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FINANCIAL MANAGEMENT CHALLENGES AT THE GENERAL SERVICES ADMINISTRATION

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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FINANCIAL MANAGEMENT CHALLENGES AT THE GENERAL SERVICES ADMINISTRATION

WEDNESDAY, JUNE 7, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2154, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts and Towns.

Staff present: Mike Hettinger, staff director; Tabetha Mueller, professional staff member; Dan Daly, counsel; Erin Phillips, clerk; Gary Lawkawski, intern; Adam Bordes, minority professional staff member; and Cecelia Morton, minority office manager.

Mr. PLATTS. A quorum being present, this hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order.

Operations at the General Services Administration affect the entire Federal Government. GSA is the Government's business manager.

All Federal agencies rely on GSA for support services and management guidance.

In addition to this important mission, GSA is the lead agency for the Office of Management and Budget's financial management line of business, and it is one of four designated shared service providers.

In this dual role, GSA will not only bid to provide financial management services for other Federal agencies, it will set the standards for the Government-wide implementation of this critical line of business.

For these reasons, the subcommittee was troubled when GSA was unable to earn a clean opinion on its audited financial statements, coming on the heels of improper acquisition practices that were uncovered 3 years ago and the prospect of declining revenues.

This hearing will provide an important discussion of what GSA is doing to improve management functions and to restore faith in its business practices.

This certainly is a critical time for GSA.

The agency has a significant reorganization underway, new leadership in several key positions, including a new administrator, increased internal controls requirements, and the added challenge of managing a Government-wide initiative with broad implications.

As GSA rebuilds its reputation and moves forward, sound financial management must serve as its foundation.

We are pleased to have with us today Ms. Kathleen Turco, Chief Financial Officer at GSA, and Mr. Eugene Waszily, Assistant Inspector General for Auditing. We thank both of you for being here today and for your written testimonies which you provided in advance and for your oral testimonies you're about to give.

Before we swear you in and also recognize our ranking member, I want to recognize we are delighted to have the new Administrator, Lurita Doan with us.

Ms. Doan, thank you for being with us. We appreciate your commitment to financial management, as evidenced by your presence here today, and I saw in the Federal Times interview as you highlighted the challenges going forward, financial management being one of your priorities and returning to that track record of clean audits that GSA has long maintained. We are grateful for your presence today and the assistance of your colleagues here today, as well.

Ms. DOAN. Thank you.

Mr. PLATTS. With that, I will recognize the ranking member, Mr. Towns from New York, for the purposes of an opening statement.

Mr. TOWNS. Thank you very much, Mr. Chairman. I would like to associate myself with your remarks welcoming the new Administrator. Delighted to have you on-board.

Also, Mr. Chairman, let me thank you for having this hearing.

Today's hearing comes at a pivotal time for GSA, as it works to both remedy its accounting deficiencies and restructure its acquisition programs.

The challenges ahead are formidable due to financing irregularities uncovered within GSA's acquisition fund in 2003.

In response, some agencies have sought to keep more bulk purchasing working in-house instead of utilizing GSA's programs.

On balance, these events have altered the business model of GSA and have increased the financial uncertainty for its programs.

While I believe the establishment of one unified Federal acquisition service fund is a good start at reform, I am uncertain about the outcome of these efforts due to the results of GSA's 2005 financial statement.

Common sense dictates that restructured programs having ineffective financial management controls are unlikely to succeed.

In addition, I am dismayed with the administration's effort to use GSA as a financial center of excellence for other agencies.

If GSA is failing to achieve a clean annual audit, as it did in 2005, how can we expect it to meet the financial management needs of other agencies? I do not see how.

In closing, it is my hope that our witnesses today can demonstrate the effectiveness of GSA's reforms so it can continue as the premiere acquisition agency for the Federal Government.

Mr. Chairman, again, let me conclude and to say to you thank you so much for having this hearing, and I look forward to hearing from our witnesses.

Mr. PLATTS. Thank you, Mr. Towns.

If I could ask our witnesses to swear in before their testimony, please stand and raise your right hands.

[Witnesses sworn.]

Mr. PLATTS. Thank you.

You may be seated.

The clerk will note that both witnesses affirmed the oath.

Again, we appreciate your testimonies. We will ask you to keep your opening statements to roughly 5 to 7 minutes.

If you need more time, with the smaller setting here today, we understand that, but we are anxious to get to the kind of exchange with Q&A, as well.

Ms. Turco, if you would like to begin.

[The prepared statement of Hon. Todd Russell Platts follows:]

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY
TODD RUSSELL PLATTS, CHAIRMAN

Oversight Hearing:

"Financial Management Challenges at the General Services Administration"

Wednesday, June 7, 2006, 2:00 p.m.
Room 2154 Rayburn House Office Building

OPENING STATEMENT

Operations at the General Services Administration affect the entire Federal government. GSA is the government's business manager. All Federal agencies rely on GSA for support services and management guidance. In addition to this important mission, GSA is the lead agency for the Office of Management and Budget's Financial Management Line of Business, and it is one of four designated Shared Services Providers. In this dual role, GSA will not only bid to provide financial management services for other Federal agencies, it will set the standards for the government-wide implementation of this critical Line of Business.

For these reasons, the Subcommittee was deeply troubled when GSA was unable to earn a clean opinion on its audited financial statements. Coming on the heels of improper acquisition practices that were uncovered three years ago and the prospect of declining revenues, this hearing will provide an important discussion of what GSA is doing to improve management functions and to restore faith in its business practices.

This is a critical time for GSA. The Agency has a significant reorganization underway, new leadership in several key positions – including a new Administrator, increased internal controls requirements and the added challenge of managing a government-wide initiative with broad implications. As GSA rebuilds its reputation, sound financial management must serve as the foundation.

We are pleased to have with us today **Ms. Kathleen Turco**, Chief Financial Officer at GSA and **Mr. Eugene L. Waszily, Jr.**, Assistant Inspector General for Auditing. Thank you both for being here, and we look forward to your testimonies and to working with you in the future.

STATEMENTS OF KATHLEEN TURCO, CHIEF FINANCIAL OFFICER, GENERAL SERVICES ADMINISTRATION; AND EUGENE L. WASZILY, JR., ASSISTANT INSPECTOR GENERAL FOR AUDITING, GENERAL SERVICES ADMINISTRATION

STATEMENT OF KATHLEEN TURCO

Ms. TURCO. Thank you, Mr. Chairman, Mr. Towns, other distinguished members of the subcommittee.

I am Kathleen Turco, the Chief Financial Officer for the General Services Administration.

In order to fully understand the disclaimer of opinion of GSA's fiscal year 2005 audit, some background of GSA and its business is helpful.

GSA recorded $18 billion in revenues in 2005, paid $1.4 million vendor invoices, and issued 475,000 billings to Federal customers.

GSA is primarily comprised of three revolving funds. A large portion of our business with our customers is for time and materials, as opposed to fix-fee contracts. Therefore, we often are not completely certain when a project is considered financial complete, because we do not always know when a vendor has billed us for all their costs. This is important, because I will refer to residual balances from completed projects throughout my statement.

Additionally, with time and material contracts, there is an incentive to retain funding when a project is perceived as complete, just in case a vendor bills the GSA for final and unexpected expenses.

The disclaimer we received in 2005 from our auditors was related to our budgetary accounts.

I want to note that our proprietary accounts—revenues, expenses, assets, liabilities, and equity—in all three GSA revolving funds did receive clean opinions.

Only the budgetary accounts in the information technology fund and the general supply fund received disclaimers of opinion.

So, why the disclaimer?

In August 2005, GSA auditors informed me that they would not be able to rely on GSA's internal controls over processing of unfilled customer orders and obligations.

Unfilled customer orders are orders for goods and services from our customers for which the good or service has not yet been provided.

Obligations are amounts that are designated for a specific customer requirement, and maybe either delivered or undelivered.

The auditors found residual unfilled customer order and obligation balances from completed projects that were no longer valid. They also noted issues around incorrect amounts such as $10,000 being recorded instead of $1,000, as well as an apparent lack of a bona fide need behind some orders.

A bona fide need is a need that is current, clear, and defined within a given fiscal year, as required for a customer to validly obligate their budget authority. If no bona fide need exists, there cannot be a valid obligation or an unfilled customer order in GSA or its customers' financial records.

The auditors asked us to provide detailed records. We faced a major problem, because financial reporting for this audit was for

fiscal year 2005, as well as the prior year, 2004, and it was August 2005.

We simply could not conduct a complete review of GSA records by year-end and meet the November 15th Government-wide reporting date.

To provide detailed records would have required a complete review of unfilled customer orders and obligations for 2005.

Also, we could not recreate the exact detail that went into the 2004 fiscal year financial report.

Instead, we decided to conduct a statistical sample of the fiscal year 2005 year-end numbers and report statistically valid data by reviewing 1,200 files and statistically calculating the unfilled customer order and obligation balances.

Unfortunately, we were not able to statistically calculate unfilled customer orders and obligations as of September 30, 2004.

We simply could not go back in time to recreate the populations that were needed for sampling.

Further complicating this challenge was that our financial system of record received summary information that could not be aged to identify the oldest and most suspect balances.

The specifically statistical amounts we adjusted due to this analysis in our fiscal year 2005 year-end numbers amounted to 1 billion of unfilled customer orders and $444 million of obligations across our three funds.

This is significant, because GSA's materiality level is $450 million.

We clearly exceeded the materiality level.

With the statistical sampling finished, we reported what we considered to be statistically solid fiscal year 2005 year-end numbers, but we did not have good fiscal year 2004 ending numbers, which should be the same as the fiscal year 2005 beginning numbers. This led to the loss of the clean opinion.

What are we doing in 2006 to address these problems?

GSA has undertaken a substantial revision to our financial internal control program.

The factors contributing to our disclaimer are under corrective action.

Aging reports have been put in place. Aging reports will allow us to identify completed projects that have residual balances and projects for which there is no longer a bona fide need.

We have developed reports that break out unfilled customer orders, obligations, accounts receivable, and accounts payable balances by business line, by program, by fiscal year, and by region. Reports allow us to focus our reviews and clean up the oldest and, therefore, most suspect balances.

Along with the aging reports, we are reviewing all significant files.

For the Federal buildings fund, we are reviewing 75 percent of all obligations, as well as 100 percent of many of the fiscal year 2004 and prior unfilled customer orders that have no financial activity in the last 12 months.

In the general supply fund, we are reviewing the files of obligations in question, and we have already completed and corrected 47 million of the estimated 58 million. For the unfilled customer or-

ders, we have corrected 26 million of the estimated 33 million problems.

The information technology fund, where we were most challenged—we have completed reviewing 95 percent of the fiscal year 2005 and prior unfilled customer orders, and we are on track to return over 600 million in invalid unfilled customer orders to our customers.

Finally, we are reviewing all obligations with our five largest vendors that comprise the majority of the information technology fund obligations.

In addition, we have issued three significant policies, including a streamlined de-obligation policy, an unfilled customer order certification requirement policy, and a policy requiring certifications for obligations.

Another problem area was inadequate reconciliation of GSA's business systems to our core financial system. I have mandated and implemented monthly and semi-annual reconciliations between all business systems and core financial systems.

The difference here led, in fiscal year 2005, to a material adjustment of $500 million on the books. We were able to correct this, but clearly, we had a problem in terms of using our primary reporting system to produce timely or accurate information on a day-to-day basis.

We have also established an automated routine practice of compiling and comparing budgetary and proprietary accounts.

This allows us to ensure data moves in sync between our budgetary and proprietary accounts so that both contain accurate financial information and the balances are identical.

This effort has reviewed 2.5 million transactions, and it is currently 99 percent complete.

The challenges we face in cleaning up our disclaimer have driven us to quickly implement OMB Circular A–123, management's responsibility for internal control. I can factually report that we have implemented the process for assessing, documenting, and reporting.

We have completed the planning process as well as evaluation and controls, including cross-walking our key business processes to our material financial reporting line items.

We have documented our most important key financial reporting processes and conducted a risk assessment.

To ensure coverage of all key controls, we selected five regional offices, a warehouse operation, and several headquarters locations to perform testing.

We are complete in our testing. We are currently conducting followup work and evaluating the results of our testing.

We will meet the June 30, 2006, reporting deadline to provide our statement of assurance of the effectiveness of internal controls for financial reporting. Any problems we find, we will have the ability to address between now and the close of the fiscal year.

The efforts I have described are an appropriate aggressive approach to cleaning up our financial house. If carried out effectively, we should regain the clean audit opinion.

We do face a hurdle.

As I stated earlier, we calculated statistical projects of our unfilled customer order and obligations at the end of 2005.

Statisticians from three separate firms, including our external auditors, all agreed on the sampling and projecting methodology, but ultimately, our projections were estimates.

If our review efforts this year find errors materially different in what we estimated last year, our 2005 projections may be materially misstated, which means our 2005 ending balances and, therefore, our fiscal year 2006 beginning balances would be materially misstated.

In the event—and this is key—that we are unable to quantify the difference between our reviews and statistical projections, a clean opinion may not be achievable for fiscal year 2006.

Current indicators are that this is unlikely, but I would be remiss in not acknowledging this possibility.

Serving other Federal agencies is the core mission of GSA.

OMB selected GSA to serve as one of the four financial management lines of businesses.

I would like to assure the subcommittee that the disclaimer has no impact on GSA's ability to provide financial services to other agencies, because the primary reason behind the loss of a clean audit opinion was residual balances from past IT projects.

It was not from our financial system software or reporting practices.

As a shared service provider for over 30 years, we are currently providing financial services to 47 independent agencies, boards, and Presidential commissions, as well as a payroll service provider to 37 agencies. We spent the last 6 months focused on establishing our Federal integrated solutions center and developing a marketing plan to provide financial management services and products to our current and future Federal clients.

Our shared services are built upon a financial management enterprise architecture foundation. We are in accordance with the financial management enterprise architecture standards, and in fact, our financial management enterprise architectural work is being used by OMB's Financial Systems Integration Office [FSIO], as the foundation document for dividing common business processes and data. Security and privacy protection of data has also been a priority. We believe our financial systems controls have been strengthened considerably over the last few years, as evidenced by our recent scorecard grade of an A-minus for Federal Information Security Act compliance in this area.

GSA is committed to getting back our clean opinion for 2006 and doing what is best for the Federal Government and our client agencies.

I welcome your questions.

[The prepared statement of Ms. Turco follows:]

STATEMENT

OF

KATHLEEN M. TURCO

CHIEF FINANCIAL OFFICER

U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

COMMITTEE ON GOVERNMENT REFORM

UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 7, 2006

Mr. Chairman, and other distinguished members of the Subcommittee, I am Kathleen M. Turco, Chief Financial Officer of the General Services Administration (GSA). I am pleased to have this opportunity to appear before you today to discuss the findings of GSA's Fiscal Year (FY) 2005 audit as well as GSA's efforts to improve the overall financial management of GSA.

I would first like to thank this Subcommittee for their efforts to improve financial integrity throughout the Government and my testimony will address the issues that you raised in your letter of May 23, 2006 to David L. Bibb, GSA's Acting Administrator:

- The issue arising in the FY 2005 audit process that led the auditor to issue a disclaimer of opinion;
- The status of efforts to improve internal financial controls and comply with the revised OMB Circular A-123;
- GSA views on the Office of Management and Budget's financial management line of business initiative;
- The status and operations of GSA's shared services center; and
- An update on the implementation of GSA's planned financial systems framework.

The General Services Administration - Background

In order to fully appreciate what happened in GSA's FY 2005 audit, an understanding of GSA and its business is helpful. GSA recorded $18.5 billion of revenues in FY 2005 and employs 12,455 employees (as of May 2006). GSA is primarily funded by three revolving funds that conduct 17 lines of business (see Appendix A). Additionally, GSA has three other revolving funds, ten general funds, nine special funds, and thirteen miscellaneous receipt/deposit funds (see Appendix B). In FY 2005, we paid 1.4 million vendor invoices and issued 475,000 billings to Federal customers.

I should note at the outset that our proprietary accounts (i.e., revenues, expenses, assets, liabilities, and equity) in ALL GSA funds did receive clean opinions. Only the budgetary accounts in two GSA funds received disclaimers of opinion. To summarize, GSA's FY 2005 audit opinions were:

Primary GSA Fund	Proprietary Accounts: Assets, Liabilities, Equity, Revenues and Expenses	Budgetary Accounts: Resources & Status of Resources
Federal Buildings Fund	Unqualified (Clean)	Unqualified (Clean)
Information Technology Fund	Unqualified (Clean)	Disclaimer
General Supply Fund	Unqualified (Clean)	Disclaimer

The reason for the disclaimer on two funds is because the Federal Technology Service (FTS), which is primarily funded by the Information Technology Fund (ITF), funded its professional services line of business through the General Supply Fund (GSF). Because we

could not determine how much of these unfilled customer orders (UFCO) belonged in the GSF as of September 30, 2004, the GSF received a disclaimer opinion on their budgetary financial statements as well. In other words, while UFCO and obligation issues exist throughout GSA, the significant internal control breakdowns that lead to the disclaimer opinions existed in the ITF exclusively.

While the majority of GSA financial reporting was considered 'clean', GSA appreciates financial integrity to the point that we have chosen to embrace the qualified opinion and capitalize on the opportunity for further pursuit of financial excellence by strengthening internal control throughout all GSA's funds.

A large portion of our business with the private sector is for 'time and materials' as opposed to 'fixed fee' projects. Therefore, we often are not completely certain when a project is considered financially complete because we do not entirely know when a vendor has billed us for all of its costs. This is important because this results in 'residual balances from completed projects', to which I will refer throughout this testimony. Additionally, with time and materials contracts, there is an incentive to retain funding when a project is perceived as complete just in case a vendor bills GSA for final and unexpected expenses. Appendix C illustrates the order of financial events and recordings made in GSA and customer agency general ledgers as well as how residual balances occur.

The FY 2005 audit and issues that led the auditor to issue a disclaimer of opinion

In August 2005, GSA's financial statement auditors informed me that they would not be able to rely on GSA's internal control over processing of certain budgetary activities, specifically: UFCOs and obligations. UFCOs are orders for goods and services, from our FAS customers, for which the good or service has not yet been provided. Obligations are amounts that are designated for a FAS specific endeavor/customer request and may be either undelivered or delivered. In other words, UFCOs are the spending authority GSA's FAS has from its customers and obligations relate to the GSA's use of our customer's budget authority. The auditors found residual UFCO and obligation balances from completed projects that were no longer valid. Additionally, they noted issues around incorrect amounts (e.g., '$10,000" instead of "$1,000") as well as the apparent lack of a *bona-fide* need behind some orders. A bona-fide need (that is, a need that is current, clear and defined within a given fiscal year) is required for a customer to validly obligate their budget authority. If no *bona fide* need exists, there cannot be a valid obligation or UFCO in GSA's or its customer's financial records.

A complete review of GSA records by year-end was impossible at that point-in-time (August 2005). However, GSA was ultimately able to meet the government-wide reporting deadline of November 15, 2005 and report statistically valid FY 2005 year-end numbers by reviewing over 1,200 files and statistically calculating the UFCO and obligation balances. Unfortunately, GSA was not able to statistically calculate these issues as of September 30, 2004, because GSA could not go back in time to recreate the populations of transactions that were needed for sampling. Therefore, GSA had valid FY 2005 year-end numbers but did not have reliable FY 2004 ending numbers. Since these were the same as FY 2005

beginning numbers, GSA was prevented from receiving its 18th consecutive clean opinion. The specific amounts that GSA adjusted its FY 2005 year-end numbers were:

Numbers are in Millions	FBF	GSF	ITF	Total
Unfilled Customer Orders	320	33	700	1,053
Obligations	(109)	(58)	(277)	(444)
Materiality*	450	108	252	NA

* = Materiality is an amount that approximates a reasonable financial statement reader's opinion of the accuracy of the financial statements. This subjective amount can be calculated as 3 percent of the larger of assets or expenses per the Government Accountability Office's (GAO) *Financial Audit Manual* (section 230.11). GSA's overall materiality is $450 million that is the same as the Federal Buildings Fund (FBF) because the FBF has the vast majority of assets reported by GSA.

The problems I have described were ultimately allowed to occur because our primary system of financial record received summary information that could not be aged to identify the oldest and most suspect balances. Additionally, headquarters personnel in my office did not have access to the business systems feeding our general ledger. These contributing factors have been, or will be, corrected by fiscal year-end.

As I have mentioned, we are embracing the opportunity for positive change at GSA and have instituted a number of changes in FY 2006. GSA financial management is excited about the changes noted below and taking significant steps towards our mantra: "Good data in the system all the time!"

Status of effort to improve internal control and comply with OMB Circular A-123

The Office of the Chief Financial Officer and the financial community at GSA has undertaken a substantial revision to our financial and management internal control program during FY 2006. We are doing this both to address and resolve the material weaknesses identified by our external auditors as well as to improve our policies, operations and management oversight of GSA's financial activities for the future. We have a variety of management activities and control programs underway. I would like to discuss each of these programs.

Aging Reports

GSA has launched an aggressive effort to identify completed projects with residual balances and projects for which a bona fide need no longer exists. The primary tool to aid this effort is aging reports. As of today, GSA has developed reports that breakout UFCO, obligation, accounts receivable, and accounts payable balances by fiscal year and region. This allows us to focus our resources on the oldest and therefore most suspect balances and ensure our clean up effort is as effective as possible. The other and perhaps more significant feature of these reports is the identification of balances by region. GSA is comprised of one headquarters office and eleven regional offices. We are identifying which regions are doing the poorest job of cleaning up old balances as well as which regions are doing the best job and sharing that information publicly. This use of peer pressure is proving to be a highly motivating tactic.

File Reviews
With the aid of the aforementioned aging reports, we are reviewing all significant files at GSA. Specifically, for the Federal Buildings Fund (FBF), we are reviewing 75% of all obligations as well as 100% of any FY 2004 and prior UFCOs with no financial activity in the last 12 months. In the GSF, we are reviewing the files as well and already completing correction on $47 million of the estimated $58 million problem with their obligations as well as $26 million of the estimated $33 million problem in their UFCOs. For the ITF we have completed reviewing 95% of all FY 2005 and prior UFCOs and are on track to return over $600 million in invalid UFCOs by fiscal year-end. Finally, we are reviewing all obligations with their five largest vendors that comprise the majority of ITF obligations. Additional reviews applying the new streamlined deobligation policy (described below) are also underway in each Service.

Revised Policies
We have issued three significant polices as a direct result of our FY 2005 audit results:

1. Streamlined Deobligations – This policy gives business managers and accountants the authority to deobligate any balance under $100,000 that is not certified as valid, in writing, by a Contracting Officer. Previously, the authority to deobligate funds from our accounting system primary rested with Contracting Officers who are guided by Federal Acquisition Regulations (FAR) as opposed to Federal Accounting Standards. This policy is in compliance the FAR and was jointly issued by GSA's Chief Acquisition Officer and myself. The need for this policy was a lesson learned as GSA wrestled with the question: "Who has responsibility for obligations in the accounting system; Contracting Officers who record obligations or Accountants who report financial information?"
2. UFCO Certification – This policy requires Project Managers and/or Contracting Officers to certify, in writing, balances larger than specified amounts and older than specified time periods. The balances and time periods requiring certification vary depending on assessed risk levels, past results, and fund size.
3. Obligation Certification – This policy requires certifications similar to UFCO certifications but for obligations instead.

Both UFCO and obligation certifications will be validated by "A-123 testing teams" established in FY 2006 to strengthen our compliance with the requirements of OMB Circular A-123, *Management's Responsibilities for Internal Control*. We believe the certification policies and the validation of their effectiveness by A-123 testing teams will be highly effective controls that will prevent residual balances from existing in GSA's financial systems ever again.

Reconciliations of Business Feeder Systems to Core Financial System
Also noted in our auditor's report was the fact that GSA services were not adequately reconciling their business systems to our primary financial system. When the reconciliations were adequately performed in FY 2005, a $500 million (i.e., material) adjustment resulted. While we were able to correct this issue in FY 2005, the fact that a material adjustment was required indicates that our primary reporting system could not produce timely or accurate

information on a day-to-day basis without significant, manual correction and therefore was a far cry from "Good data in the system all the time!"

This fiscal year GSA will begin reconciling all business systems contributing material financial information to GSA's core financial system's standard general ledger by the GSA services and the OCFO Regional finance centers reconciled on either a monthly or semi-annual basis. Currently, there are eleven systems and/or sub-systems that must be reconciled:

- Common Oracle Dababase (CODB) - Monthly
- Integrated Task Orders Management System (ITOMS) - Monthly
- Order Management Information System (OMIS) - Monthly
- GSA Preferred (GSAP) – Monthly (to be withdrawn)
- Reimbursable Work Authorization (RWA) - Monthly
- Sale To Agency Report (STAR) - Monthly
- Federal Supply Systems Payment System (FEDPAY) - Monthly
- FSS Automated Supply System (FSS–19) - occurring now - will be semi-annual
- Requisitioning, Ordering & Documentation System (ROADS) - occurring now - will be semi-annual
- Customer Supply Center (CSC) - occurring now - will be semi-annual
- Centralized Procurement Sourcing Application CPSA - occurring now - will be semi- annual

Account Analysis
GSA is currently comparing budgetary and proprietary accounts that move in-synch to ensure our budgetary and proprietary accounts both contain accurate financial information. For example, we are comparing the proprietary Accounts Receivable to the budgetary equivalent Earned Reimbursements – Receivable because these accounts are impacted identically. Therefore, we would expect the balances to be identical. We now have a routine monitoring process that ensures their balances are indeed identical. This effort has reviewed 2.5 million transactions and is currently 98 percent complete.

Fiscal Year 2006 Financial Audit Statistical Sampling
We are planning to conduct FY 2006 statistical samples similar to what we performed at the end of FY 2005 because we want to measure and prove the effectiveness of our corrective efforts. Additionally, we want to review sample results by region in order to gain additional feedback as to which regions are paying the most attention to financial integrity.

Improving GSA's Federal Managers Financial Integrity Act Program
GSA has developed a new assurance statement application, which incorporates questions covering the Federal Managers Financial Integrity Act (FMFIA), Federal Information Security Management Act (FISMA), Federal Financial Management Improvement Act (FFMIA), as well as specific questions relating to the finance, budget, contracting and procurement. Managers are asked to respond to questions based on their Service, Staff Office, or area of responsibility. All managers completing an assurance statement are

required to answer questions regarding the five standards of internal control. The project is being conducted in two phases:

- Phase I is the development of the assurance statement application.
  - The redesign of the assurance statement is 75 percent complete.
  - We met the June 2, 2006, deliverable date for testing.
  - We are on schedule to meet the June 30, 2006, launch date of the Phase I live application.
- Phase II is the development of the internal control application.
  - We are developing an "A-123 database" which will track all A-123 identified internal control weaknesses. Development of the A-123 internal control database is being conducted in conjunction with the assurance statement application.

The final product will offer GSA a comprehensive tool to complete assurance statements, review and monitor the internal control plans, conduct risk assessments, internal control reviews, and track the implementation of internal control recommendations. Additionally, the application will provide extensive reporting and analytical tools for assessing internal controls at GSA.

OCFO Performance Management

GSA has instituted a robust Performance Management Program and has implemented a performance measurement tool (PMT) that tracks various performance measures across GSA and within the CFO's office. Monthly, we track the following financial management measures:

- Percentage of Approving Officials that have reviewed credit card holder statements
- Number of delinquent credit card holders
- Percentage of invoices paid on time
- Percentage of invoices received electronically
- Percentage of invoices paid electronically
- Percentage of available discounts earned
- Number of Invoices over 30 days old
- Number and value of delinquent receivables
- Size of reconciliation balances
- Intragovernmental trading partner differences

We also track performance measures of our financial systems operations

- Systems Integrity Index
- Systems Availability
- Earned Value on Development, Modernization and Enhancement Projects
- Monthly Closeout Cycle
- Transaction Timings

OCFO Management of Financial Policy and Operations
We are confident that these efforts will be sufficient to regain a clean audit opinion on ALL GSA funds in FY 2006 and we are highly encouraged by OMB's scorecard progress rating for Financial Performance of GREEN. However, we are pursuing other endeavors as well to ensure financial excellence. Specifically:

- GSA's OCFO is holding quarterly meetings, attended by the entire GSA financial community, for the purpose of presenting the status of corrective efforts for each fund, as well as sharing of best practices.
- GSA OCFO is reinforcing the concept of strong internal controls via posters, constant emails, and even our daily coffee mugs that are imprinted with the OCFO's mantra: "Good data in the system all the time!" We have produced and distributed executive and employee internal control guides that summarize the essentials of internal controls. The guides are being used extensively in training which is being offered throughout GSA's Regions, Services, and Staff Offices.
- I have created a team to design and test new reports that will clearly represent the status of open audit issues. The project has been successfully completed and the reports are available to users. The reports graphically depict the percentage of action steps completed and remaining for each audit issue.
- GSA OCFO has developed an internal controls handbook. The handbook incorporates the requirements of the revised OMB Circular A-123 and includes system controls as required by FISMA.
- GSA OCFO and Office of the Chief Information Officer has placed increased emphasis on strengthening Information Technology (IT) security and financial system controls by:
  - Initiating specialized IT security awareness training on an annual basis.
  - Completing certification and accreditation reviews for financial systems.
  - Ensuring the update of all Plan of Action and Milestones (POA&M).
  - Ensuring that system contingency plans are documented and tested.
  - Initiating actions to promote compliance with Homeland Security Presidential Directive 12 (HSPD-12) requirements.
  - Initiating a wide series of actions to enhance system operational and technical controls in accordance with National Institute of Standards and Technology (NIST) guidance.

Actions taken in this area contributed to GSA's recent A- grade for FISMA compliance.

- GSA OCFO is promoting a "Financial Excellence Award" that will be awarded to the GSA region which displays the highest regard for internal controls and financial excellence at GSA. The award will be given at the end of this fiscal year based on A-123 test results, financial statement audit results, and aging report results.

OMB Circular A-123 Implementation
The challenges we faced in "cleaning up" our disclaimer have driven us to embrace and quickly implement the revised OMB Circular A-123, *Management's Responsibilities for*

Internal Control across GSA. We have established a strong program to assess internal control over financial reporting to ensure the efficiency and effectiveness of GSA operations, the reliability of our financial reporting, and compliance with applicable laws and regulations. Our program closely follows the guidance provided by OMB in Circular A-123, Appendix A, *Internal Control Over Financial Reporting,* and the implementation guide issued by the Chief Financial Officer's Council for the assessment, documentation, and reporting on our internal controls over financial reporting. I should note that GSA staff actively contributed in the drafting of the implementation guide.

The GSA program for internal control over financial reporting consists of a five-step process of:

1. planning,
2. evaluating internal control at the organizational entity level,
3. evaluating internal control at the process level,
4. testing at the transaction level, and
5. concluding, reporting and correcting deficiencies and weaknesses.

I lead our Senior Assessment Team (SAT), a group of experienced senior executives who provide leadership and oversight of our assessment of internal control over financial reporting. Senior members of the GSA Office of Inspector General serve as advisors to our SAT. The SAT has completed the planning process for our assessment, which includes: the scope and materiality assessment; determination of key processes supporting material line items; risk analysis; integration and coordination with other control related activities; evaluation of our IT infrastructure; and determination of our testing approach.

We have completed our evaluation of controls at the organizational entity level. Using the Internal Control Management and Evaluation Tool developed by GAO, we developed an evaluation process for controls at the organizational entity level. Our evaluation included the five standards for internal control: control environment; risk assessment; control activities; information and communication; and monitoring.

In our evaluation of controls at the process level, we cross-walked our key business processes to our material financial reporting line items. We documented our most important key financial reporting processes and conducted a risk assessment. The assessment team reviewed the control design for adequacy and identified key controls.

The SAT evaluated our key controls and made the decision to test all key controls during FY 2006. To ensure coverage of all key controls, we selected five regional offices, a warehouse operation, and several headquarters locations to perform testing. Testing teams were established consisting of SAT staff, business line staff, and contractor staff. Testing has been completed in all locations and we are currently completing follow up work and evaluating the results of our testing.

In June 2006, we will prepare a final report on our test results and the SAT will complete their assessment. We will analyze the findings to determine if internal control deficiencies,

reportable conditions, or material weaknesses exist. If so, we will develop and implement corrective action plans. We are monitoring progress on existing corrective action plans. We will formulate our recommendation on the level of assurance the Administrator should provide on our internal controls over financial reporting. GSA will be providing a statement of assurance over the effectiveness of internal controls over financial reporting as of June 30, 2006, in our Performance and Accountability Report. Any changes in the status of our assessment of the effectiveness of internal control between June 30 and September 30, 2006 will be in our Annual Assurance Statement.

Going Forward – the FY 2006 Financial Reporting and Audit Opinion

The efforts I have described are an aggressive approach to cleaning up our financial house. If carried out effectively, we should regain a clean audit opinion. However, I cannot guarantee a clean audit opinion in FY 2006. As noted above, GSA calculated statistical projections of our UFCO and obligation issues at the end of FY 2005. Statisticians from three separate firms, including our external auditors, all agreed on the sampling and projecting methodology but ultimately, our projections were estimates. If our review efforts this year find errors materially different than what we estimated last year, then our FY 2005 projections were materially misstated, which means our FY 2005 ending balances were materially misstated and, therefore, our FY 2006 beginning balances are materially misstated. In the event that we are unable to quantify the differences between our reviews and statistical projections, a clean FY 2006 opinion will not be possible. All current indicators are that this is unlikely, but I would be remiss in not acknowledging this possibility.

Views on OMB's financial management line of business initiative

Both the private sector and Federal Government have proven time and again that a shared services model for back office functions works effectively, saves money, and allows organizations to focus their resources on achieving their primary missions. We fully support the vision of Federal Management Line of Business (FMLOB) initiative and the four FMLOB work streams that OMB has initiated. Standardization of common processes and data, coupled with disciplined, proven approaches toward data migration, project management, and information technology management makes good business sense. A strategically-focused and balanced set of performance measures, capturing FMLOB outcome goals at the strategic level and tiering down to operational service level metrics, will help drive change in the right direction, while ensuring there is accountability for results.

OMB's roadmap toward achieving FMLOB goals starts with IT consolidation of services and products but progresses toward achieving improved integrity, stronger controls, increased productivity through streamlined processes, and integrated financial and program data. Achieving the goals envisioned by the FMLOB initiative is a long-term effort and one that will surely evolve as the initiative matures. There is tremendous potential to avoid costs through consolidation of IT services, by requiring agencies to migrate to a Shared Service Provider (SSP) for data center hosting and application management services. Yet, FMLOB should be viewed as much more than just an IT Initiative that considers financial management services as commodities.

From the GSA OCFO perspective, the FMLOB success hinges upon maintaining the critical and governmental role of ensuring regulatory and policy compliance, effective internal controls, financial data integrity, integration of data with mission-critical programs, and security and protection of our Federal assets and data. The importance of this role cannot be understated and will only increase as the scope of FMLOB services expands over time -- which they will. Today, the focus is on financial management systems; in the longer term, increased numbers of agencies will look to FMLOB providers for transaction processing and financial analysis and reporting support services. Significant financial management improvement opportunities and cost avoidance/savings exist by leveraging the Government's expertise and controls and economies of scale that a Federal SSP can provide. For example, the FMLOB shared services concept can be extended to include audit and compliance reviews support services, security support services, contract management services, joint procurement opportunities, access to Federal financial management, accounting and financial systems expertise, and additional lessons learned as we gain further understanding of our capabilities.

Migrating agencies want GSA, as an SSP, to ensure we are competent, compliant, and cost-efficient. A market-driven, competitive framework for the FMLOB initiatives is a good approach to selecting a SSP. We believe competition is healthy and must include appropriate mechanisms for accountability once a provider is selected to ensure good stewardship of taxpayer dollars, irrespective of whether the selected source is a public or private provider. We are working closely with OMB to ensure policies facilitate competitions that are fair and transparent as well as accountability for results.

Lastly, while the FMLOB effort is on the right path, there are two areas that I believe require additional attention:

1. Integration and coordination, at a tactical planning level, across the eGov and Line of Business initiatives can be improved. Our concept of operations for FMLOB envisions a stronger portfolio-based approach to planning and managing these initiatives. Combining the efforts of Financial Systems Integration Office (FSIO) and the Federal Enterprise Architecture Program Management Office (PMO) should help clarify and give increased visibility to interdependencies between program areas and financial management. We understand that the scope of financial management reaches into many other "lines of business" and cannot – and should not – be viewed as silo efforts. Within each eGov or LOB "stovepipe" the plans and milestones are sound but often, when the requirements are presented to agencies, the efforts have conflicting timeframes, are difficult to adequately fund when taken in total, and have interdependencies that are not always taken into consideration.
2. To date, FMLOB discussions have primarily focused on Chief Financial Officers Act agencies. We continue to have conversations with OMB about the importance of accommodating the needs and cost constraints for small and mid-sized agencies. As a provider for more than forty small agencies, boards, and

commissions, we understand the services they require, the level of support they need, and what they can afford to pay.

Status and operations of GSA's shared services center

Serving other Federal agencies is the core mission of GSA. GSA's Federal Integrated Solutions Center (FISC) provides financial management services and products to our clients, allowing them to concentrate on their core missions and utilize their limited resources where they will best support expending taxpayers' dollars on effective programs. This allows our client agency's primary focus to be on achieving program outcomes.

Our motivation is to serve the public taxpayer by providing best value, Federally focused financial management services that deliver results and reduce cost and risk to the Government and public. We are ready to share our expertise and lessons learned, and to help agencies leverage the combined resources of the Government to attain and sustain high-performing, cost-efficient financial management systems, and service solutions.

Through our more than 30 years of cross-servicing experience and expertise in financial services, government rules and regulations, Treasury requirements and OMB mandates, we provide our client agencies with a partner that is not only expert in governmental accounting, reporting, and internal control, but is in a position to bond seamlessly with a sister agency. This combination of financial "know how", customer service, and systems and process expertise, allows us to help our clients meet their current and future missions as well as the public laws and mandatory requirements of regulatory agencies.

Our current client base includes GSA Services and Staff Offices as well as 47 independent agencies, boards and presidential commissions that receive a full range of governmental financial and accounting services, and 37 agencies receiving payroll services. We actively participate in cross-agency working groups and councils to ensure we are cognizant of current and emerging issues, are positioned to positively contribute to Federal initiatives and meet Federal requirements, and continuously improve our capabilities and maturity of our service delivery to better meet our customers' needs. The FMLOB initiative created the opportunity for us to build upon our cross-servicing experience and provide financial management shared services to a broader base of agencies. We have carefully and deliberately planned a business model that continues to deliver high quality and customer-centric services to our existing base of customers even as we transition to providing services to larger agencies. Our FMLOB services are built upon a Financial Management Enterprise Architecture (FMEA) foundation that reflects the Federal Systems Integration Office (FSIO)-compliant financial management requirements; recognizes at the business process and data levels the interconnections between financial management and programs; and at the technology level, the common infrastructure elements that can be commoditized, reused, and leveraged across multiple lines of business.

Working in partnership with the OCIO, the OCFO has been a leader in defining GSA's target enterprise architecture. Our FMEA work is being used by FSIO as the foundation

document for defining common business processes and data. Further, we are using our methodology and documentation for internal control purposes and are ready to leverage this work to address client agencies needs as well – highlighting high risk processes, segregation of duties across activities, and business rules.

We have placed a priority focus on fundamentals. We know that we must continue to provide sound financial management stewardship, quality-focused and disciplined service delivery, and maintain our reputation for excellence in customer-care in order to achieve our customers' desired results. For our external clients, we offer a FSIO-certified financial management system as well as an annual Statement on Auditing Standards (SAS)-70 audit to provide assurance that we have effective financial management systems and process controls in place for our external clients. We also have multi-layered security in place, and a rigorous and disciplined approach to project and contractor management.

We have recently completed a full-scale go-to-market analysis to ensure we understand current and future market needs and are positioned to effectively compete and provide services to our Federal client agencies for the long-term.

Either with our in-house resources alone, or through our public-commercial partnerships, we can provide a wide range of services, tailored to meet the needs of a particular agency depending upon where it is in its life cycle, its size, and the scope of services it may require. GSA can provide a menu of point or portfolio solutions at various service levels – ranging from data center hosting and application management, to transaction processing support, to fully integrated end-to-end back office systems and services encompassing human resources, payroll, travel, acquisitions, and financial management systems.

GSA is committed to doing what is best for the Federal Government and for our individual client agencies. We believe there is value in developing long-term relationship with our customers so that we are able to do more than just provide services – we want to work with our customers to collaboratively develop and deliver sustainable, integrated solutions that allow them to focus on their missions while we focus on ensuring their back office needs are met. We know that providing financial management services is much more than just providing a data center and some software. By working together, we can identify and act upon opportunities to leverage economies of scale related to people, processes, and technology in order to achieve improved Federal financial management results.

Finally, I would like to assure you, Mr. Chairman, and the other members of the Subcommittee, that the loss of GSA's financial audit opinion has NO impact on GSA's ability to provide excellent financial services to other agencies. As noted previously, the primary reason behind the loss of a clean audit opinion was residual balances from past IT projects (i.e., a business practice) and NOT our financial system software or reporting practices. This is further supported by the fact that our financial system received a clean SAS 70 opinion in FY 2005 and is on track to receive another clean opinion in FY 2006. Additionally, the manual internal control processes that service our current customers are independent of the internal controls in GSA's 17 business lines.

Update on the implementation of GSA's planned financial systems framework

GSA is successfully operating and maintaining a secure, stable and FSIO-certified Commercial-Off-The-Shelf (COTS) financial management system, known as CGI Momentum Financials, or "Pegasys". In October 2002, Pegasys became GSA's core financial system of record and reflected the culmination of a huge effort that involved migration from the GSA NEAR legacy system to a modern FSIO-compliant system.

GSA has repeatedly demonstrated that a phased approach leads to success. GSA first implemented functionality not residing in the legacy system and then, made the changes necessary for Pegasys to become GSA's system of record. GSA has a sound and secure infrastructure in place, remains current on all minor releases, and is on a two-year refresh cycle for upgrading to the next major version release of the Momentum application. In 2004, my office successfully upgraded the system from version 3.7 to 5.1, on time, on budget and with the desired results. A current upgrade (to Version 6.1.2) is underway and is scheduled to be completed in July 2006. Version 6.1.2 moves Pegasys from a client-server application to a web-based application.

Over the last several years, the OCFO has intensely focused time and resources on maturing our system development life cycle processes, building up a cadre of certified project managers, strengthening our contracts and contract management controls, and institutionalizing a culture of continual quality improvement.

Our implementation of eGov Travel is being successfully managed by an integrated team of finance, systems, and business line representatives, working collaboratively with the eGov Travel PMO and GSA's selected eGov Travel vendor. Again, GSA has taken a methodical, risk-based phased approach as we implement this eGov initiative. Our disciplined project management and systems development approaches has allowed us to identify – and work with the vendor to correct - problems before they create a large-scale impact to the GSA business lines. Although not required, we have also enhanced the security controls related to this eGov Travel application, a benefit we are passing along to the external agencies we serve.

Security and privacy protection of data has also been a priority. We, at GSA, believe that our system controls have been strengthened considerably over the past few years, as evidenced by our recent scorecard grade of an "A" - for FISMA compliance in this area.
The OCFO maintains a comprehensive and proactive IT security program for its financial management systems. IT security program goals are to ensure the confidentiality, integrity and availability of data and systems resources to support daily business needs while adhering to Federal IT security requirements and commercial best practices. We regularly assess our controls to ensure compliance with the Federal Financial Management Improvement Act, Federal Information Security Management Act, and Section 4 of the Federal Managers' Financial Integrity Act and OMB Circulars Nos. A-127 and A-130.

As with our quality processes, we seek to continually improve upon the controls we have in place. Security activities include, but are not limited to:

1. conducting System Certification and Accreditation Reviews,
2. conducting annual IT security awareness training,
3. updating, reviewing and testing of system contingency plans at least annually,
4. conducting E-authentication risk and Privacy Act impact assessments for all major systems,
5. ensuring compliance with HSPD-12 requirements relating to personnel security,
6. performing system scans on a quarterly basis to identify and correct any system vulnerabilities identified,
7. completing annual SAS 70 reviews of our payroll and financial accounting systems,
8. devising system interconnection security agreements to effectively safeguard OCFO-managed systems that interconnect with other organizations,
9. conducting an annual FISMA assessment of each major OCFO-managed system to improve compliance with NIST requirements, and
10. maintaining intrusion detection monitoring systems, firewalls, and other controls to safeguard and restrict access to OCFO-managed IT system resources and data.

GSA's management of our financial management applications and the supporting infrastructure technology is sound and secure. Now, in accordance with FMEA standards and to ensure internal GSA alignment to FMLOB and GSA's "to-be" architecture, GSA is ready to move forward on the next phase of our planned financial management systems framework. Our FMEA defines improved business processes and strong integration of GSA's procurement systems to our core financial system. Successful implementation of this FMEA begins with recognition that GSA's business line processes generate financial information that is often initially recorded in acquisition systems outside of Pegasys. Because of the complex nature of GSA's business, acquisition processes are tightly coupled with financial management processes and, absent system integration controls, require substantial people-based controls and resources to ensure proper recording and reconciliation of data.

The strong business process improvement and standardization efforts that are already well underway, coupled with GSA's strengthened internal control programs in our business lines, implementation of a fully integrated acquisition and core financial system at GSA will resolve existing integrity and control deficiencies, meet the business needs of GSA, now and into the future, decrease costs, and provide the ability to perform improved financial and business reporting and analyses.

APPENDIX A

GSA lines of business:

Federal Acquisition Service - Federal Supply Service

1. Commercial Acquisition
2. GSA Global Supply
3. Vehicle Acquisition and Leasing
4. Travel and Transportation
5. Personal Property Management
6. E-Gov

Federal Acquisition Service – Federal Technology Service

7. Long Distance
8. Regional Telecommunications
9. Regional Information Technology Solutions
10. National Information Technology Solutions
11. Other

Public Buildings Service

12. Space Rentals
13. Installment Acquisition Payments
14. Building Operations
15. Basic Repairs and Alterations
16. Major Repairs and Alterations
17. Construction and Acquisition

APPENDIX B

Revolving Funds

1. Federal Buildings Fund
2. Information Technology Fund
3. General Supply Fund
4. Federal Consumer Information Center Fund
5. Panama Canal Revolving Fund
6. Working Capital Fund

General Funds

1. Allowances and Office Staff for Former Presidents
2. Electronic Government Fund
3. Excess and Surplus Real and Related Personal Property Holding Account
4. Expenses, Presidential Transition
5. Election Reform Payments
6. Election Reform Reimbursements
7. Office of Inspector General
8. Operating Expenses, General Services Administration
9. Policy and Citizen Services Fund
10. Real Property Relocation

Special Funds

1. Expenses, Disposal of Real and Related Personal Property
2. Expenses, Transportation Audits
3. Expenses, Acquisition Workforce Training Fund
4. Operating Expenses, Disposal of Real and Related Personal Property
5. Other Receipts, Surplus Real and Related Personal Property
6. Receipts of Rent, Leases and Lease Payments for Government Owned Real Property
7. Receipts, Transportation Audits
8. Receipts, Acquisition Workforce Training Fund
9. Transfer of Surplus Real and Related Personal Property

APPENDIX B continued

Miscellaneous Receipt and Deposit Funds

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

APPENDIX C

This example illustrates the budgetary financial events surrounding a customer agency's request for a $100 good or service and when the good/service is actually provided by a vendor for $98.

Financial Event	Customer Agency	GSA
1. A $100 order is placed by the customer and accepted by GSA.	Customer records a $100 obligation of budget authority to GSA.	GSA records a $100 unfilled customer order from the customer.
2. GSA contracts with a public vendor to provide the good or service to the customer agency.	No effect.	GSA records a $100 obligation to the vendor upon signing of an agreement/contract.
3. The public vendor bills GSA $98 for the good/ services provided and receives payment.	The customer maintains a $100 obligation. However, $98 is moved from undelivered orders to delivered/expended orders. Both of these are components of obligations. However, there is now a residual $2 undelivered order that will never be delivered. Assuming the customer used an annual appropriation and the fiscal year has now passed, a return of the $2 requires a deobligation and a return of funding back to Treasury because the $2 is no longer available for any new obligations.	GSA also maintains a $100 obligation but moves $98 from undelivered orders to delivered/ expended. However, there is now a residual $2 undelivered order that will never be delivered. Additionally, GSA reduces unfilled customer orders by $98 and leaves a residual $2 unfilled customer order that will never be filled. This leaves the GSA project manager with the choice of: 1) return the $2 that the customer agency really doesn't want; or 2) work on urgent priorities of other customers? Additionally, if this is a time and materials contract and the obligation and unfilled customer order are closed out before ALL vendor invoices are paid, GSA could very likely have to pay the additional bill with its' own funding. Therefore, there are strong incentives to leave these balances on the books 'just in case'.

Mr. PLATTS. Thank you, Ms. Turco.

Mr. Waszily.

STATEMENT OF EUGENE L. WASZILY

Mr. WASZILY. Good afternoon, Mr. Chairman, Mr. Towns.

Thank you for the opportunity to participate in today's hearing on the status of financial management services at the General Services Administration.

Sound financial practices are the bedrock upon which all successful enterprises are built, and Federal agencies are no exception.

We appreciate the subcommittee's interest in this important subject.

Today I would like to provide you a brief overview of my formal written comments, and I will be addressing three particular topic areas: one, the GSA financial system framework, the results of the 2005 financial statement audit, and a brief comment on the implementation of the revised Federal Managers Financial Integrity Act, A–123.

Up until about 5 years ago, the core accounting system for GSA was hosted completely on a mainframe computer system that was actually built in the 1970's and has been modified countless times over the intervening years. It was determined to have become highly ineffective and very expensive to operate.

Central to the new accounting system, which is named Pegasus, is the concept of enterprise architecture, and under this scheme, it mandates that each financial system that feeds into the accounting system must be compatible with the core accounting system.

During the implementation of Pegasus, the agency breached this fundamental requirement and permitted one of the service components to develop a management information system that subsequently proved to be incompatible with the accounting system.

After about 4 years of development of that system, it was determined to be fatally flawed, and it had to be scrapped. It also caused the CFO's office inordinate amounts of resources to unwind the inaccurate accounting information that had been provided by this feeder system.

If there is anything to learn from the GSA experience in this area, it is that once the fundamental rules of development are set, major departures cannot be permitted.

Other delays have been experienced in some of the related online systems that are part of the modernization initiative, and while these delays are unwelcome, I think it should be viewed that GSA has been making substantial progress in its modernization efforts and that, clearly, as I like to put it, the glass is half full and getting fuller all the time.

Progress, particularly in the past 2 years, has been substantially better than in the prior 2 years.

Turning to the financial statement audit of 2005, for 17 consecutive years, GSA had received unqualified or what are called clean opinions, and while the 2005 financial statement audit again confirmed the fair presentation of GSA's proprietary accounts, the external auditors were unable to verify some of the financial information presented in the supporting statements.

Signs of these problems originally occurred during audits that my office conducted back in 2004. These were procurement audits.

Alert to the problems that we were finding with some of the underlying documentation for those procurements, the external auditors in the 2005 audit cycle expanded their review of the budgetary accounts, finding that, for several years prior, that the Federal Technology Service had been mis-applying and mis-counting for obligational authorities that had been transferred to it from client agencies.

Because of these inaccurate accounting practices, the problems have been accruing for almost 8 years. The budgetary misstatements were in excess of $900 million, which, again, as Ms. Turco pointed out, materially misstated our budgetary accounts.

I can attest that GSA has gone to great lengths to clear up the inaccuracies in its budgetary balances. I believe the stumble that occurred in 2005 will actually benefit the agency going forward and that this episode has forced GSA to look more closely at its business transactions and has also provided the incentives to grant the CFO greater leverage to establish more control and oversight over the fiscal activities of the entire agency.

Up until about 2 or 3 years ago, the CFO was viewed as a supporting role for the organization, but many of the line components really dictated how the accounts were managed, and a lot of the information that went to the CFO's office was only the aggregate information, not the detail.

So, it was very hard to assess when a problem was festering.

Under the new role, the CFO office has a much better opportunity to identify problems and head them off before they become major issues.

I would like to stress, though, that as Ms. Turco pointed out, the basic accounts of GSA and the stewardship of assets under its management were never misrepresented or subject to undue risk during this time.

On the subject of internal controls and the new A–123 requirements, I am very pleased with the enhanced version of A–123. It is near and dear to an auditor's heart.

I am even more pleased with the steps that Deputy Administrator Bibb and Ms. Turco have taken to place GSA in the forefront of implementation of the new process.

GSA is faithfully following the implementation guidance provided by OMB in following the five-step process which includes the planning of the control testing, doing various testing at the entity level, the process level, and then down to the transaction level, assessing across the agency the results, and then reporting on any corrective actions that might need to be taken to improve the internal control environment.

I believe that we are, as an agency, in the forefront of implementation of the new requirements.

That concludes my opening statement, Mr. Chairman. I would be pleased to answer any of your questions.

[The prepared statement of Mr. Waszily follows:]

STATEMENT OF

EUGENE L. WASZILY

ACTING DEPUTY INSPECTOR GENERAL

REGARDING THE STATUS OF FINANCIAL MANAGEMENT AT THE U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 7, 2006

Good Afternoon Mr. Chairman, Mr. Towns, and Members of the Subcommittee:

Thank you for the opportunity to participate in today's hearing on the status of financial management at the General Services Administration (GSA). Sound financial practices are the bedrock upon which all successful enterprises are built and federal agencies are no exception. We appreciate your subcommittee's interest in this important subject.

Today, I would like to provide to you an overview of our office's assessment of GSA's initiatives to modernize its financial systems and practices. My comments will address three related but distinct areas: the GSA financial system framework; the 2005 audit of its agency's financial statement and related issues; and the status of steps taken by GSA to enhance financial controls to meet the new standards prescribed by the Office of Management and Budget in the revised edition of Circular A-123.

Financial Framework

GSA is a financially self-sustaining agency operating on fees collected for providing goods and services in support of other agencies' missions. Orders processed annually through its three revolving funds generate nearly 1.5 million disbursement actions totaling in excess of $18.7 billion in expenditures.

Until five years ago, the core accounting system was hosted completely on a mainframe computer system that was built in the early 1970's and modified countless times in the intervening years. It was at this point when GSA decided to undertake a complete modernization of its financial and accounting systems to take advantage of new technology and web-based capabilities.

Central to the development of this new accounting system, known as Pegasys, is the importance of following an enterprise architecture framework with the goal of ensuring that each new component and each new business system that feeds data to Pegasys is fully standardized and compatible with the core accounting system. Such integration of the business line information systems with the financial information system is intended to reduce duplication, eliminate legacy systems, streamline processing, increase data accuracy and provide decision makers more accurate information more rapidly.

While the implementation of Pegasys is progressing, it has not been without its problems and delays. During the implementation of Pegasys, the agency breached

a cardinal rule in systems development by permitting one of the major GSA services to go on its own in developing a new management information system without regard for whether its structure would be compatible with Pegasys - it was not. After four years of development, the service's system was determined to be fatally flawed and had to be scrapped. Before its closing, the system experienced difficulties in sending accurate data to the accounting system. This caused the CFO's Office to expend substantial resources to correct problems not of its own doing, and divert resources away from the accounting system modernization project. If there is anything to learn from the GSA experience it is that once everyone agrees to a standard set of rules for development activities, major departures from those standards can not be permitted.

Generally, systems always cost more and take longer to develop than originally planned, and Pegasys is no exception. The original software purchased, while sold as an off-the-shelf solution for government agencies, needed extensive modifications before it could provide the accounting functions required in GSA's business environment. Making these additions not only caused original delays, it creates further delays until a fully integrated system is operational. While these modifications are now being managed effectively, the implementation of the new accounting system is well beyond its planned three-year implementation schedule. Other delays have been experienced in some of the related on-line systems being developed to fully implement the entire financial system framework. While the delays experienced have been unwelcome, we believe that in the recent past, GSA has been making reasonable progress in its modernization program and the glass should be viewed as half-full and continuing to fill.

2005 Financial Statement Audit

GSA was one of the first federal agencies to subject its financial statements to independent audit. Through 17 consecutive years, it had received unqualified or "clean" opinions on its primary accounts, individual funds and supporting schedules. While the 2005 financial statement audit again confirmed the fair presentation of GSA primary accounts and fund accountability, the auditors were unable to verify some of the financial information presented in the supporting statements. Specifically, the auditors disclaimed (were unable to express an opinion) on GSA's statements of budgetary resources for the General Supply and the Federal Technology Funds.

Signs of a potential impairment surfaced during procurement audits conducted by our office in 2004. These reviews found a small number of high dollar value procurements made for the benefit of customer agencies but for which GSA acquisition personnel lacked the authority to award. Subsequent audit work found additional improper awards including several that breached appropriation requirements, including making use of expired funds.

Aware of the existence of deficiencies found in the internal audits, the external auditor intensified its review of the budgetary accounts during the 2005 cycle. These accounts are usually considered as low risk and are tested in a limited manner. Now with concerns that a larger problem could exist, more detailed testing was performed. The results of this examination found that for several years, the Federal Technology Service had been misapplying and miscounting for obligational authorities transferred to it from other agencies. These infractions ranged from neglecting to close-out and deobligate project accounts after project completion, to more serious matters such as frequently awarding contracts using expired funds. Because these inaccurate accounting practices had continued over the course of nearly 8 years, when identified and quantified, the misstated budgetary balances aggregated to over $900 million, well over the technology fund's materiality thresholds. Because the Federal Technology Service had taken over some business lines from the Federal Supply Service and processed those orders through the General Supply Fund, and amounts related to that fund were not accounted for separately, the impairment affected it as well. The cleanup also determined that other GSA accounts had inaccurate but lower amounts recorded that required adjustment.

While analysis of the accounts coupled with detailed statistical analysis established reasonable estimates of budgetary account balances for the end of 2005, the GSA's old legacy accounting system has no ability to re-create what the account balances looked like at the beginning of FY 2005. To express an opinion on an account, both the opening and closing balances must be verifiable. Accordingly, the auditors had no choice except to disclaim an opinion of the two statements of budgetary resources.

GSA has gone to great lengths to clean up this weakness across the agency. While no one welcomes any type of negative information linked to its financial statement audit, I believe the stumble experienced by GSA in 2005 will actually benefit the agency going forward. This episode required GSA to look more closely at its business transactions, how they are captured in the accounting system and what controls and oversight are needed to prevent future unfavorable situations. It also enabled the CFO's office to be granted approval to have more oversight of more of the detailed accounting information traditionally kept in the business units. This "early warning" ability will enable the CFO's office to detect issues before they become major problems.

In closing this segment, I wish to stress that at no time were the basic accounts or GSA's stewardship of assets under its management misrepresented or subject to undue risk. In fact, had GSA undergone a financial audit similar to those performed on a major U.S. corporation, the budgetary issues discussed above would not have been evaluated and it would have received an unqualified opinion.

Internal Controls and the A-123 Process

I am very pleased with the enhanced version of Circular A-123 issued by OMB. I am even more heartened by the steps taken by Deputy Administrator Bibb and Ms. Turco to place GSA on the fast track toward full implementation.

In prior years, GSA operated with a Management Control and Oversight Council, chaired by the Deputy Administrator with several members of the senior executive staff, and the Inspector General in an ex officio capacity. Mr. Bibb expanded the membership of the council to include all Commissioners, a Regional Administrator to represent the field offices, and the Chiefs of Finance, Human Resource, Acquisition, and Information Technology. He also expanded the charter of the council to include projects to improve the overall management of the agency.

GSA is following the Implementation Guide for OMB Circular A-123, Appendix A. GSA is adopting the five-step process presented in the guide. The steps are: (1) planning, (2) evaluation of controls at the entity level, (3) evaluation of controls at the process level, (4) testing at the transaction level, and (5) concluding, reporting and correcting deficiencies and weaknesses.

GSA has created a Senior Assessment Team, composed of senior management officials commissioned to provide leadership, oversight and accountability for GSA controls over financial reporting. The team reports to the Management Control and Oversight Council. It has the tasks of enhancing the internal control framework of the agency, promoting internal control awareness and determining assessment designs and methods to test to ensure controls are functioning as intended. The Office of Inspector General serves in an advisory capacity.

The Senior Assessment Team has established work groups composed of GSA associates and contractor employees from a public accounting firm trained in internal control testing. These teams are conducting assessments of internal controls in systems across the agency. The testing is expected to be completed in the next few weeks.

Beyond meeting the requirements of A-123, the CFO's office has seen this process as an opportunity to bring more standardization to business practices across the agency. In turn, this will facilitate the implementation of the new accounting system.

I believe the steps taken to meet the new OMB requirements will show that GSA is in the forefront of the agencies implementing the new measures.

Mr. Chairman, this completes my formal testimony. I would be pleased to respond to any questions you and the members of the subcommittee may have.

Mr. PLATTS. Thank you, Mr. Waszily, for your statement, and I wanted to note we appreciate, as a fellow native Pennsylvanian, you being here, and especially your prior service in the U.S. Army, as well.

Our ranking member, Mr. Towns, does have another conflict here shortly, so we are going to begin with his questions and then come back to me.

Mr. Towns.

Mr. TOWNS. Thank you, Mr. Chairman.

I am really happy that I got a chance to hear the witnesses.

Let me begin with you, Mr. Waszily.

Are all of GSA's services now functioning under one unified financial management system?

Are there outstanding issues between different funds and accounting programs?

Mr. WASZILY. Yes, sir, there still are problems. GSA was crafted in 1949, and over a period of time, we have brought in a number of different programs from other agencies—of course, the entire environment of technology many of these accounting systems for these subordinate programs were, in essence, bolted onto the existing accounting system. So, the modernization effort that was initiated a little over 5 years ago is a long-range program, and there still are some substantial differences between the different funds.

The nature of the business from the different funds—there will always be some differences in how they operate, but to Ms. Turco's credit, we are trying to attempt to bring as much standardization to the agency, both across the programs, as well as across the regional activities, GSA-wide.

Mr. TOWNS. Right.

On a scale, I guess, from 1 to 10, have there been significant improvements made to the accounting processes for the agency, customer orders, of course, that were identified in the 2005 audit? How would you characterize that in terms of progress?

Mr. WASZILY. In regard to the budgetary accounts?

Mr. TOWNS. Yes.

Mr. WASZILY. Yes, sir.

I think the 2005 audit actually is trying to capture, if you will, the sins of about 8 years of mis-application of funds by one particular activity within GSA, and it was so large that it tainted the validity of the budgetary accounts for the entire agency, because the problems had been allowed to fester for 7 or 8 years, so that it became a huge problem that you had to bite the bullet in one particular year, and as Mr. Turco pointed out, we could clean off the bad accounts and the invalid obligations that were sitting on the accounts, but because the accounting system at the end of the year could not look backward and re-establish what should have been the appropriate balances for the beginning of the year, it ends up in an adverse opinion for that particular year.

So, even though there was a $900 million misstatement in 2005, it really is not attributable to mistakes that were made in 2005, and in fact, the agency had put in policies for going forward to avoid those problems in the future.

So, the 2005 transactions that were being conducted in the agency actually were operating under the proper rules. What we were

suffering from is trying to clean up the residual problems that had accumulated over the previous 8 years, and as Ms. Turco pointed out, we still have a bit of uncertainty whether or not we have them all cleared out of the system, but I am pretty comfortable that we have at least 80 percent, if not more, that have already been resolved, and we will be continuing to work this year to resolve the remainder.

Mr. TOWNS. That sounds like an eight, then.

Mr. WASZILY. Maybe an A-minus.

Mr. TOWNS. Do you see any of the current accounting or management control deficiencies jeopardizing the merger of the FTS and FSS into the Federal Acquisition Service?

Mr. WASZILY. No, sir, I do not. Again, the principle issue here were budgetary accounts. It does not disturb the proprietary accounts, and actually, I think the merger will actually help expedite the clean-up.

Mr. TOWNS. What effect—and this is my last one, Mr. Chairman.

What effect will declining revenue streams have on the future viability of GSA services and operations?

Mr. WASZILY. The agency, at the moment, is going through a process to balance out its workload, the resources, and the level of personnel engaged in the agency so that it is commensurate with the level of business. Understandably, many of the client agencies—because as part of this clean-up, GSA, to its credit, had to admit that we had made a serious mistake.

In many instances, we had to return money to client agencies, and in several instances, the money that we returned to the obligational authority, we returned to them, was no longer available for other use. So, understandably, we have a large group of customers out there who are very unhappy. They had thought that they had substantial amounts of contracting dollars available for use, say, in 2005 and in 2006 and 2007, and all of the sudden, we have turned that back to them, said the money is no longer available, and that we can only do business if you provide us new resources.

I know Mrs. Doan, one of her priorities is to mend the fences with our client agencies. This is a Herculean challenge given that it was the right thing for the agency to do, but you know, customers don't like to get surprised like that, and particularly when resources are tight and they were counting on that money, it puts them in a very precarious situation.

So, I am confident. I have been traveling the country, talking to procurement personnel, from the senior executives down to the folks in the trenches, I can tell you I am very impressed with the procurement and marketing cadre of GSA. I believe strongly they have a good product.

I would like other agencies to focus on their missions and let GSA do the procurement business, and I think, with time, we can demonstrate that we can do it better, we can come up with better solutions, and do it quicker, and let them tend to their primary missions, and I think the agency is righting the ship now.

Mr. TOWNS. Thank you very much.

Mr. Chairman, on that note, I yield back.

Mr. PLATTS. Thank you, Mr. Towns.

Ms. Turco, I want to come to the point of the structure and the history of GSA as a very decentralized environment with headquarters and in the various services and regional offices. From your role as CFO and trying to right the ship and move forward in a positive way, would it help you to have more central control, especially over the service CFOs?

My understanding is they answer now to the commissioner, not to you.

Yet you are the one that has to sit here and answer the questions and take responsibility for financial management, you know, throughout the entire entity.

Would that be of help to you? I would analogize it to NASA.

We had a similar situation with Gwen Sykes and where all the individual NASA centers did not answer to her or the CFOs, and so, it caused some challenges that she and the administrator rectified to give more direct oversight. Could you expand on that issue?

Ms. TURCO. Chairman Platts, I have been at several agencies, and I would say that, with GSA, we have an excellent financial community, some of the best folks that I have worked with.

Both PBS and FAS have excellent comptrollers, but I would agree with you in terms of the CFO needing direct management control of all financial staff.

That is how the CFOs Act of 1990—it is a requirement in the CFOs Act.

So, yes, I think it would help to alleviate some of the challenges we go through, some of the steps, and would move our efforts to clean up and to provide financial services across the agency to a higher level. It also would move it faster.

Mr. PLATTS. That is certainly what we have found in working with NASA, with their realignment, is it has benefited the overall organization in a very positive way.

What is the relationship with you and the CFOs at the regional offices?

I am not as certain of that.

Ms. TURCO. Technically, we just have two CFOs or comptrollers, one for PBS and one for FAS.

There are individuals who have labeled themselves as CFOs, but they are really doing budget work in the regions, not financial.

Mr. PLATTS. OK.

Ms. TURCO. They are not preparing financial statements and they're not doing that level of analysis.

Mr. PLATTS. OK.

Ms. TURCO. It is a very good group of people, and we have very good working relationships. So, that is not an issue, and in fact, this past year, when I have asked them to change their practices, when I have asked them to implement the policies and to make them a priority, they have done so.

Mr. PLATTS. As you look at the possible restructuring with the service CFOs and how they interact with you and your authority over them, at this point are you aware if there are any legislative obstacles that would need to be addressed by legislative action, or is it more internal?

Ms. TURCO. It is internal only.

Mr. PLATTS. OK.

Mr. Waszily, I will come back to the audit issue, and your statement. You talk about if this had been a private corporation, in essence, GSA would have gotten a clean opinion——

Mr. WASZILY. Yes, sir.

Mr. PLATTS [continuing]. And only because of the public sector and the way we look at it and the results of the internal audits, it raised some flags that created the additional scrutiny.

Could you first elaborate on that premise, that it would have been a clean opinion on the private sector side, and then explain, in best possible layman's terms, how you would describe the budgetary resources that were the source of the disclaimer?

Mr. WASZILY. Certainly.

In the private sector, the accounting financial opinion would be based upon a review of the books and records of the corporation to reflect the validity of assets, liabilities, shareholder equity for the particular corporation or entity, and there you would have the equivalent, the income statement and the expenditures of the corporation. Commonly called, these are the propriety accounts, and these typically would be what the fundamental financial opinion would be in the corporate world.

In the Government, we also add this budgetary accounting, and it has only been the past 5 or 6 years that OMB has actually required the agencies to express an opinion on the validity of their budgetary accounts in addition to their proprietary accounts.

Now, to take it one step further, GSA is even a bit different from the other Federal agencies. What OMB was principally interested in in the budgetary accounts was that most agencies operate under congressional appropriation, and the budgetary accounts basically provide a scorecard as to the status of obligational authorities provided by the Congress.

So, OMB wanted to use this as a report card to measure the agency's reporting against the Presidential budget and also to provide Congress information as to the status of funds provided, whether they were obligated or available for obligation.

GSA has very few appropriated funds. We have these three major revolving funds.

So, in many ways, we look more like a business.

So, our use of the budgetary accounts really is more reflective of authorities that have been granted to us by our clients. The easiest way to put it would be it is sort of like a forecast of business that we anticipate to be—or are in the process of developing at the moment, but we have not yet actually reached the stage where we have prepared a contract for our client agency.

This makes it somewhat different as far as what a budgetary account is for GSA, as opposed to the other Federal agencies. The other complication in this matter with the budgetary accounts and why part of this went astray was that most of the agencies have operating budgets and appropriations that are good for 1 year. Our revolving funds generally have a life-span of 5 years, and in part, I think some folks were a little confused in years past as to, if an agency who has 1-year money gives a 5-year revolving fund money, how long does that appropriation live, and frankly, there's very lit-

tle guidance regarding the viability of money when you move it from one status to the other.

I hope I have clarified, not further confused the issue.

Mr. PLATTS. Well, that leads to the question—and Mr. Towns and you touched on it—the impact on those agencies that you are dealing with, your clients——

Mr. WASZILY. Right.

Mr. PLATTS [continuing]. Because of the errors over the 8 years, roughly $900 million.

When you went back to them, do I understand correctly the reason they, in essence, lost the use of those funds is because they were back to them, and for them, they were 1-year appropriations, and they have, in essence, lapsed, because they were not in the revolving fund?

Mr. WASZILY. Yes, that is a large portion of the funds.

Many agencies who had, let's say, funds that they anticipated for paying for ongoing service-type work, they had anticipated that those funds would be available to them for maybe 2 or 3 years going forward, and unfortunately, we had to say, well, you know, we are very sorry, but we misinterpreted how we could use those funds, we have to de-obligate them from our books, give them back to you, and since they had their basis is 2003 or 2004, they were no longer available for other obligation.

So, yes, that's what caused the tension between GSA and its client agencies, and if I was a client, I would be very upset, too, if I was planning—I had laid my budget out for the next 2 or 3 years, anticipating I had certain expenses already covered, and now I have to find other resources to cover them.

Other ones, as Ms. Turco pointed out, were caused by the technology service. Because, first of all, the Web-enabled IT, created a great explosion for the demand for those services.

So, the technology service was growing by leaps and bounds.

They couldn't keep up with the business.

They were bringing in hundreds of new people, many from the private sector, who had never dealt in a government environment before.

They were interested—terrific marketing people and terrific at customer response.

They were interested in going out and getting even more business, so that is—as Ms. Turco pointed out, if they had given us $100,000 for a project but it actually only cost $90,000, no one went back to close out the account and clear that other $10,000 out.

Well, you start multiplying that by 10,000 or 15,000 accounts, and there is a substantial amount of money that is just languishing in accounts that should have been closed out.

So, there were really two factors: one, invalid money, and two, the balances that should have been swept out of the accounts.

Mr. PLATTS. The issue of the revolving fund, the money going in there—it really gets into the broader issue of the Federal Government, whether we should have more flexibility for departments and agencies in a capital fund where they really can plan for spending this money over 2, 3, 4 years, because of the type of capital investments they are making, which, in essence, is what the fund had been doing for certain agencies.

Mr. WASZILY. That is right, and that is important to point out. We had a few instances of situations where there were actually out-and-out frauds taking place.

This was a relatively small thing, and it was just one or two individuals who saw an advantage in a huge system that unfortunately, took advantage of the system, but for the most part, both the marketing folks, the procurement folks at GSA, and the agencies were really just trying to keep, get their services that they needed to support their mission, and GSA was anxious to meet their customers' needs, and overall, other than these financial issues, which we have to respect the requirements that are—and restrictions that are put on appropriation. We have to respect those, but their intent—they were well intended, and this was not done maliciously, and frankly the business—it had grown from close to $3 billion and in less than 5 years had grown closer to $9 billion, just a tremendous amount of growth, and any organization that grows that fast has a tendency to lose control.

Mr. PLATTS. Ms. Turco, you referenced in your testimony the heroic effort, manual corrections that have taken place to go back and really to correct the budgetary accounts and to get back to a solid bedrock, you know, foundation and move forward on—what is your assessment of the need for that type of manual effort in this year and the coming years? With what you are doing now, will you get back on track? Can you go back to that being more of an automated process, not the manual effort?

Ms. TURCO. It has been a real effort this year, and we are doing everything possible to make it what I'd call automatic.

The aging reports have provided substantial information, and the aging reports go—obviously begin with 2006—they go back to 1999, and we have been able to go in and clean out balances.

In terms of moving it forward, we feel that, beginning in fiscal year 2007, we will be able to load in budgetary data at the beginning of the year, appropriation data at the beginning of the year, and it will be automated in terms of the balances, in particular between the budgetary and the proprietary.

So, we have taken steps both in terms of our practices and in terms of the system to ensure that we have ourselves in sync for fiscal year 2007.

Mr. PLATTS. So, for 2006, you may still have more manual heroic effort coming——

Ms. TURCO. Uh-huh.

Mr. PLATTS [continuing]. But you have a game plan to get away from that.

Ms. TURCO. Yes.

Mr. PLATTS. That is good to hear, because that is one of our worries in our various oversight hearings with departments and agencies, large and small, that we get away from the end-of-the year heroic manual efforts and just get that good internal controls processes in place, that it is, you know, really almost any day of the year, you can say snap, here is where we stand on all accounts. It sounds like that is what you are working toward.

Ms. TURCO. Yes, that is our goal.

Mr. PLATTS. I guess, Mr. Waszily, for you, you mentioned that the intent on these errors had occurred not being malicious or de-

ceitful, but I guess, in the independent auditor report, there were three things that were identified as possible Anti-Deficiency Act violations.

Mr. WASZILY. Yes, sir, that is correct.

Mr. PLATTS. Could you describe those issues and where those issues stand?

Mr. WASZILY. Yes, sir.

As I mentioned, most—the initial discoveries of the weaknesses in the financial system came from procurement audits that we were conducting, principally in the Federal Technology Service, and once we started to find that there were substantial issues related to many procurements, particularly those with the Department of Defense, we were asked by the Senate Armed Services Committee to conduct joint reviews with the Department of Defense IG, taking a look at each of the client support centers in each of the GSA regions.

We have been doing a series of audits, beginning in 2003.

We have done another set in 2004.

We are just wrapping up a set for 2005, making sure that the systems, both on the procurement and financial sides, are improving.

During the course of that work, we discovered some transactions that were substantial in dollar value that led to possible anti-deficiency violations.

The three that you refer to—the first one is a $177 million Air Force project.

It had to do with installing vehicle access barriers at Air Force bases around the world. Approximately 500 barrier construction projects were going to be put in place, and then a related computerized security system was going to be tied into this process.

All of this initiative was to free up Air Force personnel, reduce the number of security personnel, by trying to automate and protect the bases in a mechanical way rather than using human resources.

The money was funded out of 2003 operating money, and there were several fits and starts.

I wouldn't say this was a model procurement, by any means, but the question came up from the DOD IG's office as to, since we had gotten into fiscal 2004 and several pieces had not yet been contracted for, were those 2003 funds still viable. This—as they say if you get three attorneys in the room, you can get at least six opinions. We have had a multiplicity of legal opinions as to whether or not the funding of this project is appropriate.

It has ultimately reached the level of the general counsel of the Department of Defense and the general counsel of GSA, and I believe, as of last week, we have formally concluded that this was actually appropriate and that the funds are available for use and that this will not be an anti-deficiency violation.

The second one had to do with a relocation of the Army and Materiel Command.

It was a $44 million project, and it was—a vendor was contracted to actually relocate this entire command, acquire and then install modular buildings that comprise 230,000 square feet of office space at a location at Fort Belvoir in Virginia.

This was done through transactions that were processed both through the general supply fund and the information technology fund.

Neither of those funds have the authority to engage in contracts that have to do with realty, and once you start bolting the modular buildings to the ground, you have created realty.

So, at a minimum, on this one, we believe that there was a purpose statute violation on the part of GSA. There are other aspects to this.

There are also provisions about the level of expenditure for military construction that can be undertaken without the approval of the military construction committee, and that is—we are waiting for the final report from the DOD IG, from their side of the transaction.

We are reasonably sure we are going to have something on our side, most assuredly, a purpose statute violation in that case.

The third one was to try and get at the entire financial issue that we were talking about this afternoon. That over a period of time, the Federal Technology Service, beginning in about 1997 or 1998, when it initiated getting into this service technology area, tended to be very flexible in how they used client money.

They would—if they had an account for you, they would always make sure that they accounted for all the funds that you had provided them, but if you had six or seven projects that were underway, they felt that it was all right to move money from one project to the other, and they had a tendency—what they would do is use the oldest money in the pot first and roll the money forward into the other accounts. Then, if one overran and one underran, they would move the money.

This is inappropriate as far as project management. It is also inappropriate from appropriations law.

Again, we also had issues of using funds and putting funds into the information technology revolving fund that actually only had a life of 1 year, and they were applying it and making awards maybe 2 or 3 years later. Again, these are technical anti-deficiency, inconsistent with the appropriation law.

So, what we were trying to do here—we are talking a matter of thousands of transactions, and over the course of 8 years, probably, I do not know, $10 or $12 billion flowed through the fund. To try and parse out where the money actually belonged or to file an anti-deficiency on each and every one of these didn't seem to be realistic.

So, we were trying to suggest, in this one, to make a recommendation, some kind of global mea culpa that we had a transgression in our accounting for funds, we have remedied the situation going forward. There were substantial numbers of disciplinary actions that were taken as a result of these findings, and that we are now in the process, as Ms. Turco outlined, of trying to clean up the accounts to bring them into line and make sure they're fairly stated currently.

So, that was the third one.

Mr. PLATTS. Thank you for the summary of each of those.

It seems that part of your effort of getting back on track and heading forward and continuing to have the glass be more and

more full in a positive way and with your client agencies, as you look to more and more of that shared service center and compete for and gain clients, that these anti-deficiency actions, possible actions, violations in the past, and then the budgetary challenges that directly related to how you accounted for money between other agencies and your agency, that those will impact whether somebody wants to come to GSA, as a shared service provider, and so, I assume that, as you delineate what exactly happened on the anti-deficiency violations or possible violations and the budgetary, that is part of your message to the other agencies, to your clients, that you have identified the wrongs of the past and you are correcting them and making sure they don't happen again.

Is that a fair statement?

Ms. TURCO. Yes, Chairman Platts. In fact, we have met with a majority of our 47 financial external clients, and we have explained the problem to them, and at this point, they are all still with us.

So, moving forward, we have actually been meeting with several agencies who are interested in migrating to a shared service provider, and we have explained our problems, the disclaimer, and they have not been unwilling to work with us. They are still willing to work with us, and we are still in talks in terms of migrating folks over.

Mr. PLATTS. I want to come back to a couple of things.

Mr. WASZILY. Mr. Chairman, Ms. Turco had touched upon it previously, and as I mentioned, most of these issues that came up as far as the anti-deficiencies, these really came out of the program and procurement folks in this one particular aspect of GSA, and as she had pointed out in her testimony, up until we started with the new modern accounting system, the CFO's office only got to see the aggregate detail.

So, these transgressions were really procurement-generated, and they were being maneuvered, if you will, or manipulated at very low levels, and it was only the aggregate data that anyone actually saw by the time that it hit the official accounting records, and that's really where the problem was.

It was not a problem with the accounting system or the CFO's office accounting for transactions.

Mr. PLATTS. In fact, the approach of asking or requiring more detail is helping to guard against that in the future——

Mr. WASZILY. Exactly.

Mr. PLATTS [continuing]. In uncovering and guarding against.

With the financial management line of business, one of the requirements, when we have talked to OMB, is that you have a clean audit to be a shared service center and that you were already a shared service center before the disclaimer came out on your last audit.

One, have you been given any feedback from OMB that you will not remain a shared service provider if you do not return to a clean audit?

Ms. TURCO. I have not been given that feedback. We have met with OMB on our implementation of OMB Circular A–123, and all the efforts we have underway to clean up our books.

We were told we were—they were keeping some internal ratings and that we were rated green in terms of our efforts.

Many of my staff worked on the revision of A–123, and in particular, appendix A and all of the requirements.

So, we are working closely with OMB so they can fully understand all the efforts we have underway to correct our actions, and as Mr. Waszily was saying, it really was not the financial system that was the problem, per se. It was the actions by the contracting staff.

Mr. PLATTS. From everything you have shared with us in prior written testimony and here today, I appreciate that, and to separate the issues, it leads to one of those questions that we still have with OMB when we had them before the committee on the broad issue of financial management line of business, that there are a lot of, I will say, unanswered questions or uncertainties out there if, currently, they say you have to have a clean audit to become a shared service, well, if that's the case, what happens when you lose your clean audit and do not, you know, immediately return the following year?

What is the legitimacy of that requirement if it really is more specific to, well, why didn't you have a clean audit, as in your case, it is on the budgetary side, not on the proprietary accounts, and that is something that we have not really gotten, maybe, a final answer yet from OMB, so I am not surprised that you have not gotten any direction yourself, and if anything, it seems like they are assuming you are moving forward as a shared service provider, clean audit or not from 2005.

With the fact that GSA has worked with OMB in, in essence, helping to revise the criteria and the requirements to become a shared service provider and then to compete for the work, do either of you see a possible conflict of interest because you are a center and you want to get the business, and yet you are responsible for directing or devising the criteria on how to be a center, that it could be seen as a conflict for your entity over others?

Ms. TURCO. When I began here at GSA in August 2002, I had on my staff JFMIP, and you know, JFMIP, which has evolved into—it is still JFMIP, but it has evolved into FSIO—they were conducting the testing of the software. I had a problem with that, and I went to OMB, and I said it is inappropriate for it to be under the GSA CFO. Danny Werfel at OMB agreed with me on that, and he and I worked together to find a new home for the FSIO office.

When all was said and done, the Office of Government-Wide Policy was able to take over the FSIO office, and we think that is very appropriate.

Much of what they do is externally facing, and it is providing policies and procedures Government-wide.

So, we have worked with them, as have other agencies, many of them shared service providers, in terms of the requirements, and the standards, etc., in terms of the FSIO documentation for financial systems, but no more or no less than the other Federal agencies.

So, we are not unduly influencing anything within the FSIO office.

Mr. PLATTS. So, you are kind of the lead, but it is a partnership in the final development.

Ms. TURCO. The actual partnership, though, is between OGP, Office of Government-Wide Policy, which is within GSA, and OMB.

So, we do—and I purposely keep myself separate from that.

My staff has provided input.

Like I said, our financial management enterprise architecture is being used, and they came to us and said can we use your financial management architecture, and we said certainly, we would welcome that.

Our architecture is standard.

It is about payables and receivables.

So, there is nothing that any other agency could not use.

Mr. PLATTS. So, GSA is the lead agency for coordinating the financial management line of business for everybody, right?

Ms. TURCO. Technically, it is OMB. It is the Office of Federal Financial Management, and then OGP, the office of FSIO that is led by Mary Mitchell, works with OFSM, Danny Werfel and Linda Combs, to coordinate the financial management line of business.

FSIO sets out the financial system standards that we all must follow, as well now as the expanded standards around shared service providers.

Mr. PLATTS. So, your agency, as far as how someone becomes a shared service provider and then implement it, you really do not have a say in that. OMB is directly responsible for that.

Ms. TURCO. That is correct. OMB is directly responsible for that determination.

Mr. PLATTS. OK.

How about internally with the fact that you are a shared service provider and seeking clients? It is my understanding that—I guess I am not sure—your regional offices and the services—are they using you, your entity, as their shared service provider at their own agency, or are they doing their own work?

Ms. TURCO. Yes, sir, they are using us, yes.

We provide the financial operations for GSA, all offices, all regions, yes, all business lines, yes, all program areas, yes.

Mr. PLATTS. OK.

Coming back to the technology investment with Pegasys and your system—and I think, actually, it was in your testimony, Mr. Waszily, some of the delays, some of the challenges, that originally it was a 3-year plan, and that was not going to work.

If you or both want to give us an update of where we are with Pegasys and what challenges, if any, remain in the full implementation.

Ms. TURCO. Again, when I started in August 2002, I was told, in 6 weeks, that we were to stand up Pegasys, we were going to go live October 1st, fiscal year 2003. So, I sort of walked into what was sort of the tail-end.

Did we have challenges? Yes, like any Federal agency, we had challenges in terms of the stand-up, but we actually had a bigger challenge, and we are in the midst of it right now.

We implemented the vast majority of the Momentum software.

However, our accounts receivable module and our billing module are still in the old system known as Near, and I felt very strongly that, once we implemented what we did with Pegasys, we needed to step back.

There were challenges. I went back and I read the audit reports. I talked to the auditors, and many of our internal customers, and we needed a new way of doing business.

We also just cannot simply, you know, sort of pull the plug on the old system because of the extensive billing practices that we have.

So, we decided that what we would do is develop our financial management enterprise architecture. We also put in place a program, a performance management office within the Office of the CFO.

I designated certain positions as requiring PM certification.

We have sent an extensive amount of staff to program management training.

We have put in configuration management. We have a change control board, and we now have a more disciplined, rigorous process in terms of how we go about the investment, whether it is a module or something as straightforward as the e-travel system, which we are in the midst of putting in place.

We do business case analysis, cost-benefit analysis. We look at all software.

So, our challenge going forward is what is the best solution for replacing our accounts receivable module and our billing activities at GSA.

We have drafted a business case that is being reviewed internally, and we will use that, along with the financial management enterprise architecture, to go out to the vendors and offer out a bid in terms of how we want to provide a solution for GSA.

Mr. PLATTS. Now, is that something, Mr. Waszily, that—you are part of that review?

Mr. WASZILY. Yes, sir.

We are consistently doing followup reviews, both from our technology side and our financial audit activities, in addition to the work that we do on the financial statement audit.

So, it is a constant sort of checking every few months to just see where progress is going.

I might want to add, one of the challenges that GSA has—we have one of the ironies in that the Momentum system was basically built as a specialized accounting system for Federal agencies, and of course, OMB also has asked the agencies to adopt a standard general ledger.

The irony is that, because GSA looks more like a business, in many ways, than it does a Federal agency, we have had to reconfigure the Government accounting system, because we look like a business. So we have to translate it back into government accounting, and the same way we had to adapt Momentum to have these business features to it, because it basically was set up just for obligational activity that the typical agency would have.

So, on some days—I think Kathleen would agree with me—some days we would prefer to go corporate and just report to the Congress the profits we make.

Mr. PLATTS. Right.

Is there a timeframe for the review, your accounts receivable, and where you hope to be and when?

Ms. TURCO. We are currently in the midst of a upgrade, a software upgrade from 5.2 to 6.12 with the Momentum software. That is this summer.

We are implementing an asset management module, and in the midst of all this, we are doing the analysis around the accounts receivable. We hope, during 2007, to put it out on the market, and then the implementation would be the beginning of 2008.

Mr. PLATTS. It is not in current use. Is that correct?

Ms. TURCO. Chairman Platts, we were fully aware of this problem 2 years ago, and we, in fact, had pointed it out to our auditors.

You will be happy to know we are doing it in an automated fashion now.

So, it has been put in place, and going forward, we do not think there is going to be a problem. The challenge for us is we are still having to do work sheet adjustments this year, but beginning in fiscal year 2007, we feel it will be fully automated. Data is loaded into the system at the beginning of the fiscal year.

As I understand right now, there is new requirements that have just been published. Is that correct? They are in draft, and I honestly have not looked at them. I have not had a chance. So, I would be actually hard pressed for me to comment.

Mr. PLATTS. That is something you could followup with us.

Ms. TURCO. OK. I will look into it and get back with you.

Mr. PLATTS. Thank you.

Is there anything that either of you wanted to address that we have not covered in the statements or the questions?

Mr. WASZILY. No, sir.

Mr. PLATTS. We really need that example for the rest of the departments of the Federal Government.

With that, we stand adjourned.

[Whereupon, at 3:17 p.m., the subcommittee was adjourned.]

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