinds of acquisition information, and promote the use of innovative acquisition processes.

OGP established the Federal Procurement Data System Reengineering Program Office to provide Federal managers with a cost-effective and reliable acquisition management information system. Performance indicators included schedule and quality of acquisition tools and timeliness and usefulness of acquisition regulations.

Electronic Government

GSA continued to promote citizen-centered electronic services by designing, prototyping and evaluating technologies to protect citizen information, as well as expanding the use of Government smart card services. OGP coordinated E-commerce initiatives across Government including authentication for online transactions using public key infrastructure interoperability between agencies; developing new technical standards; and sponsorships of electronic grants initiatives.

GSA developed *FedBizOpps.gov* to be the single source for Federal Government procurement opportunities above $25,000. Businesses now have universal Internet access to Federal business opportunities, including solicitations and other solicitation attachments. Through one portal, companies wanting to do business will be able to search for opportunities throughout the entire Federal Government. Government buyers can publicize business opportunities by posting information directly to the system. Industry can register to receive automatic notices for specific types of items or services or changes to specific notices. The site lists over 95 percent of all Federal opportunities. It received well over 5 million hits a month in FY 2001, and had over 120,000 individuals registered to receive notices. Some 40 agencies now participate in posting opportunities to *FedBizOpps*.



Through its Computers for Learning Web site, the Office of Transportation and Personal Property has facilitated transfer of more than 100,000 pieces of excess computer equipment from Federal agencies to schools across the nation.

Transportation and Personal Property

The Office of Transportation and Personal Property (OTTP) has had numerous accomplishments. OTPP's Computers for Learning Web site facilitated transfer of more than 100,000 pieces of excess computer equipment from Federal agencies to schools across the nation.

Under the guidance of OTPP, GSA joined with most of the Federal agencies that operate nonmilitary aircraft in signing an unprecedented Federal Safety Standards Agreement that promotes a comprehensive aviation safety program.

During FY 2001, OTPP rewrote a number of travel, personal property and transportation regulations. The new transportation regulations move the Government toward auditing transportation invoices before they are paid; they also move the Government toward retiring the 94 year-old Government Bill of Lading in favor of standard commercial practice, with potential annual savings of $60 million in administrative costs.

Regulatory Information Service Center (RISC)

During FY 2001, RISC continued to maintain a comprehensive Internet site on regulatory information, *Reginfo.gov*, that provides links to sources of information on Federal, state, and local regulations. These include databases and search tools for legislation and regulations, Federal agency home pages, and information about pending and recently completed Office of Management and Budget (OMB) regulations. RISC is upgrading the computer systems OMB uses to review agency regulations under Executive Order 12866, and information collection submissions under the Paperwork Reduction Act.

Management Challenges

OGP faces significant challenges in the future. The organization must clear the backlog of current acquisition regulations; gain funding for completion of acquisition tools; and effectively deal with acquisition workforce issues, including succession planning, training and education, and provision of tools. In conjunction with DoD and NASA, OGP plans to reengineer the process by which acquisition regulations are developed. OGP will establish a succession plan for GSA acquisition workforce, identify needed competencies and skills in that workforce, develop training and education to acquire those skills, and measure to determine whether the skills have been acquired and performance has been improved. OGP must also make significant strides to guide agencies toward accepting and using technology to deliver citizen services.

GSA Financial Statements

GSA Financial Statements

GSA's audited financial statements, incorporated in this Annual Report, report GSA's financial position and results of operations pursuant to the requirements of 31 U.S.C. 3515(b) and in accordance with prescribed formats. They are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and record. The statements should be read with the understanding that, as GSA is a component of the U.S. Government, its liabilities cannot be liquidated without legislation that provides resources to do so.

U.S. GENERAL SERVICES ADMINISTRATION
Office of the Inspector General

January 23, 2002

MEMORANDUM FOR STEPHEN A. PERRY
ADMINISTRATOR (A)

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

FROM: DANIEL R. LEVINSON
INSPECTOR GENERAL (J) Daniel R. Levinson

SUBJECT: **Audit of the General Services Administration's Fiscal Years 2001 and 2000 Financial Statements**

This memorandum transmits PricewaterhouseCoopers LLP's (PwC) report on its Fiscal Years 2001 and 2000 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 2001 and 2000 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. 01-02, *"Audit Requirements for Federal Financial Statements."*

PwC issued unqualified opinions on GSA's Fiscal Years 2001 and 2000 consolidated and combined financial statements and individual funds' (Federal Buildings Fund, General Supply Fund, and Information Technology Fund) financial statements. However, PwC did identify four reportable conditions concerning GSA's need to (1) improve GSA entity-wide system security management and oversight, (2) improve GSA system development, implementation, and change control efforts, (3) improve the controls over the integrity of rent data, and (4) improve the controls over the transfer of substantially complete construction in process projects.

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 2001 and 2000 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 and GSA's EDP systems;
- Reviewed PwC's audit report;
- Performed other procedures we deemed necessary.

However, due to the timing for completing the GSA Fiscal Year 2001 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 20, 2001, 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 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

In accordance with Office of Management and Budget Bulletin No. 01-02, the OIG performed the necessary audit procedures to obtain an understanding of the design and operation of internal controls over the reliability of data supporting the performance measures reported in the Management Discussion and Analysis section of GSA's Fiscal Year 2001 Annual Report. The results of this audit 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.

The OIG recognizes that progress has been made towards implementing a process to ensure GSA managers have sufficient controls over performance measure data and we have accepted the CFO's action plan describing the methodology that will be used for the Public Buildings Service. However, we believe the CFO needs to establish a plan for implementing the review process in the other Services and Staff Offices before the reportable condition can be considered resolved.

The Office of Inspector General appreciates the courtesies and cooperation extended to PwC 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.

Attachments

PRICEWATERHOUSECOOPERS

REPORT OF INDEPENDENT ACCOUNTANTS

To Mr. Daniel R. Levinson
Inspector General of the United States
General Services Administration

In our audit of the United States General Services Administration (GSA) and its three primary revolving funds, the Federal Buildings Fund (FBF), the General Supply Fund (GSF), and the Information Technology Fund (ITF), we found:

- The consolidated balance sheets of the GSA and individual balance sheets of the FBF, the GSF, and the ITF as of September 30, 2001 and 2000 and the related consolidated and individual statements of net cost, consolidated and individual statements of changes in net position, combined and individual statements of budgetary resources, and consolidated and individual statements of financing, for the fiscal years then ended are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that as of September 30, 2001, GSA maintained in all material respects effective internal control over financial reporting for the GSA, the FBF, the GSF, and the ITF; and
- No reportable instances of noncompliance with the laws and regulations we tested.

The following sections outline each of these conclusions in more detail.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the GSA and individual balance sheets of the FBF, the GSF, and the ITF as of September 30, 2001 and 2000, and the related consolidated and individual statements of net cost, consolidated and individual statements of changes in net position, combined and individual statements of budgetary resources, and consolidated and individual statements of financing, for the fiscal years then ended. These financial statements are the responsibility of GSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Also, except for the provisions of paragraph 6.f. relating to internal control over performance measures, we conducted our audits in accordance with Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. The work required by paragraph 6.f. 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. Auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

In our opinion, the consolidated, combined, and individual financial statements referred to above, present fairly, in all material respects, the financial position of the GSA, the FBF, the GSF, and the ITF at September 30, 2001 and 2000, and their net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1.F to the financial statements, the GSA, the FBF, the GSF, and the ITF implemented Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standard No. 10, *Accounting for Internal Use Software*, as of October 1, 2000.

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

We have examined management's assertion that the GSA, the FBF, the GSF, and the ITF systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring management to establish internal accounting and administrative controls to provide reasonable assurance that transactions are properly recorded, processed, 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) general laws identified in OMB Bulletin No. 01-02, and summarized to permit the preparation of the consolidating and combining financial statements in accordance with accounting principles generally accepted in the United States of America and that assets be safeguarded against loss from unauthorized acquisition, use or disposal. GSA's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02 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. Our examination was of the internal control in place as of September 30, 2001.

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.

In our opinion, management's assertion that the GSA, the FBF, the GSF, and the ITF systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring that transactions be properly recorded, processed, 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) general laws identified in OMB Bulletin No. 01-02, and summarized to permit the preparation of the consolidating and combining financial statements in accordance with accounting principles generally accepted in the United States of

America and that assets be safeguarded against loss from unauthorized acquisition, use or disposal, is fairly stated, in all material respects, as of September 30, 2001.

However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the AICPA and OMB Bulletin No. 01-02. A reportable condition is a matter coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the agency's ability to meet the internal control objectives described above. The reportable conditions we noted are that (1) GSA entity-wide system security management and oversight continue to need improvement; (2) development, implementation, and change controls over GSA's system environment continue to need improvement; (3) the controls over the integrity of rent data continue to need improvement; and (4) controls over transferring substantially complete construction in process projects need improvement.

A material weakness as defined by the AICPA and OMB Bulletin No. 01-02, 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 in amounts that would be material in relation to the financial statements being audited or to a performance measure or aggregation of related performance measures 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 four reportable conditions that follow is a material weakness as defined by the AICPA and OMB Bulletin No. 01-02.

1. GSA entity-wide system security management and oversight continue to 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 last three fiscal year financial statement audits (1998, 1999, and 2000).

During the 2001 fiscal year, GSA made progress in addressing the information protection issues raised in prior years. Specifically, the agency:

- Issued the GSA Information Technology (IT) Security Policy (CIO 2100.1) on October 20, 2000. This upgraded the policies and procedures of the Instructional Letter CIO IL-99-1 (February 1999).
- Issued the IT Security Procedural Guide – Password Generation and Protection, CIO-IT Security 01-01 on January 26, 2001.
- Issued the IT Security Procedural Guide – Security Test & Evaluation (ST&E), CIO-IT Security 01-04 on March 13, 2001.
- Issued the IT Security Procedural Guide – Developing a Configuration Management Plan, CIO-IT Security 01-05 on March 21, 2001.
- Issued the IT Security Procedural Guide – Access Controls, CIO-IT Security 01-07 on April 27, 2001.
- Issued the IT Security Procedural Guide – Audit and Monitoring, CIO-IT Security 01-08 on April 27, 2001.

Despite these accomplishments, GSA's system environment remains threatened by security and integrity exposures affecting essential elements of its distributed systems and networks. This year we identified security weaknesses similar to those we found in previous years. The detailed findings were provided to GSA management in a separate management letter. The general areas where exposures occurred include:

- Application-specific security policies and procedures
- Security administration
- Security monitoring
- Password configuration and controls
- Network and server security
- Segregation of duties

PRICEWATERHOUSECOOPERS

In our view, these exposures occurred primarily because of continuing weaknesses in the implementation and enforcement of several components of GSA's overall information security program.

The following examples provide insight into the types of weaknesses that we identified in the implementation and enforcement of GSA's information security program:

- *Information Security Management Structure* – The information security management structure does not appear to be effective in implementing and enforcing security policy, including detailed security architecture and technical standards and associated administrative and end-user guidelines and procedures.
- *Security Architecture and Technical Standards* – Network, server, and application security is inconsistently implemented throughout the services, staff offices, and regions of GSA. Minimum configuration settings have not been implemented and enforced for various platforms.
- *Administrative and End-user Guidelines and Procedures* – Security administration is inconsistently performed throughout the services, staff offices, and regions of GSA, and user guidance and procedures are not fully developed and communicated.
- *Monitoring Processes* – Security monitoring is not being performed on a consistent and effective basis throughout GSA. While access attempts, violations, and actions of powerful IDs are being monitored on select systems and from the Internet, the majority of environments we reviewed have not implemented such controls. Lack of monitoring controls allowed us to compromise several systems during our network penetration testing without being detected.
- *Enforcement Processes* – Baseline security policies and procedures set forth by the Office of the Chief Information Officer (CIO) are not enforced. Firm reporting relationships have not been established so that the CIO can accurately determine whether security policies and procedures are being followed by the services, staff offices, and regions.

These weaknesses expose GSA's resources to significant risk of unauthorized access to system resources such as data, programs, and equipment, which could lead to intentional or unintentional modification or destruction of these resources.

Recommendation

We recommend that GSA strengthen the implementation and enforcement of its information security program by performing the following actions:

- The GSA CIO needs to work with the service line CIOs, staff offices and regions, to ensure the effective implementation and enforcement of the security program. This should include, but not be limited to, the following:
  - Implementation and enforcement of technical standards for specific platforms
  - Monitoring of access attempts and security violations
  - Enforcement and reporting guidelines to ensure policies are followed by the services, staff offices, and regions
  - Guidelines for periodically reviewing and updating security policies and procedures with regard to the enforcement of those policies and procedures

Implementing and enforcing consistent security standards across the agency will help to ensure that the current and future systems environment will meet a minimum level of security. This environment includes the GSA wide-area (network) backbone maintained by the Office of the CIO, the application systems maintained by the services and staff offices, and the local area networks and smaller data centers in the regions.

2. Development, implementation, and change controls over GSA's system environment continue to need improvement.

System development and implementation efforts at GSA need improvement. Development, implementation, and change controls were reportable conditions identified during the last two fiscal year financial statement audits (1999 and 2000).

During the 2001 fiscal year, GSA made some progress in addressing the development, implementation, and change control issues raised in prior years. Specifically, the agency:

- Issued the GSA Information Technology (IT) Security Policy (CIO 2100.1) on October 20, 2000. This security policy includes a section on configuration management and addresses some security concerns inherent in development, implementation, and change control.
- Issued the IT Security Procedural Guide – Security Test & Evaluation (ST&E), CIO-IT Security 01-04 on March 13, 2001, which addresses the consideration of security during development and implementation projects.

In addition, GSA's Capital Planning Guide (CPG), which was last updated in early 2000, contains expanded documentation requirements for systems planning and management and was used during the most recent budget cycle.

Despite these accomplishments, GSA's system environment remains threatened by a lack of consistently implemented development, implementation, and change controls. GSA's agency-wide systems development life cycle (SDLC) methodology has not been updated in over 10 years.

Inadequate or inconsistent systems development and implementation controls can lead to wasted resources (time, money, staffing), unauthorized changes to applications, projects that fail to meet business needs, and also contribute to system security weaknesses.

Recommendation

The GSA CIO should:

- Continue updating the detailed agency-wide application development, implementation, and change control policies and procedures and ensure implementation and enforcement on all systems planned, in development, and in production.
- Assess and report on how well services, staff offices, regions, and their related contractors are following GSA application development and change control policies and procedures for all systems.
- Ensure that a mechanism to enforce the established procedures across the entire agency exists.

3. Controls over the integrity of rent data continue to need improvement.

In fiscal years 1998, 1999 and 2000, we found reportable conditions related to the rent data used to support the management of the FBF. We continued to find some of the same issues during fiscal year 2001. The Public Buildings Service (PBS) has begun to move forward in addressing these issues with internal teams, system enhancements for the System for Tracking and Administering Real Property (STAR), and efforts to verify STAR data.

In fiscal year 2001, PBS fully implemented its new pricing policy in all regional field offices. The new pricing policy 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 policy, we also evaluated the accuracy of data in STAR. We did note improvements from the prior years; however, we found the following:

- Rent billing terms were not always supported by occupancy agreements across regional offices.
- Instances where occupancy agreements were either not available or were not signed.
- One instance where GSA was billing a customer that did not occupy the space.

Recommendation

PBS needs to complete the following steps included in the corrective action plan currently under way for improving the integrity of its rent data:

- Use the occupancy agreements as the basis for supporting space assignments in Federally owned and leased buildings as discussed in the pricing desk guide.
- Move forward with plans to validate space in Federally owned and leased buildings, if funding from prior year carryovers becomes available.

4. Controls over transferring substantially complete construction in process projects need improvement.

In fiscal year 2001, we identified a reportable condition related to substantially complete construction in process (CIP) projects. During our testing, we noted that a number of the basic repair and alteration projects had not been transferred from construction in process to the building account at the time of substantial completion. This resulted in an understatement of depreciation expense and a misclassification between the construction in process and building line items on the balance sheet, which required adjustments to the fiscal year 2001 financial statements. The causes underlying these misstatements included regional personnel not entering completion dates in the Inventory Reporting Information System (IRIS), systems problems for archived projects, and the lack of a control procedure to identify basic repair and alteration projects substantially completed in the current fiscal year.

When a new CIP project is established, regional personnel are expected to enter all necessary information, including the expected date of completion, into IRIS. This information allows GSA central office personnel to monitor the status of construction projects. Once the project is substantially complete, the project managers need to enter the date of substantial completion in IRIS so that the project will be transferred into the building accounts in RPADS, GSA's property sub-ledger of the NEAR general ledger, to begin depreciation. However, it is common for regional personnel not to enter the expected date of completion, limiting the central office's ability to monitor project status. During our testing, we identified substantially complete projects for which the regional personnel had not entered a substantial completion date in IRIS. We also noted projects that had completion dates in IRIS but were still classified as CIP in RPADS. This can occur if the record of project completion in IRIS is archived before the weekly transfer of data from IRIS to RPADS.

GSA is aware that weaknesses in its accounting processes can lead to the failure to recognize the completion of construction projects on a timely basis. Therefore, PBS performs procedures to identify and manually adjust substantially complete projects that were not systematically moved into RPADS. For basic repair and alteration projects, PBS inquires of the regions about the status of all projects over $10,000 with no current year activity and without a completion date in RPADS. Because this inquiry is limited to those projects with no activity in the fiscal year, it will not identify many required adjustments, since projects with current year activity may be substantially complete at year-end. Thus, we noted that this process did not identify many of our sample basic repair and alteration items that were substantially completed in fiscal year 2001 and did have activity in the current year.

Recommendation

PBS should complete the following steps to improve the control procedures to reasonably assure that substantially complete CIP projects are transferred to the building account in a timely manner:

- PBS needs to review the definition of substantial completion with the regions and ensure that project managers are entering into IRIS the expected completion date at the beginning of the project and the date of substantial completion. Furthermore, PBS should communicate to regional employees the risks and ramifications of not entering completion dates in IRIS.
- To resolve the systems problem that allows projects to be completed and archived in IRIS before being transferred to RPADS, GSA should investigate the feasibility of modifying its procedures or its systems to prevent projects from being archived before the information is transferred to RPADS.
- PBS should develop a periodic control procedure for basic repair and alteration projects to identify if completion dates are not being entered on a timely basis and determine if any balances are incorrectly classified in RPADS.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02.

The managements of the GSA, the FBF, the GSF, and the ITF, are responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of GSA's, the FBF's, the GSF's, and the ITF'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 and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to GSA.

The results of our tests of compliance disclosed no reportable instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions of laws and regulations and, accordingly, we do not express such an opinion.

CONSISTENCY OF OTHER INFORMATION

Our audits were performed for the purpose of expressing opinions on the GSA consolidated and combined financial statements and the individual financial statements of the FBF, the GSF, and the ITF as of and for the fiscal years ended September 30, 2001 and 2000. The supplemental consolidating statements of operations and cash

PRICEWATERHOUSECOOPERS

flows for the years ended September 30, 2001 and 2000, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such supplemental statements have been subjected to the auditing procedures applied in our audits of the financial statements referred to above and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated and combined financial statements of the GSA and the individual financial statements of the FBF, the GSF, and the ITF as of and for the fiscal years ended September 30, 2001 and 2000.

The Management's Discussion and Analysis and the disclosures on deferred maintenance and intra-governmental balances are not required parts of the financial statements but are supplementary information required by the FASAB and OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. According to OMB Bulletin No. 01-09, reporting entities shall reconcile intra-governmental asset, liability, and revenue amounts reported in the required supplementary information with their trading partners at least annually as of the fiscal year end. GSA has not performed these reconciliations and has disclosed this in note 1.B in the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the consolidated and combined financial statements of the GSA, and the individual financial statements of the FBF, the GSF, and the ITF taken as a whole. The other accompanying information included in this accountability report, is presented for purposes of additional analysis and is not a required part of the consolidated, combined, and individual financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated, combined, and individual financial statements and, accordingly, we express no opinion on it.

* * * * *

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

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

PricewaterhouseCoopers LLP

Arlington, Virginia
December 20, 2001

U.S. GENERAL SERVICES ADMINISTRATION
Office of the Inspector General

January 14, 2002

MEMORANDUM FOR STEPHEN A. PERRY
ADMINISTRATOR (A)

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

FROM: DANIEL R. LEVINSON
INSPECTOR GENERAL (J) Daniel R. Levinson

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

This report presents the results of our review regarding the design and operation of the system of internal controls over performance measures reported in the Management Discussion and Analysis section of the General Services Administration's (GSA's) Fiscal Year 2001 Annual Report. This report also describes our audit responsibilities for conducting the performance measure review.

Scope and Methodology

The Office of Management and Budget (OMB) Bulletin No. 01-02, establishes the requirements for the auditing of Federal financial statements. This bulletin requires that agency financial statements be audited annually, by the agency Office of the Inspector General (OIG) or by an independent auditor determined by the OIG. Under a contract monitored by the OIG, PricewaterhouseCoopers LLP (PwC) performed the audit of GSA's Fiscal Year 2001 Financial Statements. However, the OIG conducted the portion of the audit related to internal controls over performance measures. During our review, we assessed the reasonableness of GSA controls concerning the existence and completeness of data supporting individual performance measures. To obtain an understanding of the controls in place, we examined current GSA Government Performance and Results Act (GPRA) reporting policy and interviewed Chief Financial Officer (CFO) officials regarding compliance with the GSA GPRA policy. We also reviewed resources produced by CFO officials that showed internal controls were in place and in operation. Our procedures were not designed to provide assurance on internal controls over individual performance measures. Therefore, we do not provide an opinion on such controls.

This audit was also conducted in accordance with Generally Accepted Government Auditing Standards.

Results of Audit

In response to last year's reportable condition, the CFO has begun implementing a process to ensure the adequacy of internal controls over performance data. The process was successfully tested in one Service with a grouping of relatively stable performance measures. However, because the remaining Services and Staff Offices are currently re-defining and supplementing their performance measures, we believe a plan needs to be established to ensure the process will be implemented in the remaining Services and Staff Offices before the Agency can attest to the adequacy of its controls over performance data.

According to OMB Bulletin No. 01-02, reportable conditions are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent deficiencies in the design or operation of internal controls that could adversely affect the organization's ability to record, process, summarize, and report performance information.

Last year, we reported that the CFO had not implemented a system of internal controls to ensure that appropriate levels of management understand and are performing the necessary reviews of performance data. Specifically, managers had not been required to assert that performance data exists and is complete nor had accountability requirements been fully implemented. During FY 2001, the CFO developed an action plan describing the process that would be utilized to assess controls over performance measure data. Surveys were issued to Agency managers to assess the adequacy of controls and procedures utilized to report the FY 2002 performance measures. Each survey inquired about the name of the program manager responsible for the performance measure, the sources of data, the degree of confidence the manager has in the data supporting the performance measure and if current written procedures exist for collecting or reporting of the data.

In addition, as part of the process a test review was conducted of the controls over Public Buildings Service (PBS) performance measures. The CFO's analysis of PBS found that a number of data entry controls have been enhanced and PBS is in the process of enhancing additional controls to the systems that provide performance management data. As such, the CFO determined that PBS had adequate controls and procedures over performance data.

We recognize that progress has been made towards implementing a process to ensure Agency managers have sufficient controls over performance measure data and we have accepted the CFO's action plan describing the methodology that will be used. However, we believe the CFO needs to establish a plan for implementing the review process in the other Services and Staff Offices before the reportable condition can be considered resolved.

Consolidating Statements of Net Cost

For the Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Millions)

	2001	2000
Federal Buildings Fund:		
Revenues:		
Building Operations - Government Owned	**$ 3,502**	$ 3,256
Building Operations - Leased	**3,507**	3,419
Expenses:		
Building Operations - Government Owned	**2,991**	2,802
Building Operations - Leased	**3,578**	3,504
Net Income From (Cost of) Operations	**440**	369
General Supply Fund:		
Revenues:		
Supply Operations	**1,266**	1,309
Vehicle Acquisition and Leasing	**1,517**	1,412
Other Programs	**19**	18
Expenses:		
Supply Operations	**1,266**	1,286
Vehicle Acquisition and Leasing	**1,417**	1,306
Other Programs	**25**	21
Net Income From (Cost of) Operations	**94**	126
Information Technology Fund:		
Revenues:		
Network Services	**1,059**	1,030
IT Solutions	**5,112**	3,982
Expenses:		
Network Services	**1,128**	1,088
IT Solutions	**5,112**	3,991
Net Income From (Cost of) Operations	**(69)**	(67)
Other Funds:		
Revenues:		
Working Capital Fund	**252**	229
GSA Operating Expense Fund	**10**	11
Other Funds	**6**	5
Expenses:		
Working Capital Fund	**246**	251
GSA Operating Expense Fund	**154**	174
Other Funds	**56**	78
Net Income From (Cost of) Operations	**(188)**	(258)
Less: Intra-GSA Eliminations:		
Revenues	**448**	449
Expenses	**471**	487
GSA Consolidated:		
Revenues	**15,802**	14,222
Expenses	**15,502**	14,014
Net Income From (Cost of) Operations	**$ 300**	$ 208

The accompanying notes are an integral part of these statements

CONSOLIDATING BALANCE SHEETS

As of September 30, 2001 and 2000
(Dollars in Millions)

	Federal Buildings Fund		General Supply Fund	
ASSETS	**2001**	2000	**2001**	2000
Intragovernmental Assets:				
Funds with U.S. Treasury (Note 1-D)	**$ 4,030**	$ 3,378	**$ 364**	$ 390
Accounts Receivable - Federal, Net (Note 7)	**324**	342	**311**	277
Prepaid Expenses and Advances - Federal	**14**	5	**12**	8
Total Intragovernmental	**4,368**	3,725	**687**	675
Inventories (Note 1-E)	**2**	3	**153**	186
Accounts Receivable - Public, Net (Note 7)	**4**	7	**17**	14
Prepaid Expenses and Advances - Public	**-**	-	**8**	-
Other Assets	**1**	1	**-**	-
Property and Equipment (Notes 1-F,2,8):				
Buildings	**19,168**	18,328	**-**	-
Leasehold Improvements	**262**	263	**9**	8
Telecommunications and ADP Equipment	**-**	-	**-**	-
Motor Vehicles	**-**	-	**3,341**	3,023
Other Equipment	**60**	60	**103**	78
Less: Accumulated Depreciation and Amortization	**(8,467)**	(7,644)	**(1,052)**	(904)
Subtotal	**11,023**	11,007	**2,401**	2,205
Land	**1,218**	1,226	**-**	-
Construction in Process	**1,455**	1,154	**6**	-
Total Property and Equipment	**13,696**	13,387	**2,407**	2,205
Total Assets	**$18,071**	$17,123	**$ 3,272**	$ 3,080
LIABILITIES AND NET POSITION				
Intragovernmental Liabilities:				
Accounts Payable and Accrued Expenses - Federal	**$ 82**	$ 76	**$ 32**	$ 14
Deferred Revenue and Advances - Federal	**52**	49	**19**	12
Intragovernmental Debt (Note 3)	**2,390**	2,455	**-**	-
Workers' Compensation Actuarial Liability (Note 1-J)	**135**	121	**33**	30
Other Intragovernmental Liabilities (Note 9)	**151**	152	**6**	6
Total Intragovernmental	**2,810**	2,853	**90**	62
Accounts Payable and Accrued Expenses - Public	**775**	735	**132**	131
Deferred Revenue and Advances - Public	**19**	13	**-**	-
Environmental and Disposals (Notes 6-B, 8-B)	**63**	102	**-**	-
Obligations Under Capital Leases (Note 2)	**293**	303	**-**	-
Annual Leave Liability (Note 1-H)	**39**	37	**16**	15
Deposit Fund Liability	**-**	-	**-**	-
Earnings Payable to U.S. Treasury	**-**	-	**-**	-
Other Liabilities (Note 9)	**140**	146	**28**	3
Total Liabilities	**4,139**	4,189	**266**	211
Net Position (Note 5):				
Cumulative Results of Operations	**13,932**	12,934	**3,006**	2,869
Unexpended Appropriations	**-**	-	**-**	-
Total Net Position	**13,932**	12,934	**3,006**	2,869
Total Liabilities and Net Position	**$18,071**	$17,123	**$ 3,272**	$ 3,080

The accompanying notes are an integral part of these statements

Information Technology Fund		Other Funds		Less: Intra-GSA Eliminations		GSA Consolidated Totals	
2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
$ 76	$ 60	**$ 421**	$ 397	**$ -**	$ -	**$ 4,891**	$ 4,225
1,514	1,405	**8**	17	**24**	34	**2,133**	2,007
8	4	**1**	3	**27**	11	**8**	9
1,598	1,469	**430**	417	**51**	45	**7,032**	6,241
-	-	**-**	-	**-**	-	**155**	189
11	28	**47**	34	**-**	-	**79**	83
1	1	**-**	-	**-**	-	**9**	1
-	-	**3**	15	**-**	-	**4**	16
-	-	**-**	-	**-**	-	**19,168**	18,328
-	-	**-**	-	**-**	-	**271**	271
169	158	**-**	-	**-**	-	**169**	158
-	-	**-**	-	**-**	-	**3,341**	3,023
76	59	**20**	16	**-**	-	**259**	213
(169)	(151)	**(11)**	(7)	**-**	-	**(9,699)**	(8,706)
76	66	**9**	9	**-**	-	**13,509**	13,287
-	-	**-**	-	**-**	-	**1,218**	1,226
1	1	**21**	-	**-**	-	**1,483**	1,155
77	67	**30**	9	**-**	-	**16,210**	15,668
$ 1,687	$ 1,565	**$ 510**	$ 475	**$ 51**	$ 45	**$ 23,489**	$ 22,198
$ 53	$ 80	**$ 82**	$ 93	**$ 24**	$ 34	**$ 225**	$ 229
282	270	**30**	14	**27**	11	**356**	334
-	-	**7**	8	**-**	-	**2,397**	2,463
11	10	**19**	17	**-**	-	**198**	178
2	2	**32**	36	**-**	-	**191**	196
348	362	**170**	168	**51**	45	**3,367**	3,400
1,060	870	**23**	21	**-**	-	**1,990**	1,757
-	-	**-**	-	**-**	-	**19**	13
-	-	**81**	107	**-**	-	**144**	209
-	-	**-**	-	**-**	-	**293**	303
11	10	**16**	15	**-**	-	**82**	77
-	-	**40**	46	**-**	-	**40**	46
-	-	**68**	54	**-**	-	**68**	54
39	36	**7**	7	**-**	-	**214**	192
1,458	1,278	**405**	418	**51**	45	**6,217**	6,051
229	287	**13**	(23)	**-**	-	**17,180**	16,067
-	-	**92**	80	**-**	-	**92**	80
229	287	**105**	57	**-**	-	**17,272**	16,147
$ 1,687	$ 1,565	**$ 510**	$ 475	**$ 51**	$ 45	**$ 23,489**	$ 22,198

CONSOLIDATING STATEMENTS OF CHANGES IN NET POSITION

For the Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Millions)

	Federal Buildings Fund		General Supply Fund	
	2001	2000	**2001**	2000
Beginning Balance of Net Position:				
Cumulative Results of Operations	**$ 12,934**	$12,518	**$ 2,869**	$ 2,701
Unexpended Appropriations	**-**	-	**-**	-
Net Position Beginning Balance	**12,934**	12,518	**2,869**	2,701
Results of Operations:				
Net Income From (Cost of) Operations	**440**	369	**94**	126
Appropriations Used (Note 1-C)	**484**	-	**-**	-
Non-Exchange Revenue (Notes 1-C, 1-G)	**-**	-	**-**	-
Imputed Financing Provided By Others	**79**	51	**21**	25
Transfer of Earnings Paid and Payable to U.S. Treasury	**-**	-	**-**	-
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	**(5)**	(5)	**22**	17
Receipts Paid and Reclassified as Payable From (To) the Land and Water Conservation Fund	**-**	-	**-**	-
Other		1	**-**	-
Net Results of Operations	**998**	416	**137**	168
Changes in Unexpended Appropriations:				
Appropriations Received	**477**	-	**-**	-
Appropriations Used	**(484)**	-	**-**	-
Appropriations Transferred From Other Agencies or Funds	**7**	-	**-**	-
Other	**-**	-	**-**	-
Net Change in Unexpended Appropriations	**-**	-	**-**	-
Ending Balance of Net Position				
Cumulative Results of Operations	**13,932**	12,934	**3,006**	2,869
Unexpended Appropriations	**-**	-	**-**	-
Net Position Ending Balance	**$ 13,932**	$12,934	**$ 3,006**	$ 2,869

The accompanying notes are an integral part of these statements

Information Technology Fund 2001	Information Technology Fund 2000	Other Funds 2001	Other Funds 2000	Less: Intra-GSA Eliminations 2001	Less: Intra-GSA Eliminations 2000	GSA Consolidated Totals 2001	GSA Consolidated Totals 2000
$ 287	$ 342	**$ (23)**	$ (2)	**$ -**	$ -	**$ 16,067**	$ 15,559
-	-	**80**	102	**-**	-	**80**	102
287	342	**57**	100	**-**	-	**16,147**	15,661
(69)	(67)	**(188)**	(258)	**(23)**	(38)	**300**	208
-	-	**184**	194	**-**	-	**668**	194
-	-	**46**	36	**-**	-	**46**	36
10	12	**15**	19	**23**	38	**102**	69
-	-	**(37)**	(19)	**-**	-	**(37)**	(19)
1	-	**11**	6	**-**	-	**29**	18
-	-	**5**	1	**-**	-	**5**	1
-	-	**-**	-	**-**	-	**-**	1
(58)	(55)	**36**	(21)	**-**	-	**1,113**	508
-	-	**188**	157	**-**	-	**665**	157
-	-	**(184)**	(193)	**-**	-	**(668)**	(193)
-	-	**9**	15	**-**	-	**16**	15
-	-	**(1)**	(1)	**-**	-	**(1)**	(1)
-	-	**12**	(22)	**-**	-	**12**	(22)
229	287	**13**	(23)	**-**	-	**17,180**	16,067
-	-	**92**	80	**-**	-	**92**	80
$ 229	$287	**$ 105**	$ 57	**$ -**	$ -	**$ 17,272**	$ 16,147

COMBINING STATEMENTS OF BUGETARY RESOURCES

For the Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Millions)

	Federal Buildings Fund		General Supply Fund	
	2001	2000	**2001**	2000
Budgetary Resources:				
Budget Authority	**$ 486**	$ -	**$ -**	$ -
Unobligated Balance, Net - Beginning Balance	**2,853**	2,535	**424**	415
Spending Authority:				
Earned Income	**6,990**	6,660	**3,471**	3,379
Change in Unfilled Customer Orders	**(9)**	424	**(144)**	87
Prior Year Recoveries	**138**	154	**11**	11
Resources Temporarily Not Available	**(651)**	(318)	**-**	-
Capital Transfers	**(70)**	(99)	**-**	-
Total Budgetary Resources	**9,737**	9,356	**3,762**	3,892
Status of Budgetary Resources:				
Obligations Incurred	**6,960**	6,822	**3,225**	3,468
Unobligated Balance - Available	**2,774**	2,067	**537**	424
Unobligated Balance - Not Available	**3**	467	**-**	-
Total Budgetary Resources	**9,737**	9,356	**3,762**	3,892
Relationship of Obligations to Outlays:				
Obligations Incurred	**6,960**	6,822	**3,225**	3,468
Less: Spending Authority from Offsetting Collections and Adjustments	**(7,119)**	(7,238)	**(3,338)**	(3,477)
Obligated Balance, Net - Beginning Balance (Note 1-L)	**779**	1,109	**(34)**	(35)
Less: Obligated Balance - Ending:				
Accounts Receivable	**309**	326	**312**	277
Unfilled Customer Orders	**1,601**	1,616	**130**	275
Undelivered Orders	**(1,884)**	(1,902)	**(82)**	(357)
Accounts Payable	**(858)**	(819)	**(188)**	(161)
Outlays	**(212)**	(86)	**25**	(10)
Components of Outlays:				
Disbursements	**6,796**	6,586	**3,461**	3,358
Collections	**(7,008)**	(6,672)	**(3,436)**	(3,368)
Less: Offsetting Receipts	**-**	-	**-**	-
Net Outlays (Note 1-L)	**$ (212)**	$ (86)	**$ 25**	$ (10)

The accompanying notes are an integral part of these statements

Information Technology Fund		Other Funds		GSA Combined Totals	
2001	2000	**2001**	2000	**2001**	2000
$ -	$ -	**$ 221**	$ 210	**$ 707**	$ 210
1,055	698	**86**	121	**4,418**	3,769
6,233	5,052	**269**	248	**16,963**	15,339
1,325	398	**17**	8	**1,189**	917
276	188	**12**	11	**437**	364
-	-	**-**	-	**(651)**	(318)
-	-	**(1)**	(11)	**(71)**	(110)
8,889	6,336	**604**	587	**22,992**	20,171
7,256	5,281	**514**	501	**17,955**	16,072
1,633	1,055	**76**	69	**5,020**	3,615
-	-	**14**	17	**17**	484
8,889	6,336	**604**	587	**22,992**	20,171
7,256	5,281	**514**	501	**17,955**	16,072
(7,834)	(5,638)	**(298)**	(267)	**(18,589)**	(16,620)
(995)	(655)	**88**	84	**(162)**	503
1,514	1,405	**7**	17	**2,142**	2,025
4,250	3,206	**1**	1	**5,982**	5,098
(3,054)	(2,360)	**(96)**	(72)	**(5,116)**	(4,691)
(1,152)	(1,256)	**(30)**	(34)	**(2,228)**	(2,270)
(15)	(17)	**186**	230	**(16)**	117
6,120	4,675	**483**	494	**16,860**	15,113
(6,135)	(4,692)	**(297)**	(264)	**(16,876)**	(14,996)
-	-	**(18)**	(22)	**(18)**	(22)
$ (15)	$ (17)	**$ 168**	$ 208	**$ (34)**	$ 95

CONSOLIDATING STATEMENTS OF FINANCING

For the Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Millions)

	Federal Buildings Fund		General Supply Fund	
	2001	2000	**2001**	2000
Resources Used to Finance Activities:				
Obligations Incurred	**$ 6,960**	$ 6,822	**$ 3,225**	$ 3,468
Less: Spending Authority From Offsetting Collections and Adjustments	**(7,119)**	(7,238)	**(3,338)**	(3,477)
Financing Imputed for Cost Subsidies	**79**	51	**21**	25
Other	**7**	(9)	**(3)**	8
Total Resources Used to Finance Activities	**(73)**	(374)	**(95)**	24
Resources Used That Are Not Part of the Net Cost of Operations:				
(Increase)/Decrease in Goods and Services Ordered But Not Yet Received	**18**	(129)	**275**	(101)
Increase/(Decrease) in Unfilled Customer Orders	**(9)**	424	**(144)**	87
Costs Capitalized on the Balance Sheet	**(1,152)**	(1,074)	**(664)**	(635)
Financing Sources Funding Prior Year Costs	**(30)**	(32)	**-**	-
Other	**(37)**	30	**16**	4
Total Resources Used That Are Not Part of the Net Cost of Operations	**(1,210)**	(781)	**(517)**	(645)
Costs Financed by Resources Received in Prior Periods:				
Depreciation and Amortization	**864**	804	**291**	265
Net Book Value of Property Sold	**12**	-	**195**	221
Other	**(3)**	-	**28**	9
Total Costs Financed by Resources Received in Prior Periods	**873**	804	**514**	495
Costs Requiring Resources in Future Periods:				
Unfunded Capitalized Costs	**(23)**	(6)	**-**	-
Unfunded Current Expenses	**(7)**	(12)	**4**	-
Total Costs Requiring Resources in Future Periods	**(30)**	(18)	**4**	-
Net (Income From) Cost of Operations	**$ (440)**	$ (369)	**$ (94)**	$ (126)

The accompanying notes are an integral part of these statements

Information Technology Fund		Other Funds		Less: Intra-GSA Eliminations		GSA Consolidated Totals	
2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
$ 7,256	$ 5,281	**$ 514**	$ 501	**$ -**	$ -	**$ 17,955**	$ 16,072
(7,834)	(5,638)	**(298)**	(267)	**-**	-	**(18,589)**	(16,620)
10	12	**15**	19	**23**	38	**102**	69
17	(12)	**(24)**	(8)	**-**	-	**(3)**	(21)
(551)	(357)	**207**	245	**23**	38	**(535)**	(500)
(694)	(39)	**(23)**	(8)	**-**	-	**(424)**	(277)
1,325	398	**17**	8	**-**	-	**1,189**	917
(27)	(20)	**(25)**	(2)	**-**	-	**(1,868)**	(1,731)
-	1	**-**	-	**-**	-	**(30)**	(31)
(4)	(5)	**18**	(3)	**-**	-	**(7)**	26
600	335	**(13)**	(5)	**-**	-	**(1,140)**	(1,096)
17	27	**4**	6	**-**	-	**1,176**	1,102
-	54	**-**	-	**-**	-	**207**	275
1	8	**-**	-	**-**	-	**26**	17
18	89	**4**	6	**-**	-	**1,409**	1,394
-	-	**-**	-	**-**	-	**(23)**	(6)
2	-	**(10)**	12	**-**	-	**(11)**	-
2	-	**(10)**	12	**-**	-	**(34)**	(6)
$ 69	$ 67	**$ 188**	$ 258	**$ 23**	$ 38	**$ (300)**	$ (208)

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:

Columbia Hospital For Women Direct Loan Financing Account
Federal Consumer Information Center 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 seven General Fund accounts of which three are funded by current year appropriations, two by no-year appropriations, and two 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, General Services Administration
Real Property Relocation

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 Receipt 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
Interest Receipts from Columbia Hospital for Women Direct Loan Financing 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 OMB Bulletin 01-09, "Form and Content of Agency Financial Statements." The American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 91, *Federal GAAP Hierarchy,* established a hierarchy of GAAP for Federal financial statements as follows:

A. Federal Accounting Standards Advisory Board (FASAB) Statements and Interpretations plus AICPA and Financial Accounting Standards Board (FASB) pronouncements if made applicable to Federal Government entities by a FASAB Statement or Interpretation;

B. FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal Government entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position;

C. AICPA Accounting Standards Executive Committee (ACSEC) Practice Bulletins if specifically made applicable to Federal Government entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB; and

D. Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal Government.

GSA's financial statements are prepared in accordance with formats prescribed in OMB Bulletin 01-09. 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 display 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 on the Statements of Net Cost.

GSA did not perform all reconciliations with trading partners required by OMB Bulletin 01-09, which requires agencies to reconcile intra-governmental income, expense, assets and liabilities, with all of its trading partners. GSA limited its reconciliations to fiduciary transactions activity.

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

On the Consolidating Statements of Net Cost, Balance Sheets, Statements of Changes in Net Position, Statements of Financing, 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.

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.

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 (less) than those reported by the Department of the Treasury at September 30, 2001, and 2000 were as follows (dollars in millions):

	2001	2000
Federal Buildings Fund	**$ (1)**	$ 2
General Supply Fund	**3**	(6)
Information Technology Fund	**(3)**	(6)
Other Funds	**5**	(7)
Total	**$ 4**	$ (17)

Funds with U.S. Treasury are primarily components of revolving funds such as the FBF, GSF, and ITF. The fund balances in the Other Funds category contains amounts in the following fund types (dollars in millions):

	2001	2000
Revolving Funds	**$ 97**	$ 80
Appropriated & General Funds	**119**	109
Special Funds	**145**	147
Deposit Funds	**39**	46
Miscellaneous Receipt Funds	**21**	15
Total Other Funds	**$ 421**	$ 397

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 $149 million and $132 million at September 30, 2001 and 2000, respectively, of which $120 million and $94 million were recorded as liabilities in the Consolidating Balance Sheets. At September 30, 2001 and 2000, the balance of Funds with Treasury that were no longer available for expenditure totaled $1 million and $4 million, respectively. Of these amounts, substantially all balances were transferred back to the Special Fund Receipt Accounts from which they were appropriated, with minor amounts returned to Treasury.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 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, 2001 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. Unobligated balances presented below may not equal related amounts reported on the Combining Statements of Budgetary Resources (CSBR), particularly for Other Funds, as this schedule presents elements of Funds with U.S. Treasury, which excludes other authorities reportable in the CSBR and includes balances in Funds that are not reportable in the CSBR (dollars in millions):

2001

	Obligated	Unobligated Balance		
	Balance, Net	Available	Unavailable	Total
FBF	$ 824	$ 2,552	$ 654	$ 4,030
GSF	(172)	536	-	364
ITF	(1,558)	1,634	-	76
Others	118	76	227	421
Total	$ (788)	$ 4,798	$ 881	$ 4,891

2000

	Obligated Balance, Net	Unobligated Balance Available	Unavailable	Total
FBF	$ 758	$ 1,836	$ 784	$ 3,378
GSF	(34)	424	-	390
ITF	(995)	1,055	-	60
Others	88	69	240	397
Total	$ (183)	$ 3,384	$1,024	$ 4,225

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, $6 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 2001 and 2000 of $10,000 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 2001, 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 2000 amounted to $103,000.

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 is generally depreciated over its 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.

In fiscal year 2001, GSA implemented FASAB SFFAS No. 10, *Accounting for Internal Use Software.* This standard requires capitalization of software development costs incurred for systems having a useful life of 2 years or more. With implementation of this standard, GSA adopted minimum dollar thresholds per system that would be required before capitalization would be warranted. For the Federal Buildings Fund, this minimum threshold is $1 million. For all other funds, it is $250,000. With implementation of this standard, costs were capitalized on GSA's Balance Sheet in fiscal year 2001 as follows: FBF - $6 million, GSF - $17 million, ITF - $1 million, Other Funds - $21 million.

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 Changes in 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 both fiscal years 2001 and 2000 were $2 million.

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 (Unaudited)

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 2001 was calculated by DOL using discount rates by fiscal year as follows: 2002 – 5.21 percent; 2003 and thereafter – 5.21percent. At the end of fiscal year 2000, the discount rates used were as follows: 2001 – 6.15

percent; 2002 – 6.28 percent; 2003 and thereafter – 6.30 percent. The actuarial liability recorded by GSA totaled $198 million and $178 million as of September 30, 2001 and 2000, 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

The Combining Statements of Budgetary Resources present GSA's budgetary results in accordance with reporting requirements prescribed in OMB Circular A-34, Instructions on Budget Execution, which identifies budgetary resources available for spending, the status of those resources, and the relationship between obligated balances and outlays (see Note 12).

2. LEASING ARRANGEMENTS

As of September 30, 2001, 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
2002	$ 2,458	$22	$ 2,480
2003	2,152	13	2,165
2004	1,875	5	1,880
2005	1,652	5	1,657
2006	1,441	5	1,446
2007 and thereafter	7,559	11	7,570
Total minimum lease payments	$17,137	$61	$17,198

Capital Leases

Fiscal Year	FBF
2002	$ 28
2003	28
2004	28
2005	28
2006	28
2007 and thereafter	396
Total minimum lease payments	536
Less: Amounts representing- Interest	(240)
Executory Costs	(3)
Total obligations under capital leases	$ 293

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 $3.2 billion and $3.1 billion for the fiscal years ended September 30, 2001 and 2000, respectively. Rent expense under all operating leases, including short-term non-cancellable leases, was approximately $3.0 billion and $2.9 billion in fiscal years 2001 and 2000, respectively.

The Consolidating Balance Sheets as of September 30, 2001, and 2000, include capital lease assets of $319 million for buildings. Aggregate accumulated amortization on such structures totaled $54 million and $43 million in those years, respectively.

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 2001 and 2000, the FFB made advance payments on the behalf of GSA totaling $22 million and $6 million, respectively. As of September 30, 2001, and 2000, $222 million and $231 million, respectively, of borrowing authority under the lease purchase program remained 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): 2002 - $105; 2003 - $86; 2004 - $56; 2005 - $40; 2006 - $35; 2007 and beyond - $1,299.

Pennsylvania Avenue Debt

The former Pennsylvania Avenue Development Corporation (PADC) originally received 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 2001 and 2000, the FFB made $2 million and $300,000, 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): 2002 - $12; 2003 - $13; 2004 - $13; 2005 - $14; 2006 - $16; 2007 and beyond - $701.

B. Direct Loan Financing Debt

In the Treasury and General Government Appropriations Act, 2000 (Public Law 106-58), Congress gave GSA the authority to sell a parcel of land in Washington D.C. to the Columbia Hospital for Women and provided for GSA to offer 30-year financing. In accordance with the budgetary requirements of the Credit Reform and Deficit Reduction Act of 1990, when financing terms were accepted for the sale, GSA borrowed an equal amount of money from the U.S. Treasury to obtain an immediate credit of cash for the amount of the sale. The note receivable and borrowing are accounted for in the Columbia Hospital for Women Direct Loan Financing Account, a fund established with the U.S. Treasury solely for this purpose. The term of the borrowing matched the 30-year term of the note. Proceeds from the note receivable from the sale will be used to liquidate the Treasury borrowing over the matching terms. The $14 million proceeds from the borrowing were deposited in the related program account (the FBF). FBF funds were then used to pay a subsidy cost of $6 million to the financing account that represents the present value differential caused by below-market interest rate provided by Congress, as well as the possible credit risk associated with the note.

On November 9, 2001 the Columbia Hospital for Women liquidated the remaining balance on the related note receivable. Accordingly, GSA expects to take action in fiscal year 2002 to retire the outstanding $7 million debt balance.

C. Schedules of Debt Arrangements

GSA's outstanding debt arrangements at September 30, 2001 and 2000 were as follows (dollars in millions):

	2001	2000
FEDERAL BUILDINGS FUND		
Purchase Contract Debt:		
Dual System:		
Participation certificates held by the Federal Financing Bank, due at various dates from November 1, 2001 through November 15, 2004, at interest rates ranging from 4.703 percent to 9.162 percent.	**$ 127**	$ 175
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.	**15**	21
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 2.416 percent to 8.561 percent	**1,479**	1,481
Pennsylvania Avenue Debt:		
Ronald Reagan Building, mortgage loans due November 2, 2026, at interest rates ranging from 5.198 percent to 8.323 percent	**769**	778
Subtotal FBF Debt	**$ 2,390**	$ 2,455
DIRECT LOAN FINANCING DEBT		
Columbia Hospital Direct Loan Financing Account	**7**	8
TOTAL GSA DEBT	**$ 2,397**	$ 2,463

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 2001, 42.1 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 both fiscal years 2001 and 2000 were $33 million.

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, 2001, 57.4 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 2001 and 2000, GSA (employer) contributions to FERS (23.3 percent of base pay for law enforcement employees and 10.7 percent for all others) totaled $45 million and $42 million, respectively. Additional GSA contributions to the TSP totaled $18 million and $17 million in those years, respectively.

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 $80,400) to SSA's Old-Age, Survivors, and Disability Insurance (OASDI) program in calendar year 2001. 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 2001. Only 0.5 percent of GSA's employees are covered exclusively by these Social Security programs. Payments to these programs in fiscal years 2001 and 2000 amounted to $41 million and $39 million, respectively.

E. Schedule of Unfunded Benefit Costs

Amounts recorded in fiscal year 2001, and 2000, in accordance with SFFAS Number 5 for post-employment benefits are as follows (dollars in millions.)

2001

	Pension Benefits	Health/Life Insurance	Total
FBF	$ 15	$ 18	$ 33
GSF	8	7	15
ITF	4	4	8
Other Funds	7	6	13
Total	$ 34	$ 35	$ 69

2000

	Pension Benefits	Health/Life Insurance	Total
FBF	$ 14	$ 17	$ 31
GSF	7	7	14
ITF	4	3	7
Other Funds	7	6	13
Total	$ 32	$ 33	$ 65

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).

GSA's Federal Buildings Fund (FBF), General Supply Fund (GSF), Information Technology Fund (ITF), Working Capital Fund (WCF), and Federal Consumer Information Center Fund (FCICF) 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 FCICF 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, 2001, and 2000, balances reported as unexpended appropriations were as follows (dollars in millions):

	2001	2000
Unobligated Balances:		
Available	**$ 40**	$ 44
Unavailable	**(3)**	11
Undelivered Orders, Net	**55**	40
Total Unexpended Appropriations	**$ 92**	$ 95

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 that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all GSA activities amounted to $5.1 billion in fiscal year 2001, and $4.7 billion in 2000.

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, of which $722 million and $1,253 million remained outstanding as of September 30, 2001, and 2000, respectively.

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, 2001 and 2000, GSA recorded liabilities in total of $161 million and $134 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. These balances are reported as Other Liabilities on the Consolidating Balance Sheets.

In addition, GSA had another $162 million and $152 million in contingencies at September 30, 2001 and 2000, 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 the Treasury. 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 $82 million and $133 million in fiscal years 2001 and 2000, respectively, of Environmental and Disposals and Other Liabilities for contingencies, which will require funding exclusively through the Judgment Fund. Of those amounts, $78 million and $95 million, result from several environmental cases outstanding at the end of fiscal years 2001 and 2000, 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 $109 million to $3.5 billion at September 30, 2001 and ranged from $174 million to $3.6 billion at September 30, 2000

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 $52 million and $68 million in fiscal years 2001 and 2000, respectively. Of these amounts $12 million and $63 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.

In the Treasury and General Government Appropriations Act, 2000 (Public Law 106-58), Congress gave GSA the authority to sell a parcel of land in Washington D.C. to the Columbia Hospital for Women and provided for GSA to offer 30 year financing at 4.25% interest for the $14 million sale amount. The property was sold under this authority in September 2000, with GSA accepting a down payment of approximately $1 million, with the balance of $13 million being financed by a note with the terms indicated above. In accordance with the budgetary requirements of the Credit Reform and Deficit Reduction Act of 1990, and FASAB Standard No. 2, *Accounting for Direct Loans and Loan Guarantees*, this note is presented at the present value of the anticipated cash flows from the note. This note receivable is accounted for in the Columbia Hospital for Women Direct Loan Financing Account. A subsidy cost of $6 million was recorded as an allowance against this note in accordance with estimates made by the Office of Management and Budget. This subsidy amount represents the present value differential caused by the below market interest rate, totaling $2 million, as well as the possible credit risk associated with the note, estimated at $4 million. In November 2001, the Columbia Hospital for Women paid the remaining balance of the note. Accordingly, the subsidy cost allowance was reversed effective for the September 30, 2001, Consolidating Balance Sheet to reflect the revised estimate.

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

	FBF		GSF		ITF		Others		Less: Intra-GSA Eliminations		GSA Consolidated Totals	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Current:												
Accounts Receivable – Billed	**$ 234**	$ 232	**$ 127**	$ 119	**$ 133**	$ 218	**$ 39**	$ 30	**$ -**	$ -	**$ 533**	$ 599
Accounts Receivable – Unbilled	**161**	163	**206**	181	**1,392**	1,215	**7**	17	**24**	34	**1,742**	1,542
Allowance for Doubtful Accounts	**(67)**	(46)	**(5)**	(9)	**-**	-	**(4)**	(4)	**-**	-	**(76)**	(59)
	328	349	**328**	291	**1,525**	1,433	**42**	43	**24**	34	**2,199**	2,082
Add: Current Notes Receivable	**-**	-	**-**	-	**-**	-	**-**	1	**-**	-	**-**	1
Subtotal Current Receivables	**328**	349	**328**	291	**1,525**	1,433	**42**	44	**24**	34	**2,199**	2,083
Noncurrent Notes Receivable (Net of Allowance of $28 million and $30 million in 2001 and 2000, respectively)	**-**	-	**-**	-	**-**	-	**13**	7	**-**	-	**13**	7
Total Accounts and Notes Receivable	**$328**	$ 349	**$ 328**	$291	**$1,525**	$ 1,433	**$ 55**	$ 51	**$ 24**	$ 34	**$2,212**	$ 2,090

8. PROPERTY AND EQUIPMENT

A. Summary of Balances

Balances in GSA's Property and Equipment accounts subject to depreciation as of September 30, 2001, and 2000, are summarized below (dollars in millions).

	2001			2000		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Buildings	$19,168	$ 8,219	$ 10,949	$ 18,328	$ 7,407	$ 10,921
Leasehold Improvements	271	222	49	271	208	63
Telecom and ADP Equipment	169	124	45	158	112	46
Motor Vehicles	3,341	996	2,345	3,023	858	2,165
Other Equipment	259	138	121	213	121	92
Total	$23,208	$ 9,699	$ 13,509	$ 21,993	$ 8,706	$ 13,287

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 $63 million and $102 million for Environmental and Disposals costs as of September 30, 2001 and 2000, respectively, for properties currently in GSA's property inventory. 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, 2001, and 2000, amounts reported on the balance sheet as Other Intragovernmental Liabilities and Other Liabilities consisted of the following (dollars in millions):

2001	FBF	GSF	ITF	Others	Total GSA Consolidated
Other Intragovernmental Liabilities:					
Workers' Compensation Due to DOL	$ 25	$ 6	$ 2	$ 4	$ 37
Deposits Held in Suspense	-	-	-	27	27
Payments Due to the Judgment Fund	126	-	-	1	127
Total	$ 151	$ 6	$ 2	$ 32	$ 191
Other Liabilities:					
Contingencies	$ 121	$ 2	$ 39	$ -	$ 162
Long-Term Lease Commitments	-	26	-	-	26
Installment Purchase Liabilities	15	-	-	-	15
Pensions for Former Presidents	-	-	-	7	7
Unamortized Rent Abatements	4	-	-	-	4
Total	$ 140	$ 28	$ 39	$ 7	$ 214

2000	FBF	GSF	ITF	Others	Total GSA Consolidated
Other Intragovernmental Liabilities:					
Workers' Compensation Due to DOL	$ 24	$ 6	$ 2	$ 4	$ 36
Deposits Held in Suspense	-	-	-	32	32
Payments Due to the Judgment Fund	128	-	-	-	128
Total	$ 152	$ 6	$ 2	$ 36	$ 196
Other Liabilities:					
Contingencies	$ 133	$ 3	$ 36	$ -	$ 172
Installment Purchase Liabilities	13	-	-	-	13
Pensions for Former Presidents	-	-	-	7	7
Total	$ 146	$ 3	$ 36	$ 7	$ 192

10. UNFUNDED LIABILITIES

As of September 30, 2001, and 2000, 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 2001 and 2000, 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 2001 and 2000, include unfunded balances totaling $108 million and $122 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, 2001, and 2000, 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):

	2001	2000
Funds with U.S. Treasury	**$ 87**	$ 90
Accounts Receivable – Public	**2**	3
Prepaid Expenses - Federal	**1**	3
Total	**$ 90**	$ 96

12. RECONCILIATION TO THE PRESIDENT'S BUDGET

Differences can occur between amounts reported in the Combining Statements of Budgetary Resources (CSBR) and similar amounts reported in the President's Budget. Balances submitted to the U.S. Treasury constitute the basis for reporting in the President's Budget. As the President's Budget will not be published until after the issuance of these financial statements, the differences identified below for fiscal year 2001 were calculated using balances reported to Treasury, since those are the amounts expected to be presented in the President's Budget. The most significant differences are due to adjustments identified during the preparation of the CSBR, which occurred after the U.S. Treasury's deadline for reporting of fund balances and budget execution results. Such adjustments to the balances reported to Treasury have been made to more fully reflect the activity for the fiscal year ended and for balances as of September 30, 2001, and 2000. Additional reconciling differences are caused by the presentation style of the President's Budget, which excludes unobligated balances and recoveries of obligated balances in expired annual appropriated funds but are appropriately included in the CSBR in the Other Funds group. Such amounts totaled $46 million and $70 million in fiscal years 2001 and 2000, respectively. Amounts reported on the CSBR that are greater or (less) than amounts reported to Treasury due to timing, are as follows (dollars in millions):

	FBF		**GSF**		**ITF**		**Others**		**Total**	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Budgetary Resources	**$(59)**	$ -	**$ (2)**	$ -	**$ 11**	$ 47	**$ 2**	$ -	**$ (48)**	$ 47
Obligations Incurred	**-**	-	**(2)**	2	**(4)**	(46)	**-**	-	**(6)**	(44)
Unobligated Balance	**(59)**	-	**-**	(2)	**15**	93	**2**	-	**(42)**	91
Obligated Balance	**53**	2	**3**	(4)	**(18)**	(99)	**-**	(14)	**38**	(115)
Outlays	**3**	(2)	**(9)**	32	**(3)**	20	**(16)**	14	**(25)**	64

13. BUSINESS RESTRUCTURING COSTS

On April 18, 2001 the GSA Acting Administrator announced that the Federal Supply Service would undergo a warehouse facility consolidation requiring the closure of two distribution centers and four forward supply points. The closing date for the distribution centers was November 2001, and for the forward supply points, October 2001.

During the interim period from closure announcement to actual closure, a phased shift of inventory from the six locations to the remaining two locations commenced. It is anticipated that all final closure actions will be completed 60 days after the November closure of the last closing facility in Palmetto, GA. The two remaining facilities located in Burlington, NJ and Stockton, CA will assume all distribution work.

The opportunity was given to all FSS associates directly affected by closures to request Voluntary Separation Incentive Payments (buyouts). Based upon those associates' intended acceptance replies, termination costs for $7 million were accrued for 247 associates. Lease liability rent costs for $26 million were accrued for the warehouse facility in Palmetto, GA, the only closing facility bound by a long-term lease agreement.

Payments for accrued associates' termination costs will be incurred during fiscal year 2002 and the Palmetto rent payments will be made over the remaining commitment period of the lease.

DEFERRED MAINTENANCE

As of the end of fiscal year 2001, 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 $4.2 billion has not yet been addressed by an ongoing PBS R&A project. For fiscal year 2002, GSA has requested new obligational authority of approximately $827 million for the R&A program.

INTRA-GOVERNMENTAL BALANCES

For fiscal year 2001, the following schedule identifies major customers of GSA's Intra-governmental revolving funds and the associated amount of sales representing over 80 percent of GSA's total consolidated revenues (dollars in millions):

Agency	Amount
Department of the Army	$ 2,201
Department of the Navy	1,677
Department of the Air Force	1,569
Department of Justice	1,511
Department of the Treasury	1,306
Judiciary	870
Social Security Administration	643
Dept. of Health and Human Services	572
Department of Defense	559
Department of the Interior	486
Department of Agriculture	438
Department of State	328
Environmental Protection Agency	320
Department of Transportation	318
Total	$12,798

The following schedule reflects accounts receivable balances owed to GSA as of September 30, 2001, from the major customers of GSA's Intra-governmental revolving funds, representing over 80 percent of GSA's total consolidated accounts receivable (dollars in millions):

Agency	Amount
Department of the Army	$ 419
Department of the Air Force	317
Department of Defense	277
Department of the Navy	276
Department of the Treasury	59
Department of Justice	48
Corps of Engineers	40
Department of State	36
Department of Energy	33
Department of the Interior	30
Depart. of Health and Human Services	29
Judiciary	27
Department of Commerce	26
District of Columbia	25
Social Security Administration	23
Department of Agriculture	23
Department of Transportation	19
Total	$ 1,707

GSA reported $3,367 million of intra-governmental liabilities on its Balance Sheet as of September 30, 2001. Of that balance, the significant elements comprising over 80 percent of the total included borrowings from the Department of the Treasury - $2,397 million (see note 3); Workers' Compensation liabilities administered by the Department of Labor - $235 million; and Judgment Fund reimbursements due the Department of the Treasury - $127 million.

Supplemental Consolidating Statements of Operations

For the Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Millions) (Unaudited)

	Federal Buildings Fund		General Supply Fund		Information Technology Fund	
	2001	2000	**2001**	2000	**2001**	2000
Operating Revenues:						
Building Rents and Services	**$ 6,983**	$6,668	**$ -**	$ -	**$ -**	$ -
Sales of Supplies	**-**	-	**1,596**	1,574	**-**	-
Information Technology Services	**-**	-	**-**	-	**6,171**	4,986
Motor Vehicle Services	**-**	-	**957**	953	**-**	-
Reimbursements	**-**	-	**-**	-	**-**	-
Other	**26**	7	**249**	212	**-**	26
Total Operating Revenues	**7,009**	6,675	**2,802**	2,739	**6,171**	5,012
Expenses:						
Cost of Supply Sales	**-**	-	**1,351**	1,322	**-**	-
Personnel Salaries and Benefits	**520**	481	**232**	220	**142**	127
Rent	**3,004**	2,905	**71**	44	**15**	13
Information Technology	**-**	-	**-**	-	**6,051**	4,840
Motor Vehicles	**-**	-	**340**	373	**-**	-
Contracted Services	**1,553**	1,459	**111**	109	**-**	-
Depreciation and Amortization	**864**	804	**291**	265	**17**	27
Utilities	**298**	264	**-**	-	**-**	-
Operating Supplies	**58**	55	**174**	162	**2**	3
Interest	**193**	198	**-**	-	**-**	1
Travel and Transportation	**25**	24	**6**	6	**7**	6
Shipping Expenses	**-**	-	**43**	54	**-**	-
Workers' Compensation Actuarial Expense	**14**	8	**3**	2	**1**	1
Other Expenses	**40**	108	**86**	56	**5**	61
Total Operating Expenses	**6,569**	6,306	**2,708**	2,613	**6,240**	5,079
Net Income From (Cost of) Operations	**440**	369	**94**	126	**(69)**	(67)
Other Results of Operations:						
Appropriations Used	**484**	-	**-**	-	**-**	-
Non-Exchange Revenue	**-**	-	**-**	-	**-**	-
Imputed Financing Provided By Others	**79**	51	**21**	25	**10**	12
Transfers of Assets and Liabilities, Net	**(5)**	(5)	**22**	17	**1**	-
Transfers and Reclassifications of Earnings	**-**	-	**-**	-	**-**	-
Other	**-**	1	**-**	-	**-**	-
Net Results of Operations	**$ 998**	$416	**$ 137**	$ 168	**$ (58)**	$ (55)

Other Funds		Less: Intra-GSA Eliminations		GSA Consolidated Totals			
				2001		2000	
2001	2000	2001	2000	Amount	Percent of Revenues	Amount	Percent of Revenues
$ -	$ -	$ 109	$ 83	$ 6,874	43.5 %	$ 6,585	46.3 %
-	-	18	24	1,578	10.0	1,550	10.9
-	-	116	117	6,055	38.3	4,869	34.2
-	-	8	8	949	6.0	945	6.7
261	234	197	217	64	0.4	17	0.1
7	11	-	-	282	1.8	256	1.8
268	245	448	449	15,802	100.0	14,222	100.0
-	-	18	24	1,333	8.4	1,298	9.1
223	217	-	-	1,117	7.1	1,045	7.3
24	25	109	83	3,005	19.0	2,904	20.4
-	-	116	117	5,935	37.6	4,723	33.2
-	-	8	8	332	2.1	365	2.6
211	226	206	238	1,669	10.6	1,556	10.9
4	6	-	-	1,176	7.4	1,102	7.7
-	-	-	-	298	1.9	264	1.9
2	2	-	-	236	1.5	222	1.6
-	1	-	-	193	1.2	200	1.4
7	7	-	-	45	0.3	43	0.3
-	-	-	-	43	0.3	54	0.4
2	-	-	-	20	0.1	11	0.1
(17)	19	14	17	100	0.6	227	1.6
456	503	471	487	15,502	98.1	14,014	98.5
(188)	(258)	(23)	(38)	300	1.9	208	1.5
184	209	-	-	668	4.2	209	1.5
46	36	-	-	46	0.3	36	0.3
15	15	23	38	102	0.6	65	0.5
11	6	-	-	29	0.2	18	0.1
(32)	(33)	-	-	(32)	(0.2)	(33)	(0.2)
-	1	-	-	-	0.0 %	2	0.0
$ 36	$ (24)	$ -	$ -	$ 1,113	7.0 %	$ 505	3.6 %

SUPPLEMENTAL CONSOLIDATING STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended September 30, 2001 and 2000
(Dollars in Millions) (Unaudited)

	Federal Buildings Fund		General Supply Fund	
	2001	2000	**2001**	2000
Cash Flows from Operating Activities:				
Net Income From (Cost of) Operations	**$ 440**	$ 369	**$ 94**	$ 126
Adjustments to Net Income From (Cost of) Operations -				
Depreciation and Amortization	**864**	804	**291**	265
Non-Exchange Revenues	**-**	-	**-**	-
Other Adjustments and Write-offs	**(3)**	27	**3**	7
(Gain) Loss on Disposal of Equipment	**(3)**	-	**42**	19
Changes in Current Assets and Liabilities -				
(Increase)/Decrease				
Accounts Receivable, Net	**21**	9	**(37)**	(3)
Inventories	**1**	1	**28**	(9)
Prepaid Expenses and Advances to Others	**(9)**	(5)	**(12)**	11
Increase/(Decrease)				
Accounts Payable and Accrued Expenses	**48**	(36)	**19**	(12)
Deposit Fund Liability	**-**	-	**-**	-
Deferred Revenue and Advances From Others	**6**	9	**7**	8
Other Liabilities	**(40)**	(35)	**30**	5
Total Adjustments	**885**	774	**371**	291
Net Cash Provided by (Used in) Operating Activities	**1,325**	1,143	**465**	417
Cash Flows from Investing Activities:				
Proceeds from Sales of Property and Equipment	**21**	-	**153**	202
Payments Received from Notes Receivable, Net	**-**	-	**-**	-
Capital Expenditures	**(1,152)**	(1,074)	**(664)**	(635)
Other	**(5)**	4	**(1)**	1
Net Cash (Used in) Provided by Investing Activities	**(1,136)**	(1,070)	**(512)**	(432)
Cash Flows from Financing Activities:				
Principal Payments Under Capital Lease Obligations	**(9)**	(7)	**-**	-
Additional Appropriated Capital, Net	**484**	-	**-**	-
Principal Payments on Long-Term Debt	**(90)**	(124)	**-**	-
Financing Sources Provided By Others	**79**	51	**21**	25
Receipts Transferred Out, Net	**(1)**	-	**-**	-
Net Cash Provided by (Used in) Financing Activities	**463**	(80)	**21**	25
Net Increase (Decrease) in Funds with U.S. Treasury	**652**	(7)	**(26)**	10
Funds with U.S. Treasury at Beginning of Year	**3,378**	3,385	**390**	380
Funds with U.S. Treasury at End of Year	**$ 4,030**	$ 3,378	**$ 364**	$ 390
Supplemental Disclosure of Cash Flow Information:				
Total Interest Paid	**$ 175**	$ 180	**$ -**	$ -
Supplemental Schedule of Financing and Investing Activities:				
Property and Equipment Acquired Under Capital Lease Obligations	**$ 3**	$ 36	**$ -**	$ -
Property Acquired Under Long-Term Financing Arrangements	**$ 24**	$ 6	**$ -**	$ -

Information Technology Fund		Other Funds		Less: Intra-GSA Eliminations		GSA Consolidated Totals	
2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
$ (69)	$ (67)	**$ (188)**	$ (258)	**$ (23)**	$(38)	**$ 300**	$ 208
17	27	**4**	6	**-**	-	**1,176**	1,102
-	-	**34**	36	**-**	-	**34**	36
1	7	**-**	-	**-**	-	**1**	41
-	28	**-**	-	**-**	-	**39**	47
(92)	(372)	**1**	1	**10**	(5)	**(117)**	(360)
-	2	**-**	-	**-**	-	**29**	(6)
(5)	(4)	**2**	11	**(16)**	(11)	**(8)**	24
163	322	**(7)**	(13)	**(10)**	5	**233**	256
-	-	**(6)**	(1)	**-**	-	**(6)**	(1)
12	54	**16**	12	**16**	11	**25**	72
5	5	**(17)**	10	**-**	-	**(22)**	(15)
101	69	**27**	62	**-**	-	**1,384**	1,196
32	2	**(161)**	(196)	**(23)**	(38)	**1,684**	1,404
-	26	**-**	-	**-**	-	**174**	228
-	-	**(5)**	1	**-**	-	**(5)**	1
(27)	(19)	**(25)**	(2)	**-**	-	**(1,868)**	(1,730)
1	(4)	**-**	(10)	**-**	-	**(5)**	(9)
(26)	3	**(30)**	(11)	**-**	-	**(1,704)**	(1,510)
-	-	**-**	-	**-**	-	**(9)**	(7)
-	-	**217**	198	**-**	-	**701**	198
-	-	**(1)**	(6)	**-**	-	**(91)**	(130)
10	12	**15**	19	**23**	38	**102**	69
-	-	**(16)**	(27)	**-**	-	**(17)**	(27)
10	12	**215**	184	**23**	38	**686**	103
16	17	**24**	(23)	**-**	-	**666**	(3)
60	43	**397**	420	**-**	-	**4,225**	4,228
$ 76	$ 60	**$ 421**	$ 397	**$ -**	$ -	**$ 4,891**	$ 4,225
$ -	$ -	**$ -**	$ -	**$ -**	$ -	**$ 175**	$ 180
$ -	$ -	**$ -**	$ -	**$ -**	$ -	**$ 3**	$ 36
$ -	$ -	**$ -**	$ -	**$ -**	$ -	**$ 24**	$ 6

Supplemental Information

Supplemental Information

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to report that the General Services Administration's (GSA's) management control and financial management systems, taken as a whole, provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act (FMFIA), Section 2 and Section 4, and the Federal Financial Management Improvement Act (FFMIA), are being achieved. The content of the enclosed FMFIA report is based on information provided by GSA's managers, as well as on advice provided by the agency's Management Control Oversight Council (MCOC). It is also based on the results of the audit of GSA's Financial Statements, which produced an unqualified opinion for the 14th consecutive year.

During the past year, two previously reported material weaknesses have been corrected. Management officials have fully implemented the schedule of corrective actions concerning the material weakness "Rent Revenue Shortfall." Regarding the material weakness "Level of Federal Protective Service Officers," the MCOC determined that the Federal Protective Service had taken sufficient corrective action and that this issue is no longer considered a material weakness. Managers have evaluated their programs and have attested that their management controls comply with the Office of Management and Budget's (OMB) Circular A-123, Management Accountability and Control. The responsible systems managers and financial management officials have evaluated GSA's financial management systems in accordance with OMB Circular A-127, Financial Management Systems.

During fiscal year 2001, management control issues surfaced from a variety of sources. The MCOC, under the chairmanship of the Deputy Administrator, examined a wide range of management issues that were brought to its attention. The Inspector General, in his role as an advisory member of the MCOC, continues to provide useful, constructive suggestions for improving the agency's management control and financial management policies and practices.

The plans and actions to correct our three material weaknesses and two remaining systems non-conformances are addressed in the enclosure to this letter. I consider none of the weaknesses reported as critical to the performance of the agency's missions.

Respectfully,

Stephen A. Perry
Administrator

Enclosure

A. Statistical Summary of Performance

Section 2, Internal Control Systems

	Number of Material Weaknesses		
	Number reported for the first time	For that year, number that have been corrected	For that year, number still pending
Prior Years	47	45	2
1997 Report	2	2	0
1998 Report	1	0	1
1999 Report	0	0	0
2000 Report	0	0	0
2001 Report	0	0	0
Total	50	47	3

Of the total number corrected, how many were corrected in 2001? 2

Section 4, Financial Management Systems

	Number of non-conformances		
	Number reported for the first time	For that year, number that have been corrected	For that year, number still pending
Prior Years	8	8	0
1997 Report	1	1	0
1998 Report	2	2	0
1999 Report	2	0	2
2000 Report	0	0	0
2001 Report	0	0	0
Total	13	11	2*

Of the total number corrected, how many were corrected in 2001? 0

**The two pending non-conformances are not considered to be significant.*

B. Material Control Weaknesses

Material Weakness	Calendar Year First Reported	Target Date for Correction in FY 2000 Report	Current Target for Correction
GSA/FPS Control Centers	1995	2001	2002
Multiple Award Schedule Program	1996	2001	2002
Security Enhancements in Federal Buildings	1998	2001	2002

GSA/Federal Protective Service (FPS) Control Centers

A study conducted of GSA's control centers disclosed significant risks related to the GSA/FPS control centers. The study indicated that, due to budgetary and personnel constraints accumulating over more than a decade, the control centers have been degraded to a point at which various systems are functioning, but raise risk and liability concerns in the ability to provide an acceptable, efficient, and effective FPS level of performance. The initial plan was to upgrade all regional control centers with state-of-the-art equipment; however, to gain economies of scale, the project has been redirected to consolidate some control centers into megacenters and establish regional dispatch centers.

All regional alarm accounts have been transferred to their respective megacenter. The telecommunications system for regions 5, 6, 7, 8, 9, 10, and 11 is installed. Funding is now available for completion of the telecommunications system for regions 1, 2, 3 and 4. Installation should be completed by February 2002. A final review to ensure that the actions taken are producing the intended results is scheduled for April 2002.

Multiple Award Schedule (MAS) Program

Federal agencies collectively acquire goods and services valued at billions of dollars annually through Multiple Award Schedule (MAS) contracts. The MAS program has several problems, which were identified by agency management and cited in General Accounting Office (GAO) and GSA Office of Inspector General (OIG) audits. First, the information that GSA receives from vendors to evaluate prices offered to the Government is not always accurate, current and complete. Second, the heavy workload in the MAS program may adversely affect the ability of contracting officers to award the most favorable prices for the Government. Third, agencies that use the MAS program may not always comply with applicable ordering procedures.

In previous years, this material weakness was reported as a high-risk area, because the solutions necessitated the involvement of the Office of Management and Budget and, perhaps, the Congress. Also, the Federal Acquisition Streamlining Act significantly altered the conduct of Federal procurement. Implementation of this law continues to be evaluated as to the effect on the MAS program.

Currently, completion of this material weakness is being tracked and corrected via OIG internal audit A83007/F/W/V98000. Other major milestones in the OIG audit and material weakness action plan call for GSA to implement several contract automation data actions. These include implementing a Contract Modification Audit Trail with the FSS-Online System and an Offer Registration System within FSS-Online and preparing a revised action plan to establish goals by June 2002.

Security Enhancements In Federal Buildings

Improvements are needed in GSA's implementation of security equipment and structural enhancements recommended by the Building Security Committees. The lack of programmatic controls and approaches has resulted in concerns over the implementation and reported status of security countermeasures and the use of designated security upgrade funds for projects that: (1) did not involve a Committee-recommended countermeasure, and (2) lacked Central Office approval.

Since this material weakness was identified in FY 1998, GSA has taken a number of steps to implement security countermeasures and accurately report their costs. All corrective actions are due to be completed by September 2002.

Actions Completed to Correct Rent Revenue Material Weakness

The PBS Commissioner reported in his fiscal year 2001 Assurance Statement that all actions were implemented to correct deficiencies related to rent revenue income projections. PBS adopted a new billing system–the System for Tracking and Administering Real Property (STAR) - with the implementation of a new billing module in June 1998.

A budget-estimate module was implemented on-line in May 2000 and a rent-forecasting module in fiscal year 2001. Since 1997, PBS' final revenue collections were within two percent of the projections made at the start of each year.

Actions Completed to Correct Level of Federal Protective Police Officers: The Management Control Oversight Council met in November 2001 and reviewed the status of this weakness and the actions taken to correct the weakness. After review, the Council determined that a material weakness no longer exists with the level of Federal Protective Police Officers (FPPO's). This determination is based upon several factors, including Congressional repeal of a specified number of FPPO's under Public Law 105-61, FPPO resource levels are determined on a regular basis by individual facility security surveys and Regional Threat Assessments, a decreasing crime trend, and an emphasis on multi-skilled Law Enforcement and Security Officers (LESO's).

The material weakness originally existed because the number of FPPO's did not meet the requirements that existed at the time for Public Law 100-440, which stated, "The Administrator of the General Services is authorized and directed to hire up to and maintain an annual average of not less than 1,000 (full time equivalent) positions for Federal Protective Police Officers." However, Congress repealed the 1,000 FPPO level requirements under Public Law 105-61 (signed by the President on October 10, 1997).

In fiscal year 2001, FPS reports that security resources are now allocated based on individual facility security surveys and Regional Threat Assessments that are conducted on a regular and reoccurring basis. Also, a decreasing crime trend and a new emphasis on the use of multi-skilled Law Enforcement Security Officers (uniformed personnel trained in both law enforcement and physical security competencies) has mitigated this material weakness.

C. Systems Non-Conformances

As required by Section 4 of the FMFIA and the FFMIA, GSA conducts an annual evaluation to determine whether its financial management systems comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

Based on all review work performed during 2001, it is our conclusion that GSA is in substantial compliance with the requirements referred to in Section 4 of the FMFIA and the FFMIA, notwithstanding the two reportable non-conformances noted below. The two non-conformances listed below are not considered to be significant, therefore the non-conformances do not warrant a remediation plan to be prepared in consultation with OMB.

Entity-wide System Security Management and Management Oversight

During the past four years, a review of several significant GSA financial management system applications disclosed control weaknesses relating to logical and physical access, access monitoring and follow up, security awareness, and related IT security program implementation and oversight. In the absence of such controls and oversight systems, IT system resources remain susceptible to unauthorized access, modification or undue risk.

During 2001, significant progress was made to improve security training and provide more consistency in GSA's security posture by issuing configuration guidelines. Despite these improvements, GSA still needs to more effectively implement and enforce its existing security policies and guidelines. To address this challenge, GSA has begun to update its IT security management structure and will codify this change in a revised security policy that will be drafted by January 2002. All actions to improve IT security governance within GSA will be completed by March 31, 2002.

In addition, the Office of the Chief Information Officer (CIO) will work with the Service-level CIO's to establish a common enterprise management system, which is needed to provide the necessary automation to monitor security configurations. The planned target date to identify all additional actions needed to correct this condition is March 2002.

System Development, Implementation and Change Controls

During four of the past five years, a review of several GSA systems disclosed that better controls were needed relating to systems development and implementation processes within the agency. Specific improvements needed relate to the need to establish and enforce more uniform policies and procedures relating to application development, implementation and change control.

During the past year, GSA has made progress in this area. Specifically, the CIO has reviewed the existing systems development policies and procedures and has determined that changes are necessary to strengthen and improve GSA's agency-wide process. The next step planned is to coordinate the modification, development and implementation of change control policies and procedures pertaining to creating or modifying system applications with all GSA components.

To further address this issue, GSA's CIO plans to establish an agency-wide System Life Cycle Development process for systems planning, acquisition, development and deployment.
Once all planned actions are completed, we believe that this condition will be corrected by June 2002.

D. Summary of Additional Issues

Identified below are four issues that surfaced during fiscal year 2001 which merit disclosure in this year's FMFIA report. However, these issues were not considered by GSA's Management Control Oversight Council to be material weaknesses.

Background Checks of Contract Employees

GSA needs to improve it controls to ensure timely background checks of contract employees. In several reports issued between FY 1999 and FY 2001, the OIG noted recurring problems related to contract service personnel such as cleaning staff and maintenance workers not undergoing the required background checks. In a follow-up review on a previously reported material control weakness regarding background checks for childcare employees, the OIG found improvement in the number of checks that were made. However, the OIG noted that the process could be further improved by ensuring that the background checks were completed on a timelier basis.
GSA officials are continuing to meet to discuss such possible solutions as modifying contract vehicles to ensure adequate background checks are performed.

Contract Administration Activities

The OIG issued several reports detailing weaknesses in the controls over service and construction contracts. In particular, the OIG found that quality control programs were not developed to monitor contractor performance and preventative maintenance schedules, and that on site supervisors were present in all buildings. In one OIG audit, the report noted 13 out of 47 construction projects were delivered at least a month late. Also, completed construction work was not always inspected and receiving reports were not consistently prepared.

GSA has implemented and continues to implement action plans to correct deficiencies noted in the OIG audit reports. Additionally, GSA officials agreed to explore performance-based contract vehicles to address the problem GSA-wide.

Use of Credit Cards

In past FMFIA reports, the OIG has expressed concerns about the controls over payments made by GSA Services and Staff Offices related to credit card purchases. Despite these concerns questions continue to arise regarding procurements made with credit cards. In fiscal year 2001 the OIG noted examples of items purchased with credit cards that were not procured in compliance with procurement regulations.

While the Office of the Chief Financial Officer has taken steps to inform users about the Agency's credit card policies (i.e. issued guidance and conducted ethics briefings), OIG reviews continue to uncover instances where credit card policies are not being followed. The OIG found that the required logs and supporting receipts of purchases were not being properly maintained, sales tax was improperly included on credit card purchases and "purchase" cards were inappropriately used for travel expenses. In addition, cardholders routinely bought office products at higher prices than those offered on GSA Advantage, appropriate approving officials were not assigned to approve credit cardholders transactions, and approving officials were not required to review travel receipts when approving travel vouchers.

GSA management and OIG are continuing to work together in correcting this problem, including issuance of guidance, ethics briefings and training, and implementation of action plans to correct deficiencies noted in OIG audit reports. Also, GSA will explore increasing the emphasis on the role and responsibilities of managers for reviewing credit card transactions.

Multiple Award Schedule Pricing Practices

In an OIG special report, the OIG expressed concern that, as the MAS program has grown, program fundamentals including pricing objectives and other pricing tools have been marginalized. These fundamentals include the mandate for most-favored customer pricing, the requirement to perform meaningful price analysis when awarding or extending contracts, and the use of pre-award audits to assist in negotiating contracts. The OIG's review of three MAS schedules with expected purchases of $7.4 billion found that Most Favored Customer (MFC) pricing was achieved in only 10 of 31 contracts. In four contracts, the OIG could not determine whether MFC pricing was achieved. With regard to price analysis, the OIG found that in 44 of 80 contract extensions the price analysis was inadequate to support the extension.

Finally, the OIG believes the reduction in the number of pre-award contract audits requested by Contracting Officers significantly reduces the likelihood that MFC pricing is achieved. In FY 1990, 211 pre-award audits were conducted compared to only 23 in FY 2000. From 1990 to 1996 Contracting Officers used audit-developed information to lower MAS prices by over $618 million. From 1997 to 2000 audit developed data was used to lower MAS prices by only $98 million.

Currently, plans are in place for FSS and the OIG to form a task group to address pricing concerns.

U.S. GENERAL SERVICES ADMINISTRATION
Office of the Inspector General

December 13, 2001

MEMORANDUM FOR STEPHEN A. PERRY
ADMINISTRATOR (A)

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

FROM: DANIEL R. LEVINSON
INSPECTOR GENERAL (J)
Daniel R. Levinson

SUBJECT: GSA's Major Challenges

Attached is a copy of our office's updated assessment of the major challenges currently facing GSA. The Reports Consolidation Act of 2000, Pub. L. 106-531, requires that Offices of Inspectors General (OIG) prepare, for inclusion in agency Accountability Reports, a statement summarizing what the Inspector General considers to be the most significant management and performance challenges facing the agency and briefly assessing the agency's progress in addressing those challenges. The Act requires that OIGs provide agency heads with the assessment 30 days before the due date of the Accountability Report.

The Chief Financial Officer has set a goal of forwarding the Accountability Report to OMB by January 17, 2002. We are hereby providing you with our assessment to afford you the opportunity to review and prepare any comments you wish to append.

If you have any questions or wish to discuss this, I would be happy to meet with you.

Attachment

Protection of Federal Facilities and Personnel

Issue

Providing a safe, healthful, and secure environment for over 1 million workers and the visitors to over 8,300 owned and leased Federal facilities nationwide is a major multifaceted responsibility of GSA. The increased risks from terrorism have greatly expanded the range of vulnerabilities traditionally faced by building operations personnel. The challenge facing GSA is a difficult one: the need to ensure appropriate and effective security to protect Federal facilities, employees, and the public, while also ensuring that our buildings and institutions remain open and accessible in keeping with the character of a free society.

OIG Work Completed

Since 1996, the OIG has issued more than 25 audit reports and special alert reports addressing various aspects of the physical security program. The results, especially in our earlier efforts, frequently reported systemic operating shortcomings. Some of the areas covered by these reviews were contract security guards, countermeasures, childcare center security, access to Government facilities, and intelligence sharing. At the same time, we performed more than 170 related investigations. GSA management has been responsive to our findings and has implemented many corrective actions and enhancements. Our office and GSA management, however, are aware that the safety and security programs still face many challenges—challenges that have been greatly expanded in nature and dimension by the terrorist attacks of September 11, 2001.

Agency Actions

In FY 2000, the FPS introduced a risk assessment methodology, Federal Security Risk Manager (FSRM), to address potential threats to Federal facilities. This methodology was designed to link threats, risk levels and countermeasure (CM) recommendations; and address vulnerabilities and impact of loss should an incident occur. The desired goal is to reduce threats at each facility through specific CMs to address the risks. We have tested the FSRM Program and have identified some implementation shortfalls, which FPS is working to overcome.

OIG Work In Process

We are currently conducting a review of the FPS Federal Security Risk Program to assess how the FPS is implementing the new risk assessment methodology mentioned above. We expect to issue our formal report during the second quarter of FY 2002.

OIG Work Planned

Our FY 2002 Audit Plan includes, at the request of the Administrator and senior PBS managers, a major reevaluation of the measures the FPS has taken over the past several years to strengthen and upgrade the buildings security program. In light of recent events, this review will be expedited and the scope will be expanded to include all regions.

Management Controls

Issue

Multiple management controls have been replaced, through reinvention initiatives, by fewer and broader controls, making it essential that the remaining controls be emphasized and consistently followed.

Procurement: Management has been emphasizing the use of purchase cards as a means of streamlining the procurement process. Individuals can charge any amount up to their spending authority. The Agency encouragement to use purchase cards whenever possible significantly heightens the importance of adequate controls for purchase card transactions.

Our concerns encompass whether speedy procurement is being attained at the expense of appropriate regulatory requirements and good internal controls, whether charge cards are being used solely for appropriate Government purchases, and whether GSA is getting the best price.

Data Integrity: In passing the Government Performance and Results Act of 1993 (Results Act), Congress emphasized that the usefulness of agencies' performance data depends, to a large degree, on the reliability and validity of those data. Past audit work has shown that the absence of controls or the non-compliance with existing controls has resulted in poor quality data at the operational levels of many GSA programs.

OIG Work Completed

We have conducted several recent reviews specifically designed to test management controls. However, the majority of control evaluations were part of larger examinations of Agency programs and functions, many of which utilize the charge cards for purchases, travel or fleet services. From April through September 2001, we also conducted 51 investigations involving alleged abuses of the SmartPay charge card program. These investigations were conducted cooperatively with card issuers, Federal agencies (including the Secret Service and FBI), as well as state and local law enforcement agencies. The allegations included employees not complying with card usage guidelines and making unauthorized personal purchases, as well as frauds by Government employees and others through the theft or misuse of charge card account checks or numbers. From these reviews, we concluded that management is not consistently applying controls that will help deter fraud and misuse.

Agency Actions

GSA's CFO is aware of the importance of adequate controls for charge card transactions and is working with our office to strengthen those controls. In November 2000, representatives from the OIG Offices of Audits and Investigations, the CFO, and Citibank (the VISA card issuing Bank) formed a team to establish a process to enhance the detection and prevention of improper purchase and travel card activity by GSA cardholders. The team's objective is to develop a highly effective, low cost detection/prevention program that will serve as a model for other Federal agencies.

After we completed another review of the purchase and travel card controls within the FTS Heartland Region, the Assistant Regional Administrator for FTS issued a memo to all regional associates detailing our concerns and asked the associates to take immediate corrective action, including requesting that approving officials carefully review travel vouchers and monthly statements for purchases to ensure prudent usage of charge cards.

OIG Work In Process

We are currently reviewing the purchase and travel card controls in the FTS, Rocky Mountain and Mid-Atlantic Regions.

OIG Work Planned

Our Fiscal Year 2002 Audit Plan includes reviews to:

- evaluate the controls in place over refunds by the banks awarded contracts under the SmartPay Program;
- examine the controls in place over cardholders' ordering and acceptance of goods and services;
- assess the practices of approving officials and the cardholders whose transactions they are to review; and
- determine whether financial controls over the FEDSIM Program are effective and operating efficiently to meet objectives.

Information Technology

Issue

GSA's challenges in this area continue to increase. GSA relies on its automated information systems to perform its mission and manage its operations. Many of these systems process and store sensitive information such as personal employee data and contractors' proprietary information.

Systems Development: GSA is in the process of replacing a number of its old systems, in keeping with technological advances. Many of the IT projects are designed to go beyond automating current business functions and create real change in the way that GSA does business. However, GSA has experienced recurring difficulty in deploying and maintaining structured system development practices that ensure the proper development of requirements as well as implementation of prescribed system processes through approved systems development life cycles. As a result, GSA systems commonly experience schedule delays and cost overruns, need frequent redesign, have difficulty sharing usable data between systems, and spend a prolonged period of time in development.

Many GSA IT projects attempt to minimize development cost and deployment schedules by developing systems based on already existing Commercial-Off-The-Shelf (COTS) software. COTS solutions offer agencies the ability to forgo lengthy development of core system functionality, and the ability to adhere to industry information processing standards. However, the majority of COTS solutions do require modifications to meet unique Federal requirements. Moreover, new systems require interfaces with existing systems that are difficult to implement. Reviews by our office have shown this to be the case with GSA's *Pegasys* system, the foundation of which is a COTS financial management product. *Pegasys* will replace the National Electronic Accounting and Reporting (NEAR) system as GSA's financial system of record. We found similar difficulties with the implementation of STAR, PBS' new management information system. Major system development efforts can rapidly grow in cost and complexity unless management consistently provides comprehensive oversight.

Information Technology Security: The Government Information Security Reform Act (GISRA) focuses on the program management, implementation, and evaluation aspects of Federal information systems security. With the OIG's first annual GISRA Information Security program evaluation, we found that GSA faces a significant management challenge to ensure that systems continue to operate as intended, agency assets are protected, and privacy is assured.

OIG Work Completed

Since the beginning of Fiscal Year 1998, our office has performed 18 IT-related reviews. We have evaluated the Agency's Year 2000 conversion efforts; security of Local Area Networks and electronic commerce; the PBS Electronic Acquisition System; STAR; implementation and contract administration of *Pegasys*; the Integrated Task Order Management System; Smart Card and Seat Management initiatives; the FTS Millennia Program, FEDdesk; GSA's Critical Infrastructure Protection Plan; the Agency's activities related to "cookies." We also performed a review of GSA's Agency-wide information security program, as required by GISRA of October 2000

Agency Actions

The CIO has tasked the new Center of Expertise on IT Security to provide a more substantial leadership role in ensuring electronic commerce systems security.

The CFO is working with the Office of Acquisition Policy to determine ways to introduce performance-based contracting methods into the *Pegasys* contracting process. Additionally, the CFO has taken positive steps to gain better control over the development and implementation process, and has engaged Government consultants and commercial sources to assist in the identification of steps that can be taken to gain better control over the cost and timeliness of the project.

OIG Work-In-Process

Another review of the *CFO's Development of the Pegasys System* has been completed and the report is forthcoming. The report will concentrate on the Re-scoping of the Pegasys effort and its effects, system architecture and migration strategy, implementation and recurring system incidents, and integration with GSA's existing older systems.

OIG Work Planned
Our FY 2002 Audit Plan includes the following reviews:
- GSA's Electronic Mail System;
- GSA's Implementation of the Clinger-Cohen Act;
- GSA's Connectivity Infrastructure;
- Recurring System Development Issues;
- Government Information Security Reform Act
- Comprehensive Human Resources Integrated System (CHRIS);
- GSA's Office of *FirstGov;* and
- PBS' Systems Development Center.

Procurement Activities

Issue
GSA provides Federal agencies with products and services valued in the billions through various types of contracts, two of the most prevalent types being the Multiple Award Schedule (MAS) Program and Multiple Award Contracts (MACs).

The MAS Program provides Federal agencies with a simplified procurement process for the purchase of a diverse range of commercial supplies and services from multiple vendors at prices associated with volume buying. GSA administers over 110 schedules that produced sales of $13.8 billion in FY 2000 alone; and the volume is expected to continue to grow.

Our Office is concerned that, as the MAS program has grown, the importance of certain program fundamentals—including pricing objectives and other pricing tools—has diminished. These fundamentals, which are set out by regulation, include the mandate for most-favored customer pricing, the requirement to perform meaningful price analysis when awarding or extending contracts, and the use of pre-award audits to assist in negotiating contracts.

MACs are appropriate when the Government cannot predetermine, above a specified minimum, the precise quantities of supplies or specific services that will be required during the contract period. GSA competitively awards, using source selection procedures, multiple contracts covering the same scope of work and then, as needs are identified for specific tasks and products, the agencies compete the task/delivery orders among the contract holders. The use of multiple award contracts is encouraged by the Federal Acquisition Streamlining Act of 1994 to promote best value and the fair opportunity for contract awardees to compete among themselves. The competition is intended to lower prices, obtain better quality, reduce delivery time, and improve customer service.

OIG Work Completed
During FY 2001, our office completed a review of FSS' contracting for services under MAS contracts, which showed that FSS is supporting Federal Acquisition Regulation changes that will require agencies using the services schedules to attempt to obtain better-than-negotiated pricing on large procurements. We also completed a review of the operations of FSS' Hardware SuperStore. We found that FSS' efforts to improve contracting have yet to alleviate MAS pricing concerns. Finally, on August 24, 2001, we issued an OIG white paper, titled "MAS Pricing Practices: Is FSS Observing Regulatory Provisions Regarding Pricing?" This paper reported to management that: (1) FSS is not consistently negotiating most favored customer prices; (2) many MAS contract extensions are accomplished without adequate price analysis; and (3) pre-award audits are not being used effectively to negotiate better MAS prices.

Agency Actions / OIG Work-In-Process
We are participating with FSS on a working group to review current MAS procurement practices, and look at any needed enhancements to program pricing activities. The group will be comprised of representatives from the Offices of Acquisition Policy, General Counsel, FSS acquisition, and the Office of Inspector General.

As a result of our review of FTS Use of Multiple Award, Indefinite Delivery Indefinite Quantity Contracts, GSA is working with an interagency committee to develop a best practices guide,"7 Steps to Performance-Based Services Acquisition." Additionally, a Center of Expertise has been established to gather sample statements of work and develop a template for performance-based service contracting solicitations.

OIG Work Planned

Our FY 2002 Audit Plan includes a review of GSA *Advantage!*™, an electronic ordering system, to determine if it can reasonably serve as a primary source of supplies and services for Federal agencies.

Our Plan also calls for us to identify best practices for procuring services.

Human Capital

Issue

Like many Federal agencies, GSA has an aging workforce and faces significant potential loss of institutional knowledge in the coming years. Since 1993, GSA has been downsizing and has focused on restructuring its financial and business efforts. The Agency workforce was reduced from 20,000 to 14,000 between 1993 and 1999. Much of the downsizing was accomplished through early retirement and buyout authority, and by filling job vacancies sparingly.

Since 1998, the OIG has consistently cited human capital management as one of the major management challenges facing GSA. Additionally, Congress and GAO have identified human capital management policies as a missing link in the Government's performance management framework. GAO added this issue to its list of major management challenges facing Federal agencies. Human capital planning and organizational alignment, leadership continuity and succession planning, and recruitment and retention of staff with the right skills were identified as key areas needing attention.

OIG Work Completed

To establish a benchmark regarding whether GSA's efforts are enough to acquire the skills and talent needed to respond to a rapidly changing, increasingly competitive business environment, we looked at other Federal agencies' self-assessment reports, suggested by GAO to identify current and future human capital needs to pursue agency missions. The assessments by the other agencies not only demonstrate senior level commitment, but also map out, in an objective fashion, the agencies' human capital requirements to meet current and future demographic and performance challenges. In our *Advisory Report* on *GSA's Human Capital Management*, we encouraged GSA to proceed with the human capital assessment suggested by GAO.

Agency Actions

GSA has moved on several fronts to meet identified human capital challenges. For example, GSA's World Class Workforce (WCW) has met or exceeded its targets for hiring new employees over the past two years. The WCW also has a number of initiatives regarding employee orientation, engaging existing employees, and developing leaders within GSA.

OIG Work In Process

We are reviewing GSA's Implementation of the Federal Activities Inventory Reform (FAIR) Act to determine if GSA is consistently and accurately collecting and reporting on its commercial activities, and if not, what improvements can be made to its processes.

OIG Work Planned

Our FY 2002 Audit Plan includes an audit of Procurement Personnel Development. We will be evaluating GSA's program to enhance the professionalism of procurement personnel to determine if it is meeting the training requirements of the Clinger-Cohen Act.

Aging Federal Buildings

Issue

GSA is being challenged to provide quality space to Federal agencies with an aging, deteriorating inventory of buildings and critical budgetary limitations in a competitive environment.

It is estimated that it would take several billion dollars to bring the building inventory up to standard. Since the Federal Building Fund generates annual revenue between $4.5 and $5 billion, most of which is committed to leased space costs, operating expenditures, and construction of new courthouses, finding funds for needed repairs is a major problem.

GSA needs to determine which buildings represent the greatest risk from a safety and operational perspective, which buildings will yield the best return on investment, what the Government's future space requirements are, and how to fund the highest priority projects in a timely manner.

OIG Work Completed

The reviews we performed in FY 2001 showed that PBS:

- needs to improve the administrative aspects of asbestos management;
- needs a more comprehensive fire safety management system that focuses on a national fire safety strategy;
- has opportunities to develop initiatives and approaches to improve management of large dollar value contract change orders; and
- needs to evaluate the formula used to measure a building's net income, and improve profit and loss information to facilitate better property management decisions.

Agency Actions

In response to our observations in *Audit of the Public Buildings Service's Asset Business Plans,* PBS provided a strategy for restructuring the owned building inventory. The strategy envisions a combination of actions including disposals, exchanges, public/ private partnerships, outleases, and new construction. PBS has proposed a three-tiered approach in prioritizing the inventory, using a series of asset diagnostic tests or measures, each with a performance target or threshold that will assist in categorizing individual buildings. The first test simply seeks to determine whether the property produces sufficient income to meet both operating expenses and a reserve for replacement. The second test measures an asset's financial performance in terms of return on investment. Other tests address operating efficiency, customer satisfaction, rental rate and vacancy levels, and current repair and replacement needs.

In response to our *Audit of PBS' Environmental Management Program*, management has developed a PBS-wide Environmental System to address our recommendations that it become more proactive in how it views and acts on environmental issues and to address issues such as property contamination, compliance with Federal and state environmental laws and regulations, and liability for tenant activities.

As a result of an Alert Report we issued during our review of *PBS' Fire Safety Activities*, management officials initiated immediate actions to expedite installation of an automatic sprinkler system in a three-building complex housing 2,500 Federal employees.

PBS is developing a more comprehensive fire safety strategy, which endeavors to provide a functional, safe, and healthful work environment for Federal employees and the visiting public, protect Federal real and personal property, and promote client agency mission continuity.

OIG Work Planned

Our FY 2002 Audit Plan includes a review of the *Repair and Alteration Program.* We will be focusing on whether GSA has adequate criteria in place to make decisions on which buildings are to be given priority for Repair and Alteration projects. Issues include: improving data quality and strategic planning; giving highest priority to prospectus level projects that have the greatest potential to return more rent revenue to the FBF; and supporting legislative action to retain revenues from sales of unneeded assets.

Energy Savings Performance Contracting. This is a congressionally approved mechanism for funding capital improvements using private sector funds to retrofit aging facilities with energy-saving environmental improvements. We plan to determine if GSA is effectively using these contracts as an alternative financing source for energy improvements in Federal buildings.

Finally, our Audit Plan includes an *Environmental Hazards* review to assess how effective GSA is in cleaning up hazardous waste on Federal property, particularly at active sites such as the Southeast Federal Center.

Management Assessment of Performance Measures

January 10, 2002

The Reports Consolidation Act of 2000 requires each agency head to assess the completeness and reliability of the performance and financial data used in the report. I am pleased to deliver this assessment:

1) The financial data used in the report are complete and reliable. I base this assessment on the unbroken series of 14 unqualified opinions GSA has received on its financial statements. However, certain non-material weaknesses in GSA's financial reporting and operations is identified in this year's Independent Accountant's Report. We intend to follow their guidance in addressing any issues that are identified.

2) The performance data used in this report are generally complete and reliable. Improvements are underway, however, to increase our confidence in the data. Briefly, we are taking the following actions:

- In conformance with a finding made by the Inspector General, we are reviewing the procedures used to collect performance data and the basis on which an assertion of validity can be made at the program activity level. The review of the Public Buildings Service has been completed. The intention is to complete at least one other Service in the coming year
- In some cases, the reviews may lead to an enhancement of the written documentation for the procedures or systems being used. Similarly, there must be current, clear designations of responsibility for data collection and review.
- GSA is developing a performance measurement database. This system will prescribe procedures for data collection and entry, as well as identify those responsible for data entry and review. The database will be another tool in raising confidence in the performance data.
- One of the areas that has been identified as a non-material weakness in the past involved the STAR system in the Public Buildings Service. STAR is a source of both financial and performance data. Improvements to the STAR system will have a favorable impact on the completeness and reliability of both financial and performance data.

We are committed to continuously improving our ability to measure our work and to use these measurements to build a successful future at GSA.

Stephen A. Perry
Administrator

Issue

Providing a safe, healthful, and secure environment for over 1 million workers and the visitors to over 8,300 owned and leased Federal facilities nationwide is a major multifaceted responsibility for GSA. The increased risks from terrorism have greatly expanded the range of vulnerabilities traditionally faced by building operations personnel. The challenge facing GSA is a difficult one: the need to ensure appropriate and effective security to protect Federal facilities, employees, and the public, while also ensuring that our buildings and institutions remain open and accessible in keeping with the character of a free society.

GSA has taken many actions to combat terrorism in the wake of the events of September 11, 2001. GSA enhanced guard services nationwide in response to the heightened state of alert. At the New York City Terrorist Trial Operation Center, GSA erected barriers, ballistic level guard post facilities, bollards, explosive detection devices and closed circuit TV. In many other locations, the agency installed X-ray machines, magnetometers, environmental design planters for crime prevention and explosive detection devices.

FPS had increased Federal building security vigilance prior to the September 11th attacks. FPS enhanced training for security personnel, standardized security guard contract criteria, and increased the number of criminal investigators and uniformed, law enforcement, security officers.

To identify Federal building threats, FPS implemented Regional Threat Assessments. The RTA is an internal management tool that examines various factors to determine the major threats to buildings. The heart of the RTA is an examination of Motive, Opportunity, and Means for GSA-controlled workplaces which may constitute a threat from groups or individuals. The "threat" ranges from the most catastrophic, but least probable terrorism to the most probable, but least catastrophic larcenies. At the center of the continuum, falls workplace violence.

The RTA will clarify resource allocation by providing a clear focus on the intended outcome of the physical security program threat reduction. As such, it will demonstrate whether levels of personnel are adequate and where adjustments should be made.

Issue

Multiple management controls have been replaced, through reinvention initiatives, by fewer and broader controls, making it essential that the remaining controls be emphasized and consistently followed.

Our concerns encompass whether speedy procurement is being attained at the expense of appropriate regulatory requirements and good internal controls, whether charge cards are being used solely for appropriate Government purchases, and whether GSA is getting the best price.

Congress has emphasized that the usefulness of agencies' performance data depends, to a large degree, on the reliability and validity of those data. Past audit work has shown that the absence of controls or the non-compliance with existing controls has resulted in poor quality data at the operational level of many GSA programs.

GSA management agrees that this is a serious issue. It has become particularly important as GSA makes in-roads into the world of e-government. New ways of buying and selling will require new business methods to ensure strong management control. Within GSA these efforts are the responsibility of the Management Control and Oversight Council, which provides overall policy and direction to the agency's senior managers.

Also very important to management control are the efforts to train and inform both our customers and GSA associates. We have created tools, such as the Multiple Award Schedules Owners' Manual to help ensure that management policies are followed.

Lastly, GSA is improving data quality in order to keep data collection and reporting activities under control. This includes both scrubbing old data residing in computer systems, and enforcing documentation requirements. This will provide management assurance that GSA data is valid and reliable. In addition, the performance measurement database, currently under development, will enhance these processes by standardizing GSA's corporate-level data collection.

Issue

GSA's challenges in the Information Technology area continue to increase. GSA relies on its automated information systems to perform its mission and manage its operations. Many of these systems process and store sensitive information such as personal employee data and contractor's proprietary information.

GSA is in the process of replacing a number of its old systems, in keeping with technological advances. GSA systems commonly experience schedule delays and cost overruns, need frequent redesign, have difficulty sharing usable data between systems, and spend a prolonged period of time in development. Major system development efforts can rapidly grow in cost and complexity unless management consistently provides comprehensive oversight.

With respect to information security, GSA faces a significant management challenge to ensure that systems continue to operate as intended, agency assets are protected, and privacy is assured.

Systems Development

The Clinger-Cohen Act requires that GSA's IT investments remain within 10 percent of the planned cost and schedule. Among other actions, GSA is identifying and tracking the number of IT investments that are approved and reviewed through its IT Capital Planning and Investment Process. Capital planning is a systematic approach to managing the risks and returns of IT investments for a given mission. It is an integrated management process which provides for the continuous selection, control, life-cycle management and evaluation of IT investments. It is focused on achieving a desired business outcome. IT investments require a complete project plan, cost benefit analysis and risk management plan. Two overall objectives of GSA's capital process are 1) to align proposed system investments with strategic and tactical goals, and 2) to measure performance and net benefit for the dollars invested.

IT Security

GSA relies on its automated information systems to perform its mission and manage its operations. GSA has had several audits and reviews conducted by PriceWaterhouseCoopers and the Office of the Inspector General that have identified IT security vulnerabilities and weaknesses during penetration testing. Some of the findings have been repeated as a result of slow action within the agency to complete work correcting the issues identified. During FY 2001, GSA took the following major steps to correct these vulnerabilities and weaknesses:

- The development and funding of a new IT Center of Expertise
- The development and execution of an IT Security Action Plan
- The development and distribution of agency-wide IT security guidelines and procedures
- The development and implementation of procedures for performing vulnerability and risk assessments
- The monitoring of access attempts and security violations
- The development and implementation of security awareness training for all users and systems administrators
- The monitoring and reporting of policies and guidelines for compliance by Services, staff offices, and regions.

The challenge of information security is so complex and far reaching that there can be no practical possibility of "solving it once and for all." GSA has a long-term mandate to maintain a program that addresses the challenge in all its dimensions.

Issue

GSA provides Federal agencies with products and services valued in the billions through various types of contracts two of the most prevalent types being *the Multiple Award Schedule (MAS) Program and Multiple Award Contracts (MACs). Our Office is concerned that, as the MAS program has grown, the importance of certain program fundamentals including pricing objectives and other pricing tools has diminished. These fundamentals, which are set out by regulation, include the mandate for most-favored customer pricing, the requirement to perform meaningful price analysis when awarding or extending contracts, and the use of pre-award audits to assist in negotiating contracts.*

For many decades, the MAS program has provided a vehicle for the acquisition of commercial products and services. In the last few years, many changes have been made as the program has adopted more commercial practices. Of course, these changes have been made to add value to the Government thereby making the taxpayer's dollar go farther.

The changes to the MAS program have moved the Government to real-time commercial buying practices and in doing so have significantly reduced acquisition time. However, the streamlining resulting from The Federal Acquisition Streamlining Act and the Clinger-Cohen Act decreased the Inspector General ability to perform some audits, such as audits of post-award pricing information.

GSA's customer base has evolved from a relatively small group of procurement or supply professionals to a broad base of Government employees. The new customer base includes thousands of customers from charge card holders to program managers. This represents a significant challenge in educating customers about the advantages and use of the procurement programs. Customer education is critical to GSA success.

The procurement workforce must be prepared to not only address the needs of the MAS program, but to do so in the context of a dynamic and complex environment. Therefore, under the Clinger-Cohen Act, all contracting personnel hired must be college graduates or have 24 hours of business related courses at the college level. In addition, they will be expected to keep pace with the rapid growth of electronic commerce.

Issue

Like many Federal agencies, GSA has an aging workforce and faces significant potential loss of institutional knowledge in the coming years. Since 1993, GSA has been downsizing and has focused on restructuring its financial and business efforts. The Agency workforce was reduced from 20,000 to 14,000 between 1993 and 1999. Much of the downsizing was accomplished through early retirements and buyout authority, and by filling job vacancies sparingly. Human capital planning and organizational alignment, leadership continuity and succession planning, and recruitment and retention of staff with the right skills are key areas needing attention.

GSA's Workforce Analysis, submitted to OMB in July 2001, indicates that the agency is prepared for the challenge of keeping its human capital need from becoming a human capital crisis. GSA is developing a more effective human capital management process that will be integrated with GSA's strategic goals and performance management process. The human capital management process at GSA will address the need for specific recruitment, training, retention, and exit/succession planning as required to maintain the skills and competencies needed to achieve high performance and continuous improvement at GSA. To reflect the recognition of its importance, GSA leadership created a new strategic goal, "Maintain a world-class workforce and a world-class workplace."

GSA is focusing on five categories of human capital goals to measure success:

1. Strategic Competencies: Recruit, develop, and retain associates with the strategic competencies for mission critical occupations
2. Leadership: Ensure leadership in the agency inspires, motivates and models high standards
3. Performance Culture: Create a culture that motivates associates while ensuring fairness in the workplace
4. Learning: Promote knowledge sharing, intellectual honesty and continuous learning and improvement
5. Strategic Awareness: Align human capital policies to support the agency's Mission, Values, and Goals.

Issue

GSA is being challenged to provide quality space to Federal agencies with an aging, deteriorating inventory of buildings and critical budgetary limitations in a competitive environment.
It is estimated that it would take several billion dollars to bring the building inventory up to standard. Since the Federal Buildings Fund generates annual revenue between $4.5 and $5 billion, most of which is committed to leased space costs, operating expenditures, and construction of new courthouses, finding funds for needed repairs is a major problem.

GSA needs to determine which buildings represent the greatest risk from a safety and operational perspective, which buildings will yield the best return on investment, what the Government's future space requirements are, and how to fund the highest priority projects in a timely manner.

More than half of GSA's Government-owned buildings are over fifty years old and nearly a quarter bear historic designation. GAO noted in its most recent report that $4 billion is needed to ensure acceptable quality, health, and safety standards. GSA's first capital priority is repairs and alterations to our aging buildings.

GSA's annual repair and alteration budget this year is approximately 2.8 percent of the inventory's replacement value which falls in the range (2-4 percent) of private sector practice. Determination of budget priorities and financial decisions are aided by the new R&A Decision Model. GSA is reinvesting in its inventory at the low end of the industry standard yet GSA's inventory is significantly older than the industry average. "Aging Buildings" will continue to be a challenge until a way is found to increase reinvestment.

Executive Summary for the Period October 1, 2000 - March 31, 2001

This period we continued our work in addressing what we believe are the major issues facing GSA. We worked to help improve Agency operations by providing a variety of services, including program evaluations, contract and financial auditing, management control reviews, investigative coverage, litigation support in contract claims, civil fraud and enforcement actions, and criminal prosecutions. In addition, we provided professional assistance through enhanced consulting services and the use of alert reports designed to quickly inform management of potentially serious deficiencies or other concerns prior to completion of all analytical work and formal report issuance.

Management Challenges

In November 2000, we identified to members of the Congressional leadership what we believe to be the most serious management challenges currently facing the Agency. A summary of these issues is provided on the inside front cover. This report highlights a number of reviews that address some of these issues. These reviews are in the areas of Federal facilities and personnel protection, information technology, management controls, and aging Federal buildings. Our efforts during this period focused on the following:

Protection of Federal Facilities and Personnel

The OIG continues to review GSA's progress in improving the security of Federal buildings and the individuals who occupy them. We performed a follow-up review of the Childcare Program to determine if all employees of the GSA-licensed childcare centers received background clearances before they were allowed to work. We found that although GSA has made progress in strengthening its processes for helping to ensure that personnel hired by childcare providers are properly screened and undergo background checks, not all personnel have undergone proper checks before beginning work. Additionally, the required time to complete a background check remains unacceptably lengthy.

A previous facility and fire safety survey identified the need to install sprinklers in a three-building complex leased by GSA. During a recent follow-up site visit, numerous safety system and structural deficiencies were found. Such deficiencies included: the absence of building-wide automatic sprinklers, smoke detectors, and visual fire alarms; a lack of emergency power for fire pumps and elevators; inadequate stairwell egress; and large volumes of paper and other materials stored in hallways and stairwells. Because of these problems and concern for the safety of the 2,500 Federal employees housed in this complex, an alert report was issued for management's immediate attention.

We performed a review of the FPS Intelligence Sharing Program (ISP). The program was designed to develop strategic alliances with other Federal, state, and local law enforcement agencies as part of a criminal intelligence information network that provides information regarding potential threats to employees, customers, and GSA property. We found that FPS is not optimally managing the ISP since regional offices are operating autonomously with different levels of effort and personnel resources devoted to the program. As a result, FPS cannot ensure that it fully achieves its mission of providing a safe and secure environment in Federal facilities.

We examined the management controls over smart cards—computer-readable cards for building access—at a regional office building. We found that the existing controls did not prevent unauthorized access to Federal buildings by former employees and others. Our recommendations included keeping an updated, accurate, and manageable list of authorizing officials and other steps to assure proper controls were in place.

Information Technology

The Consolidated Appropriations Act of 2001 required us to review GSA's Federal Internet sites to determine whether these sites were collecting personally identifiable information using a particular computer technology referred to as "cookies." The review assessed over 100,000 Internet pages managed by GSA finding 15 Web portals where "persistent cookies"—those retaining data beyond a single computer session—were either currently being used or had been recently removed. We found that either the Web sites did not disclose appropriate privacy policy statements or such statements were weak in the areas of security intrusion and detection language. Also noted was that GSA did not have policies and procedures in place to direct the appropriate use of cookies or to ensure that personally identifiable information is adequately protected.

In 1999, GSA began implementing an effort to standardize information technology hardware, software, and support for personal computer users across the Agency. The program, called Seat Management, is aimed at improving performance and productivity and lowering overall technology costs. However, our review of Phase I of the program found that GSA was not able to effectively determine whether it should continue on to Phase II since performance measures relative to Agency mission and the efficient utilization of resources were lacking. We noted that GSA experienced challenges in four areas during Phase I including: cost savings, uniform maintenance and IT support, communications, and funding. Until such challenges are addressed, the CIO has postponed the implementation of Phase II for a minimum of 6 months.

Management Controls

During a recent review, we found GSA does not always obtain adequate advance funding prior to providing specialized support services to its high level national security Federal customers. As a result, GSA has overspent 280 customer orders by a total of $6.4 million since FY 1993. Additionally, we found that GSA did not always attempt to obtain additional funding for these overspent orders. Conversely, GSA has approximately 500 customer orders, dating back to FY 1993, with unused funding balances totaling over $7.9 million. Unless GSA informs its customers of such unspent balances, they are not given the chance to recoup the funds for alternative uses.

In FY 2000, GSA's billings to Federal customers totaled $13.3 billion; however, we found that amounts due from customers are growing and at year's end were in excess of $2.0 billion. GSA is concerned that these amounts due are causing cash flow problems. GSA has taken positive steps with the Defense Finance and Accounting Service to improve the ordering, billing, payment, and collection processes between the respective agencies. Similar efforts with other customers would be beneficial.

GSA's Logistics Operations Center runs four distribution facilities. We performed a review on one of the four Distribution Centers to determine whether the most cost-effective carriers were selected to deliver supplies to its customers. While we found that the center was selecting the most cost-effective carriers, we noted that overpayments were made to one of the small package carriers. The small package carrier acknowledged overcharges were made in error; however, the Distribution Center failed to detect these improper charges before certifying the invoices for payment. We recommended that Agency management: review all future carrier billing statements for accuracy; ensure GSA receives credit for incorrect billings; and verify whether the carrier made similar mistakes in billings at any of the three other Distribution Centers.

Aging Federal Buildings

GSA obtains construction services for repairing and remodeling public buildings under its repair and alteration (R&A) program by contracting with the private sector. We performed a review of 10 R&A projects completed in FY 1998 and 1999 with contract values of $142 million. Change orders to these projects were valued at nearly $53 million, a cost growth of 37 percent. To better manage these projects and control costs, the Agency has promoted the Construction Excellence Program which aims to deliver the highest quality construction for the best value. While we found that renovation project teams are involving tenant agencies in defining project goals, design, and schedule, the teams are not documenting the delays and increased costs caused by the tenant agencies. Our recommendations to Agency management included continuing the Construction Excellence Program initiatives and improving change order management.

Procurement and Related Activities

A central part of the OIG's work is to support the Agency's contracting officers and to protect the integrity of GSA's procurement programs and operations by detecting and preventing fraud, waste, and abuse.

As a result of our audit and legal work, Gateway 2000, Inc., a computer manufacturer, agreed to pay $9 million to resolve potential civil liabilities under the False Claims Act.

GSA has been very active in trying to control and reduce the energy costs of its Federal agency customers. For example, GSA, along with other Federal agencies in the Pacific Rim area, entered into an agreement with the Bonneville Power Administration to purchase electricity which has saved its Federal customers almost $4 million. However, this agreement expires in April 2002, at which time the Agency may be exposed to the volatility of market-based pricing presently occurring throughout California. If prices remain at today's levels, GSA's electrical energy costs will increase dramatically. In other energy reviews, we found that GSA was being billed for various state and local utility taxes and other charges from which it is specifically exempt. We recommended that GSA review its utility bills to ensure it is not paying for these exempt charges. We also recommended that GSA conduct annual rate reviews to ensure that utility companies are billing GSA the most economical rate available for its individual buildings.

GSA relies on contractors to maintain accurate equipment inventories, formulate preventive maintenance schedules, and properly perform mechanical maintenance on equipment such as heating and air conditioning equipment and elevators. Our review found inaccurate equipment inventories and incomplete performance in the preventive maintenance services. We concluded that GSA needs to clearly identify the responsibility for inventories and preventive maintenance programs and monitor quality control plans submitted by the contractors.

As a result of an OIG investigation, Morse Diesel International, Inc. (MDI), a multinational construction services firm, was charged with and pled guilty to making a false claim involving double billing for performance and payment bonds in connection with a major courthouse construction project. MDI received and has paid a $500,000 fine. GSA proposed MDI and six of its employees for debarment from Federal contracts. The Agency subsequently lifted the debarment action against the company; the action against the employees remains pending. Another investigation, conducted jointly with other law enforcement agencies, resulted in the conviction of two executives of ABC Project Management, Inc., for submitting fraudulent bid, performance, and payment bonds to the Government. The company and both executives were debarred from Federal contracting by the Department of the Army.

Partnering with GSA Management

At the request of GSA management, we continued to provide consulting services to review business practices and make recommendations for improving operations across a wide range of GSA activities in all Agency components.

We assessed the process for awarding and administering contracts to supplement personnel in one region; reviewed contractor performance for facility management at a Federal courthouse and made suggestions concerning contract administration to Agency management; and analyzed contract documentation to determine if the Agency was being properly billed. In addition, we issued advisory reports concerning a proposed procedure for paying vendors without requiring a receiving report and concerning best practices among various public and private sector entities in issuing annual reports.

The OIG provided value-added professional assistance to GSA through participation in Agency project teams, task forces, and working groups. We provided input to the task force established to develop performance measures for FSS' Office of Acquisition. We continued to participate in a project team to address courthouse occupancy issues, and to oversee the renovation of a Federal building. We also reviewed policy changes on an Agency building delegation program. In addition, we participated on two work groups to establish a coordinated ongoing process concerning improper purchase and travel card activity, and to assist other agencies in developing procedures to file for fuel tax refunds.

We participate in the Information Technology Council which discusses information technology issues relevant to GSA. The OIG participates in a number of interagency committees and working groups that directly affect our ability to add value to the Agency. For example, we are a member of the President's Council on Integrity and Efficiency (PCIE) IT Roundtable, and PCIE IT Security and Audit Workforce working groups. We also participate in the Procurement Executives Council.

Other Criminal Investigations

This reporting period, one GSA computer specialist was terminated and a co-worker suspended for the roles they played in gaining unauthorized access to confidential GSA electronic mail files. We completed an investigation that resulted in a former GSA official pleading guilty to soliciting a bribe from a GSA construction contractor in return for the award of repair and renovation contracts. In addition, a former GSA contract guard, assigned to the immigration area of a Federal building, pled guilty to charges of bribing an Immigration and Naturalization Service official.

Summary of Results

The OIG made over $77 million in financial recommendations to better use Government funds; made 261 referrals for criminal prosecution, civil litigation, and administrative actions; reviewed 183 legislative and regulatory actions; and received 1,087 Hotline calls and letters. This period, we achieved savings from management decisions on financial recommendations, civil settlements, and investigative recoveries totaling over $99 million.

Executive Summary for the Period April 1, 2001 – September 30, 2001

During this period, the OIG continued to direct its audit, investigative, and evaluative resources to activities that address what we believe to be the major management challenges facing the Agency. We provided a variety of traditional services, including program evaluations; contract and financial auditing; management control reviews; and investigative coverage and litigation support in contract claims, civil fraud and enforcement actions, and criminal prosecutions. We also continued to provide professional assistance through enhanced consulting services, alert reports designed to quickly inform management of potentially serious deficiencies, and reviews of proposed legislation and regulations.

Management Challenges

We have highlighted a number of our reviews that address major management issues facing GSA. In November 2000, we identified to members of the Congressional leadership the most serious management challenges currently facing the Agency. Some of these challenges are in the areas of Federal facilities and personnel protection, procurement activities, information technology, management controls, and human capital. Our efforts during this period focused on the following:

Protection of Federal Facilities and Personnel

GSA is responsible for developing and managing a physical security program aimed at protecting Federal buildings and the people who work in and visit those buildings. Since the bombing of the Murrah Federal Building in Oklahoma City, the OIG has continuously assessed GSA's physical security program. We have issued over 25 audit and special alert reports recommending corrective actions and improvements in all aspects of the program. GSA management has been responsive to our work and has implemented many program enhancements. However, improving physical security is an ongoing challenge for GSA and for the OIG—a challenge greatly magnified by the terrorist attacks of September 11th, and subsequent events (pages 2-3).

As this reporting period ended, we were nearing completion of our nationwide review of the implementation of GSA's enhanced Federal Security Risk Management Program, a survey process designed to identify vulnerabilities of individual buildings and assess the adequacy of measures taken to lower the risks. At the same time, we started to make ready for a comprehensive "re-look" at the key elements of the overall security program to determine what progress has been made in addressing previously identified shortcomings and to assess how well the security program is working as a whole.

As part of our continuing efforts to help GSA better manage its public buildings program, this period we issued reports dealing with two additional safety related issues: asbestos management and fire prevention. GSA, through its Asbestos Management Program, is responsible for minimizing occupational exposure to asbestos in the buildings it controls. We observed the technical aspects (project specific) and reviewed the administrative aspects of asbestos management in the National Capital Region. We found that the project specific work, aimed at reducing identified or potential hazards and performed by professionals who understand the serious consequences of mishandling asbestos containing material (ACM), was well managed and controlled. However, we found that the administrative aspects of the program need improvement in order to provide proper procedures and controls to ensure health risks are minimized and full regulatory compliance is achieved. We found that a master list of buildings with known ACM was incomplete. It was also revealed that asbestos surveys, intended to inform contractors and building maintenance workers of the location and condition of ACM in a given building, are not updated to reflect the results of additional assessments and abatement work (page 4).

We reviewed fire safety risk management in PBS facilities. Currently, the Agency's fire safety and prevention activities primarily reside with the Fire Protection Engineers, located in 10 of GSA's 11 regional offices. These individuals are responsible for conducting building surveys, assessing the adequacy of fire safety systems, and conducting prevention training. We found fire safety and prevention within GSA is not a coordinated endeavor and numerous inconsistencies exist with regard to fire safety activities. Most facilities reviewed had some fire safety risk conditions that posed unacceptable, but correctable, risk to the property, its occupants, and visitors. In one case, we issued an Alert Report to management after observing numerous system and structural deficiencies in a facility housing 2,500 Federal employees (page 5).

Procurement Activities
GSA's MAS contracting program has grown from sales of $5.6 billion in FY 1997 to $13.6 billion in FY 2000. As the MAS program has grown, certain program fundamentals, including pricing objectives and other pricing tools, have been marginalized. These fundamentals, which are set out by regulation, include the mandate for most-favored customer (MFC) pricing, the requirement to perform meaningful price analysis when awarding or extending contracts, and the use of pre-award audits to assist in negotiating contracts. An OIG review revealed that FSS was not consistently negotiating MFC pricing on the photocopier and IT schedules. This occurred because FSS was not fully leveraging the Government's aggregate buying power and because it often failed to properly evaluate differing terms and conditions. We noted that on the photocopier contracts alone, in the 1998 - 1999 time period, contracting officers sustained only $3.8 million or about 2 percent of the $199 million in recommended cost avoidances. We also found that over 50 percent of the sample of the MAS contract extensions we reviewed were extended without a meaningful or vigorous price analysis. Finally, we noted significant decreases in the number of requests we received from FSS for pre-award audits, even as MAS sales skyrocketed. In FY 1990, 211 requested pre-awards were conducted, while in FY 2000, 23 were requested and conducted (page 6).

We performed a limited review of the award and administration of a vendor's 5-year, $73 million MAS contract. The contracting officer (CO) wrote that because he was able to obtain improved prompt payment discounts, the prices provided by the vendor were deemed fair and reasonable. We found no support for this conclusion by the CO. We also learned that during negotiations, FSS contracting personnel accepted a weakened version of a contract clause that in its standard version is designed to afford the Government pricing protection throughout long-term contracts (page 8).

Information Technology
GSA is developing and implementing Electronic Commerce (EC) systems in order to enhance the Agency's buying and paying functions, improve customer service, and support internal business operations. Because EC systems are linked to the Internet, they face increased risks of unauthorized use. Our review of nine selected EC systems found that the absence of clear leadership within GSA has left the Services, Staff Offices, and regions without guidance on how best to implement and ensure security for GSA's expanding EC-based business operations. We noted that two-thirds of the EC systems lacked completed security plans. In addition, all of the security plans contained weaknesses because critical system controls were not included. Finally, continuity and contingency planning documentation was lacking in most of the security plans that had been developed. Our recommendations included ensuring the security plans for EC systems fully identify system security requirements and necessary controls (page 10).

To meet the requirements of the Government Information Security Reform Act, which focuses on the program management, implementation, and evaluation aspects of Federal information systems security, we updated information on the security status of seven of the systems that were included in our earlier EC systems security review. We found that only two of the systems had an approved risk assessment, one had an approved security plan, and two had not begun any of these key security tasks (page 11).

The MAA Program was developed by FTS as an innovative way to provide better value local voice and data telecommunications services to its Federal customers. The plan was to open a series of competitive procurements that would result in contract awards to more than one vendor per city to ensure ongoing, task-order competition over the life of the contract. Phase I included the cities of New York, Chicago, and San Francisco. The procurement yielded multiple offers, but the winning variance was so great that FTS chose to make a single award in each city. We found that 17 months after Notice to Proceed, the conversion of FTS' users to the MAA Program ranged from only 7 percent to 38 percent. The experience in the Phase II cities we examined (Philadelphia, Buffalo, and Boston) was similar. We provided suggestions for improvement in a number of areas, including customer service and contractor relations (page 13).

Management Controls

Property Management Centers (PMCs) fulfill the needs and requests of Government agencies that occupy space in Federally-owned and leased buildings. Our review of the PMC located in Springfield, Illinois revealed several deficiencies related to its procurement and contract administration functions. We found examples where GSA did not receive services contracted and paid for and construction projects were delivered late. The areas reviewed involved service contracts, construction contracts, temporary duty travel expenses, and personal services contracts. We offered recommendations to strengthen the management controls over the procurement and contract administration functions (page 14).

GSA is in the process of replacing its aging financial accounting system, with a new fully integrated financial management system known as Pegasys. In previous semiannual reports, we cited our concerns that the scope, the timelines for implementation, and the costs associated with the modernization project, were all increasing at a rapid and unabated pace. Subsequently, measures were taken to refocus the project's scope to concentrate on replacement of the core accounting system, with the related systems to be upgraded under separate modernization efforts later. This period we examined the contract vehicles being used to have system engineers and programmers transform the COTS software into Pegasys, a financial software system tailored to meet GSA's unique business requirements as well as comply with the newest Government-wide accounting standards. We noted that, as currently structured, the contractor has few incentives to complete work tasks economically or promptly. Our recommendations encouraged revamping the current agreement to build in incentives beneficial to both parties (page 15).

During this reporting period, the OIG pursued 51 investigations involving alleged abuse of the GSA SmartPay charge card program. The GSA SmartPay program is the principal vehicle for Federal agencies to acquire charge card services in order to procure goods and services for Government offices, travelers, and fleet vehicles. The investigations resulted in two administrative actions against employees, four arrests, two convictions, and restitution of nearly $150,000 (page 17).

Human Capital

GSA, as with all Federal agencies, faces the difficult management challenge of acquiring a workforce with the skills and talents needed to meet the demands of the 21st century. To help GSA meet this challenge, we performed a benchmark review of other Federal agencies and several private organizations as to how they were assessing their progress in accomplishing this objective. We encouraged GSA to follow the course set by others who have first performed detailed self-assessment studies that serve as the foundation for further analyses and action on specific human capital issues such as recruiting, retention, succession planning, and skills development (page 17).

Other Reviews of GSA Programs

GSA's Natural Gas Program, administered by the Agency's National Center for Utilities Management, offers Federal facilities an opportunity to realize cost savings by purchasing utilities from independent contractors rather than a local utility company. PBS awards contracts to independent suppliers, who transport the gas to a local utility company over various interstate pipelines. The local utility company delivers it through its own distribution system to an end-user facility. GSA reported savings of over $16 million for FY 2000. After a review of the program, we offered recommendations to improve the billing and collecting processes (page 23).

PBS needs accurate information concerning the revenues and expenses incurred for each property it manages. At the request of GSA management, we reviewed the allocation methods used by PBS to properly assign costs to specific individual properties. Our review determined costs were properly classified, consistently recorded, and charged to the appropriate buildings in the regions (page 24).

Other Procurement and Related Activities

During this period, we worked with the Department of Justice to obtain nearly $1 million in civil settlements from several contractors for potential false claims and contract violations on matters related to providing copying equipment from prohibited foreign sources, providing inaccurate pricing information on computer hardware and software products which led to higher Government prices, and over-billings for systems furniture and computer cabling (pages 19-20). Also, as a result of OIG investigations, we were able to obtain restitution of over $660,000 for fraudulent activities, including duplicate billings for fuel storage tanks and for fictitious orders for computer equipment using a Government charge card (pages 20-21).

Other Criminal Investigations

As a result of a major OIG-led investigation into corruption in connection with building construction and repair/alteration contracts, a GSA employee received a criminal sentence and five contractors pled guilty to charges of bribery and accepting gratuities. Additionally, five GSA employees and five contractors are still awaiting court action (page 33).

Two separate investigations resulted in the convictions of GSA employees for abusive sexual contact. In one case, a GSA maintenance work inspector pled guilty to charges of abusive sexual contact with female employees who worked for a GSA contractor. In the other case, a GSA mechanic was sentenced after being convicted of abusive sexual contact against a female co-worker (page 33).

Summary of Results

The OIG made over $23 million in financial recommendations to better use Government funds; made 322 referrals for criminal prosecution, civil litigation, and administrative actions; reviewed 238 legislative and regulatory actions; and received 1,074 Hotline calls and letters. This period, we achieved savings from management decisions on financial recommendations, civil settlements, and investigative recoveries totaling over $32 million. (See page v for a summary of this period's performance.)

Executive Summary Combining the Semiannual Reports for Fiscal Year 2001

In accordance with the Inspector General Act Amendments of 1988, the Administrator of General Services reports directly to Congress on management decisions and final actions taken regarding audit recommendations issued by GSA's OIG. The Administrator must also provide an explanation when final action has not been taken within one year of an audit's management decision date.

The Administrator's reports are statutorily required on a semiannual schedule for periods ending March 31 and September 30 of each fiscal year. The information below represents a compilation of summary statistics from the two reports issued for fiscal year 2001. Where appropriate to be consistent with this Annual Report presentation, six months totals have been combined to reflect full fiscal year performance.

For a fuller understanding of the statistics presented below, it should be known that the OIG identifies audit recommendations for cost avoidance as "funds to be put to better use" and distinguishes whether the funds have or do not have an impact on the agency's budget. Funds categorized as having budget impact involve the obligation process, and audit-related savings of this category may be available for reprogramming. Funds identified as having no budget impact do not involve obligated monies and, therefore, do not have a material effect on the agency's appropriated funds.

During the fiscal year ending September 30, 2001, management decisions were issued on 199 audit reports. Of this total, 96 audit reports represented $14,667,826 in disallowed costs and $98,103,423 in funds to be put to better use. The latter category is comprised of estimated and actual cost avoidance determined to have no impact on the agency's budget.

By the fiscal year's end, final action was achieved for 100 audits with management decisions identifying disallowed costs or funds to be put to better use. These audits represent the recovery of $11,092,273 and the implementation of $ 13,272,834 of actual cost avoidance determined to have no impact on the agency's budget.

As of March 31, 2001, 131 audit reports remained open without final action a year after management decision, with 17 of this total under formal administrative or judicial appeal. As of September 30, 2001, 139 audits remained open without final action a year after management decision, with 44 under appeal. The full reports for each semiannual period cite the reasons final actions were not yet taken on the open audits that were not under appeal.

Copies of the semiannual reports may be obtained directly from
GSA's Office of the Chief Financial Officer.
U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405

(202) 501-0705
http://www.gsa.gov

This chart provides GSA's performance goals and measures—the baseline performance in FY 2000, the FY 2001 target and the actual performance in FY 2001 against the target for the year. The following symbols are provided as a quick indicator of performance on each goal.

▲ indicates that GSA's performance exceeded target
✔ indicates that GSA met the target
▼ indicates that GSA did not meet the target
N/A indicates that GSA's performance against that goal could not be measured, either because a target had not been established or because measurement had not been completed.

In some cases, goals, measures, baselines or targets have been revised since the GSA FY 2000/2001 Performance Plan was adopted. The performance measures reported in the Annual Accountability Report are consistent with the results reported in the GSA Annual Performance Report for FY 2001, which are summarized here. The full text of this report will be submitted to Congress in a separate document.

	Performance Goals	Performance Measures	FY 2000 Actual	FY 2001 Actual	FY 2001 Target	FY 2001 Performance vs. Target
PBS	***Revenue and Investment***					
	Generate a capital investment contribution of 2.5-4.5 percent of the functional replacement value (FRV) of the owned inventory	Contribution to capital as a percent of FRV	3.7%*	3.5%	3.1%	▲
	Reduce the amount of non-revenue producing space in the Government-owned inventory from 13 percent in FY 2000 to 12 percent in FY 2001	Percent of Government-owned inventory not producing revenue	12.2%	11.8%	12.0%	▲
	Maintain the amount of non-revenue producing space in the leased inventory at 3.0 percent in FY 2001 and FY2002	Percent of non-revenue producing leased space	3.3%	2.7%	3.0%	▲
	Real Property Operations					
	Maintain building operations costs in office and office-like space to 12 percent below private sector benchmarks	Percent difference between GSA's operating cost per square foot and the private sector costs	17%	16%	12% below	▲
	Reduce indirect costs as a percentage of revenue from 10.1 percent in FY2001 to 10.0 percent in FY2002	Indirect costs as a percent	10.2%	10.5%	10.1%	▼
	Improve overall customer satisfaction to an overall 82 percent in FY2002	Percent of tenants that rate GSA-owned space as satisfactory or better	81%*	86%	82%	▲
	Improve to an overall 85 percent customer satisfaction level with GSA's protective services in FY 2002	Percent of tenants that rate GSA's protective services satisfactory or better	84%	N/A**	85%	**N/A**
	For FY 2002, realize an annual reduction of 2.5 percent in the Regional Threat Composite Index from the baseline established at the start of FY 2002	Reduction in the Regional Threat Composite Index	N/A	26%	2.5%	▲
	Improve energy reduction from 22 percent below the FY1985 baseline in FY2001 to 24 percent below in FY2002	Percent reduction from FY1985 baseline	20%	18.4%	22%	▼
	Leasing Operations					
	Keep the cost for new GSA leased office space under the average for each of the four aggregate market ranges we track in FY2002	Cost for leased space for each of the four aggregate markets	N/A	Below industry average	Below industry average	✔

* *See footnotes on page 107*

	Performance Goals	Performance Measures	FY 2000 Actual	FY 2001 Actual	FY 2001 Target	FY 2001 Performance vs. Target
PBS	Reduce the loss on operating leases to $21.2 million	Loss on operating leases	$66.2 million	$57.2 million	$46.2 million	▼
PBS	Achieve a customer satisfaction rating in all leases of 82 percent with 86 percent or higher in newly leased space in FY 2002	Percent of tenants that rate leased space and services as satisfactory or better	80% 85%	85% N/A**	82% 86%	▲ **N/A**
	Construction and Acquisition					
PBS	Improve the percentage of construction projects completed on schedule from 60 percent in FY2001 to 65 percent in FY2002	Percent of construction projects completed on schedule (weighted by cost)	46%	75%	60%	▲
PBS	Reduce the cost escalation rate for new construction projects to 1 percent in FY 2001 and FY 2002	Total cost of construction projects over $10 million projects completed as a % of original appropriation	5.7%	2.3%	1%	▼
PBS	Maintain a 90 percent customer satisfaction rating in newly constructed buildings	Percent of satisfied customers	86%	89%	90%	▼
	Repairs and Alterations					
PBS	Improve the percent of repair and alterations projects completed on schedule from 78 percent in FY2001 to 82 percent in FY2002	Percent of total dollars of R&A projects over $10 million completed on schedule	80%	80%	78%	▲
PBS	Maintain the cost escalation rate for repairs and alterations projects at 1 percent	Total cost for R&A projects over $10 million completed as a percent of original appropriation	1%	0%	1%	▲
	Property Disposal					
PBS	Improve annual cycle time to 335 days for property subject to the Property Act of 1949	Cycle time in days	N/A	174 days	335 days	▲
PBS	Improve the dollar returned to dollar spent ratio from $16:1 in FY2001 to $17:1 in FY2002	Ratio of dollar returned to dollar spent	16:1	18:1	16:1	▲
	Supply and Procurement					
FSS	Reducing costs while expanding supply and procurement support to Federal agencies, thereby reducing the cost per $100 sales by over 6 percent	Cost per $100 sales	$2.35	$2.36	$2.37***	▲
FSS	Increase Federal agencies' use of GSA sources of supply by 7 percent over FY 2001 by providing additional products and services and by making it easier to access them	Dollar volume of GSA supply and procurement programs	$16.3 billion	$17.9 billion	$16.4 billion	▲

See footnotes on page 107

FSS

Performance Goals	Performance Measures	FY 2000 Actual	FY 2001 Actual	FY 2001 Target	FY 2001 Performance vs. Target
Promote socioeconomic goals by maintaining the current proportion of Schedules contracts awarded to small businesses	Percent of Schedule contracts awarded to small business	77%	78.1%	77%	▲
Increase customer satisfaction with supply and procurement programs	Percent of responses in the "highly satisfied" category	72%	75%	72%	▲
Increase the number of products and services available to Federal customers via electronic systems and Internet connectivity	Percent of Schedule contracts accessible through GSA Advantage!™	35%	77%	95%	▼
Vehicle Acquisition and Leasing					
Achieve an average 20 percent savings over commercial "Black Book" prices on compact sedans	Percent saved compared to "Black Book" price	27%	20%	20%	✔
Save taxpayers money by consolidating additional vehicles into GSA's fleet	Savings through vehicle consolidation	$4.1 million	$3.9 million	$3.7 million	▲
Hold annual increases in the cost per mile for GSA Fleet operations at or below the weighted Industry inflation rate	Increase in overall cost-per-mile	8.6% CPM vs. 9.48% inflation rate	6.14% CPM vs. 5.83% inflation rate	3.1% CPM vs. 3.1% inflation rate	▼
Increase GSA's share of Federal fleet	Percent of Federal fleet operated by GSA	46%	49.5%	47%	▲
Meet or exceed customer expectations	Percent of respondents giving a "highly satisfied" rating	N/A	N/A	79%	**N/A**
Fill 100 percent of requests for alternative fuel vehicles	Percent of requests filled	100%	100%	100%	✔
Travel and Transportation					
Achieve significant savings on Federal travel as compared with commercial prices	Savings on Government travel as a percent of the total commercial value of the same travel	70%	70%	65%	▲
Reduce Government's transportation costs by recovering or avoiding excess charges through pre- and post-payment audits of freight and transportation charges	Increase cost avoidance due to pre-payment audits	$4 million	$13 million	$5 million	▲
	Decrease collections from post-payment audits	$19 million	$13.6 million	$13 million	▼
Achieve significant savings of 45 – 52 percent compared to commercial rates for shipment of freight and household goods, and for small package express delivery services	Percent savings from commercial rates:				
	Freight	46%	46%	46%	✔
	Household Goods	52%	54%	52%	▲
	Small package express	45%	45%	45%	✔

	Performance Goals	Performance Measures	FY 2000 Actual	FY 2001 Actual	FY 2001 Target	FY 2001 Performance vs. Target
FSS	Increase customer satisfaction with FSS transportation programs	Percent highly satisfied:				
		Freight	67%	84%	69%	▲
		Household goods	88%	83%	88%	▼
		Travel management	59%	74%	61%	▲
	Increase the percentage of audits performed electronically	Percent of audits performed electronically	40%	50%	50%	✔
	Personal Property Management					
	Maximize cost avoidance through reutilization and donation of excess Federal personal property	New expenditures avoided through reutilization and donations of excess personal property	$3.2 billion	$1.6 billion	$1.6 billion	✔
	Control costs while effectively performing utilization, donation and sales services	Dollar volume of Utilization/Donation transfers per FTE	$30.2 million	$16.4 million	$15.2 million	▲
		Sales proceeds per FTE	$1.49 million	$0.81 million	$0.62 million	▲
	Increase customer satisfaction with Personal Property Management services	Percent of respondents who report being "highly satisfied"	68%	72%	68%	▲
FTS	***IT Solutions and Network Services***					
	Assist Federal agencies in achieving significant savings by providing high quality products and services at competitive prices that the demand for IT Solutions increases our overall business volume thereby resulting in a larger share of the Federal market	Total business volume as a percent of the Federal IT market	14%	15%	15%	✔
	Maintain an employee-centric environment where employees thrive	Percentile of FTS associates satisfied or very satisfied with FTS internal communications	74%	N/A	72%	**N/A**
	Be customer centric – reduce acquisition cycle times	Average calendar days to award task and delivery orders over $2,500	Quote to Award 11	Quote to Award 7	Quote to Award 10	▲
			Notice to Proceed N/A	Notice to Proceed 31	Notice to Proceed 15	▼
	Achieve and maintain an an appropriate level of full cost recovery to maximize service to Federal agencies and affect the greatest advantage to the Government	Cover FTS costs, excluding reserve use and those costs not recovered from the rates	$13 million	$19 million	0	✔

	Performance Goals	Performance Measures	FY 2000 Actual	FY 2001 Actual	FY 2001 Target	FY 2001 Performance vs. Target
FTS	Be customer centric—increase customer satisfaction with FTS representatives and products/services	Percent of customers indicating satisfaction with FTS reps and programs, products, and services in annual FTS surveys	76%	N/A****	77%	**N/A**
	Increase the number of industry partnerships by making available new sources that can provide state-of-the-art equipment and workplace environments to meet the needs of the mobile Federal worker	Number of agency partnerships:				
		FTS Contracts	177	296	186	▲
		Schedules	293	306	308	▼
		Other	7	4	7	▼
		GWACS	31	44	33	▲
	IT Solutions and Network Services					
	Achieve and maintain an appropriate level of procurements with small business as a percent of prime contracts	Percent of procurements with small business as compared to total contracts	36%	29%	26%	▲
	Network Services					
	Provide quality products and services at competitive prices and achieve significant savings for Federal agencies by reducing long distance prices	Outbound switched voice rates —rates per minute	4.70 cents	3.00 cents	3.51 cents	▲
	Provide quality products and services at competitive prices and achieve significant savings for Federal agencies by reducing the average monthly line rate	Average monthly line rate	$19	$18	$17	▼
OGP	***Governmentwide Policy***					
	Organize, lead and collaborate with Federal agencies through interagency working groups to implement Federal laws and Executive Orders and address government-wide issues	Number of areas with OGP supported interagency committees	12 of 12	12 of 12	12 of 12	✔
	Maintain up-to-date policies and guidelines for those areas within OGP's responsibility	Percent of planned regulatory changes completed	93%	100%	100%	✔
	Ensure that all OGP employees have the necessary knowledge and skills to support the organization's mission	Percent of employees at basic level or higher in critical competency areas	N/A	TBD	TBD	**N/A**
	Identify and publish best practices for those areas within OGP's responsibility	Number of initiatives that promote improved management	42	45	49	▼
		Number of agencies participating in pilots or applying leading practices	161	295	237	▲

See footnotes on page 107

OGP

Performance Goals	Performance Measures	FY 2000 Actual	FY 2001 Actual	FY 2001 Target	FY 2001 Performance vs. Target
Develop and promote performance measurement systems for Government-wide use	Number of areas with performance measurement systems	11 of 12	12 of 12	12 of 12	✔
	Number of Federal entities using performance measures	N/A	218	203	▲
Encourage innovation and increase employee satisfaction with OGP-wide communications, cooperation, and information assets	Employee satisfaction with the quality of work life in OGP	N/A	46%	TBD	**N/A**
Improve accessibility to shared databases and information on best practices and policies for government, industry and the public's use	Number of information systems accessible via the Internet	9 of 9	9 of 9	9 of 9	✔
Develop partnerships to share resources	Number of partners contributing resources to support OGP initiatives	60	171	78	▲
	Dollars from outside OGP supporting OGP initiatives	$3.1 million	$15 million	$6.0 million	▲
Governmentwide Improvement Initiatives					
Improve customer satisfaction	Customer satisfaction with OGP's services	N/A	82%	TBD	
Establish policies, standards and best practices to help develop an interoperable, single face for Government electronic business transactions	Number of solutions and best practices	4	27	5	▲
	Number of Government-wide guidelines	3	12	4	▲
	Number of interoperability standards	5	5	5	✔
	Number of information sharing initiatives	5	11	6	▲
Provide a centralized source of information on IT products that have been tested by users with disabilities pursuant to the accessibility standard mandated by Section 508 of the Workforce Investment Act	Number of EI&T classes with acceptable protocols	N/A	0	3	▼
Assist Federal agencies where the products, services and infrastructure have not been implemented to meet the needs of persons with disabilities for a barrier-free IT environment	Number of projects that meet their goals	N/A	8	8	✔

	Performance Goals	Performance Measures	FY 2000 Actual	FY 2001 Actual	FY 2001 Target	FY 2001 Performance vs. Target
OGP	Establish and maintain a core curriculum of classroom and Internet-based courses and increase the number of training instances	New Internet courses developed	2	10	4	▲
		Number of training instances. (A training instance is defined as one person completing one course session)	2,800	32,487	20,000	▲
	Improve the professional skills of agencies' present and future IT leaders	Numbers of Federal IT professionals in IT leadership programs:				
		Students enrolled in "1,000 by 2,000"	1038	1062	1,000	▲
		Students completing Trail Boss seminars	110	N/A	N/A	**N/A**
		Participants at IRMCO	414	450	350	▲
		Number of participants in STAR	51	111	60	▲
		CIO University participants	40	103	100	▲
	Provide a "single point of entry" for industry to find opportunities to do business with the Federal government	Number of agencies using Electronic Posting System (FedBizOpps)	19	40	40	✔
	Provide a prototype Federal gateway to the Internet to make Government information more accessible to the public	Number of web sites linked to by the search database	1000	22,000	2,000	▲
GSA Office of Child Care	Maintain/increase enrollment from Federal families of 50% of the total nationwide	Number of children from Federal families as compared to the total	50%	50%	50%	✔
	Increase percent accreditation of all eligible GSA child care centers	Percent of eligible childcare centers accredited	88%	80%	85%	▼
	Increase the magnitude and quality of the outreach of Federal consumer information through the effective delivery of services to other Federal agencies, the print and broadcast media, and the public	Publications distributed	N/A	N/A	6 million	**N/A**
		Accesses of FCIC electronic products	N/A	N/A	10 million	**N/A**

** Revised from FY 2000*
*** Data available February 2002*
**** Target of $2.37 was appropriate since FY 2001 was a period of transition as supply and procurement were split into separate business lines*
***** In the past, FTS has obtained information from customers through personal visits, focus groups, telephone interviews, surveys, and other methods. The objective is to better understand customers' needs, their levels of satisfaction with FTS services and products and FTS representatives, and why they do business with FTS competitors. Past survey efforts consisted of professional surveys specifically tailored to our IT Solutions and Network Services business lines and various programs. FTS had planned to utilize this same survey effort during FTS 2001; however, FTS decided to discontinue the use of the types of surveys that it has done in the past. FTS has worked with GSA management to significantly improve its performance goals and associated measures to more accurately reflect the vision of FTS and GSA leadership. The new FTS measures provide a focus that will assist FTS in guiding the organization toward achievement of the FTS and GSA vision. This vision will be clarified through the FTS Blueprint Project, and it will include professionally developed and administered customer survey efforts as part of this effort.*

Acronyms and Abbreviations Used in This Report

ACM	Asbestos Containing Material
CFO	Chief Financial Officer
CHRIS	Comprehensive Human Resources Integrated System
CIO	Chief Information Officer
CM	Countermeasure
CO	Contracting Officer
COTS	Commercial Off The Shelf
DoD	Department of Defense
EC	Electronic Commerce
EI&T	Electronic and Information Technology
FAIR Act	Federal Activities Inventory Reform Act
FBI	Federal Bureau of Investigation
FedBizOpps	Federal Business Opportunities
FCIC	Federal Consumer Information Center
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers' Financial Integrity Act
FPPO	Federal Protective Police Officer
FPS	Federal Protective Service
FRV	Functional Replacement Value
FSRM	Federal Security Risk Manager
FSS	GSA Federal Supply Service
FTE	Full Time Equivalency
FTS	GSA Federal Technology Service
FY	Fiscal Year
GAO	General Accounting Office
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GSA	U.S. General Services Administration
GWAC	Governmentwide Agency Contract
IRMCO	Interagency Resources Management Conference
ISP	Intelligence Sharing Program
IT	Information Technology
ITOMS	Integrated Tack Order Management System
ITSS	Information Technology Solutions Shop
LESO	Law Enforcement and Security Officers
MAA	Metropolitan Area Acquisition
MAC	Multiple Award Contract
MAS	Multiple Award Schedule
MCOC	Management Control and Oversight Council
MDI	Morse Diesel International, Inc.
MFC	Most Favored Customer
MOBIS	Management, Organizational, and Business Improvement Services
NASA	National Aeronautics and Space Administration
NEAR	National Electronic Accounting and Reporting System
OGP	GSA Office of Governmentwide Policy
OIACIP	Office of Information Assurance and Critical Infrastructure Protection
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OTPP	Office of Transportation and Personal Property
PBS	GSA Public Buildings Service
PCIE	President's Council on Integrity and Efficiency
PMC	Property Management Center
R&A	Repair and Alterations
RISC	Regional Information Service Center
RTA	Regional Threat Assessment
STAR	System for Tracking and Administering Real Property
WCW	World-Class Workforce
WITS	Washington Interagency Telecommunications System

GSA

Smarter Solutions

February 2002

U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405

www.gsa.gov