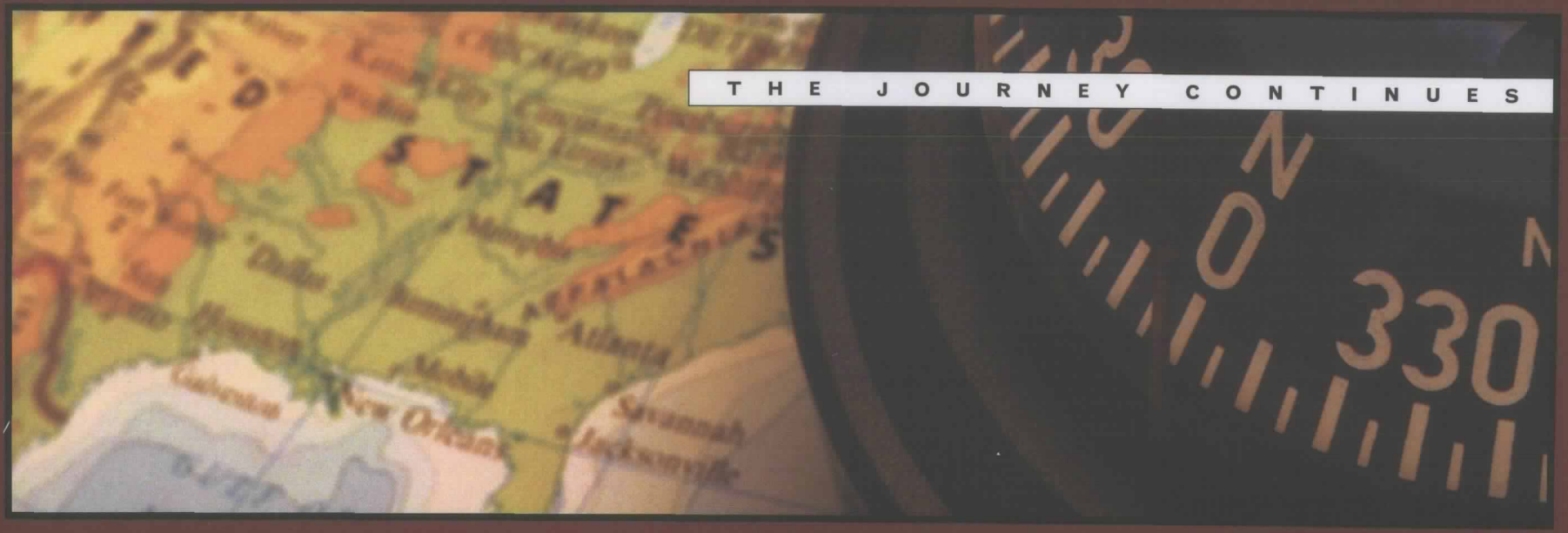
GSA

U.S. General Services Administration



Creating a Successful Future at GSA

2002 Annual Performance and Accountability Report

This report can be found at www.gsa.gov/annualreport

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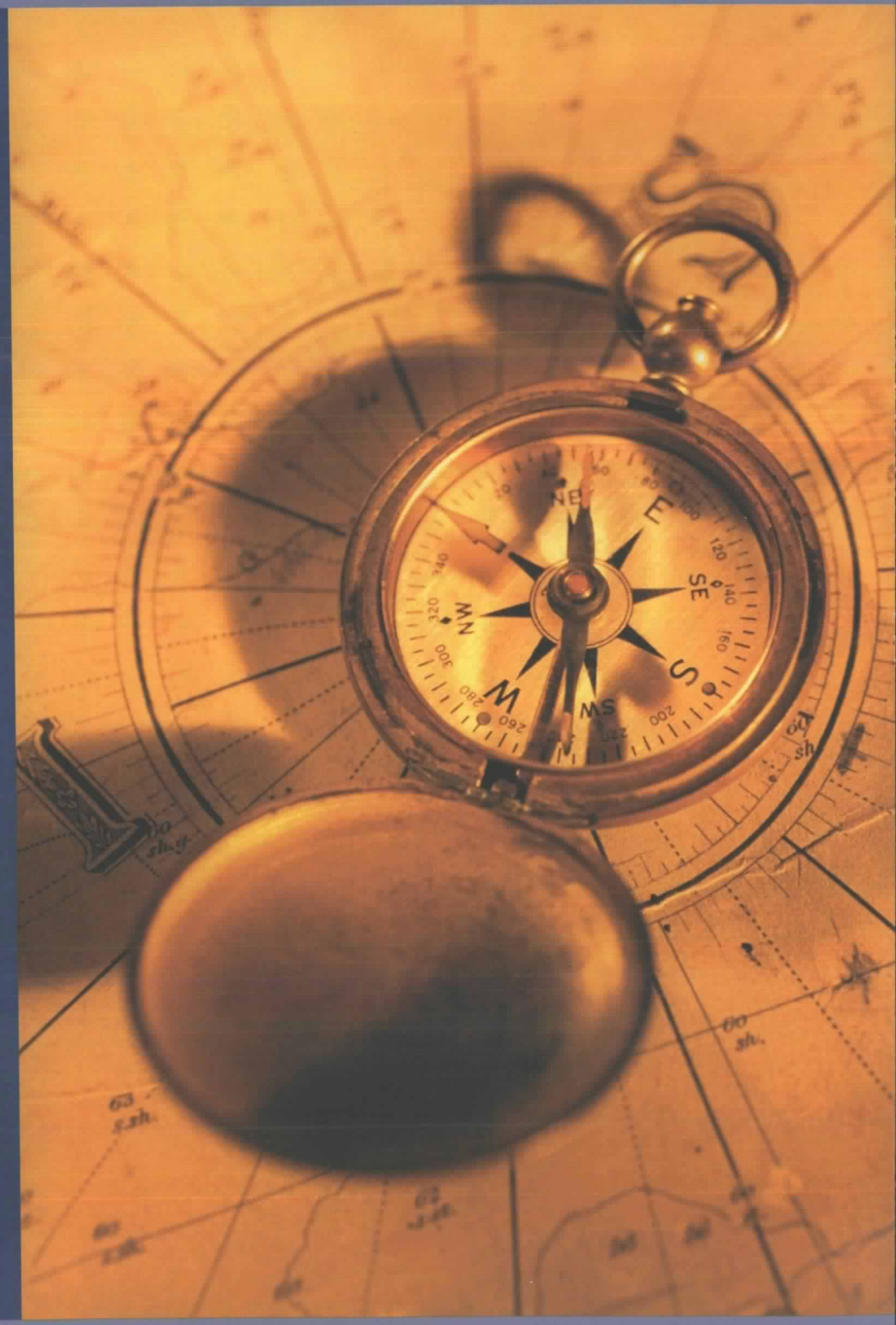
milestone 1

Letter from the Administrator

Direction — GSA's mission statement serves as true North guiding us toward our goals.

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



LETTER FROM THE ADMINISTRATOR

Creating a Successful Future at GSA ...the Journey Continues

On September 11, 2001, the terrorist attack on America and its aftermath changed our world forever. Throughout this unprecedented year, GSA and the rest of the Government worked together to provide good Government services to the American people. I am proud of the way GSA associates participated in helping other agencies maintain their operations. We rose to the challenge and we will continue to do so. Federal departments, agencies, boards, and commissions look to GSA to provide the services and solutions that make it possible for them to do their jobs well. As these organizations secure our homeland and achieve other vital missions, they will require even more from GSA in FY 2003 and beyond. We are determined to meet their high expectations as we follow the course we have charted for the future.

Stephen A. Perry

Charting a Course to Achieve the President's Management Agenda

President Bush has defined his vision of good Government as that which is citizen-centered, results-orientated, and market-based. To realize this vision, he developed a Management Agenda that serves as a road map for each Federal agency to follow.

The President's Management Agenda focuses on improving the way Government agencies manage for results in five important areas: strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration.

We are committed to achieving the President's Management Agenda and have incorporated each area of his Agenda into our six agency-wide goals:

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

While we are pleased with our progress, we know that we must institutionalize high performance and continuous improvement throughout GSA. Consequently, in FY 2003, we will further sharpen our focus in order to enhance our Performance Management Process.

We will call on our associates in each unit of the agency to: (1) develop specific, customer-focused, measurable goals, (2) document detailed action plans with time schedules, and (3) report actual results achieved in the agency-wide performance measurement system so that actual results achieved will be tracked against the performance measures set for each unit goal. This process will improve not only the planning but also the execution of our GSA goals and the President's Management Agenda. The following summarizes our FY 2002 achievements in the five areas of the President's Management Agenda, and shows the course we have charted for the future.

Competitive Sourcing

One of GSA's agency-wide goals call for us to *provide best value for customer agencies and taxpayers*. To accomplish this we must keep searching for better ways to provide best value for the long-term. Sometimes this search will result in changing the way

we conduct business within GSA, and sometimes it will result in making better use of private sector companies.

GSA completed the development of its Competitive Sourcing Plan for FY 2002 and FY 2003 in February 2002. We successfully accomplished the FY 2002 portion of this Plan with the direct conversion of 398 positions as reflected in the FAIR Act Inventory as of July 2002. We are working to achieve the FY 2003 portion of the Plan. In July, we initiated two competitions, one in the National Customer Service Center of the Federal Supply Service, and the other in the Indian Trust Accounting Division of the Office of the Chief Financial Officer. In addition, we are considering reviews in the Federal Technology Service and Chief People Officer in FY 2003.

Expanded Electronic Government

Application of the latest digital technology via the Internet is transforming Government operations and enabling significant productivity and performance improvements. In FY 2002, the Bush Administration selected 24 major electronic-government (egov) initiatives to lead the way in making a transformational change in the way Government agencies operate, collaborate, and interact with citizens and businesses.

GSA is the managing partner of five of the 24 egov initiatives and a participating partner on several others. These initiatives will provide us with new opportunities to *operate efficiently and effectively.* We are making good progress. For example:

- The E-Authentication team completed much of its development work. This initiative will enable the Government to validate digital signatures on electronic documents.
- The *USA Services* egov team made substantial progress on this initiative. They hired a project manager, developed an email answer pilot, conducted citizen research and completed their OMB 300B plan. The initiative will facilitate citizen interaction with Government by combining the powerful communication tools and resources of GSA. Ultimately, this egov initiative will become the foundation for a stronger partnership among Federal, State, local and other governments in the use of digital information technology.
- The *FirstGov* Web site and the Federal Citizen Information Center have been brought together in the new Office of Citizen Services and Communications. The new office will help fulfill President Bush's vision of a citizen-centered, results-oriented Government. Through *USA Services* and other tools, it will advance his Management Agenda strategy of expanding electronic government by providing a single location, or "electronic front door," through which citizens, businesses, Government, and the media can easily access information about Government services and activities as well as complete transactions.

egov
My Government. My Terms.

Improved Financial Performance

GSA's financial management procedures consistently meet high standards as indicated by receipt of our 15th consecutive "clean audit opinion" on our financial reports. Our record shows that we are focused on the goal to *ensure our financial accountability*.

During the year, we implemented the second phase of *Pegasys*, the agency's new accounting system. This continues the modernization effort that will completely replace GSA's legacy financial management systems and provide new capabilities.

As we look to the future, we will further integrate our financial management system into our Performance Management Process in order to make financial information more readily available for management decision-making, and improve our process for budget and performance integration.

GSA must maintain a world-class workforce by recruiting talented young people for its mission critical occupations.

Strategic Management of Human Capital

Achieving the challenging goals we have set for ourselves will require competencies, skills, and commitment. We must also have a positive and productive work environment, where we live our GSA values every day, and work together as a team. In other words, we must *maintain a world-class workforce and world-class workplace*.

Strategic management of human capital requires that we identify any "gaps" among the competencies, skills, and commitments needed to achieve our goals versus what we have in place, and then to take action to eliminate these gaps. In FY 2002, GSA developed an agency-wide Human Capital Strategic Plan that supports GSA's overall Strategic Plan. The Plan identified five mission critical occupations (acquisitions, real estate, financial management, information technology, and law enforcement). GSA is analyzing its staffing to find where gaps with these occupations exist. Once identified, GSA will begin to attack these gaps to achieve its objectives.

Budget and Performance Integration

Budget and performance integration requires allocation of scarce resources to programs in a manner that maximizes the achievement of desirable outcomes for the American people over the long-term. Current law requires Federal agencies and departments to develop performance plans that identify goals, action plans, and performance measures; however, this process has not been adequately linked to the budget process to assure that resource allocations are made in concert with the performance plan. In FY 2002, OMB evaluated a number of GSA programs using the Program Rating Tool. Evaluation of the management of Federally owned real property indicated that while the PBS displays solid management, there is a need for it to develop and strengthen a longer-term vision including the development of long-term measurable goals that assess the performance of the program. Four FSS programs were evaluated, Vehicle Leasing, Vehicle Acquisition, Multiple Award Schedules, and the Supply Depots and Special Order.

During the past year, GSA has improved its performance plans by incorporating prioritized, customer-focused goals, action plans, and reliable performance measures. The FY 2004 Budget Request was prepared as an integrated Performance Plan and Budget. This approach will lead to better budget and performance integration with the consequent de-emphasis on programs that are outdated or ineffective, and place more emphasis on programs that deliver the desired outcome of good Government service to the American people.

Conclusion

When we set forth on our performance improvement journey of *Creating a Successful Future at GSA,* we knew it would not be short or easy. Rather, we knew it would require our continued strong commitment, diligent effort, and unwavering persistence over a long period of time. Improving GSA's performance is something we simply must achieve given this agency's critically important role in our nation's Government. We know that achieving GSA's Mission *to help Federal agencies better serve the public...* is absolutely essential to enabling them to achieve their missions and improve the quality of life of people in this great country. We plotted a course and embarked on this performance improvement journey, and today, we remain as committed to our performance improvement journey as the day we started.

Administrator's Statements of Assurance

Management Assessment of Performance Measures

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

1. The financial data used in the report are complete and reliable. I base this assessment on the reports of the GSA Inspector General (IG) and the unbroken series of 15 unqualified opinions GSA has received on its financial statements. However, certain reportable conditions in GSA's financial reporting and operations are identified in the Report of Independent Accountants. We intend address these issues.
2. The performance data used in this report are generally complete and reliable; however, improvements are underway to increase our confidence in the data.

- In conformance with a finding made by the Inspector General, we evaluated the procedures used to collect performance data and the basis on which an assertion of validity can be made at the program activity level for the Public Buildings Service and the Federal Supply Service. Similar evaluation will be done for the Federal Technology Service, the Office of Governmentwide Policy, and the major staff offices.
- Based on the evaluations, we enhanced the written documentation for the procedures or systems being used, and clarified the roles and responsibilities of those overseeing data collections and review.
- GSA developed a performance measurement tool that prescribes procedures for data collection and entry, and identifies the individuals responsible for data entry and review.
- In previous years, one of the areas we identified as a reportable conditions involved the STAR system in the Public Building Service. STAR is a source of both financial and performance data. Improvement to the STAR system will have a favorable impact on the completeness and reliability of both financial and performance data.
- Where there is a close correspondence between a GSA activity and a private sector counterpart, we use external data as a benchmark. When we do this, we strive to find highly reputable sources of data that are recognized as industry standards.
- GSA often contracts with outside polling firms, such as the Gallup Organization, to develop customer satisfaction or other survey data. Use of an outside contractor can encourage more customers to participate and add credibility to the results. In using such data, we always deal with reputable firms that are leaders in the industry. Our contract provisions require that we adhere to sound business practices and that we follow-up to make sure we can have confidence in the results. All of these firms have their own validation and verification procedures.

Federal Manager's Financial Integrity Act Report

I am pleased to report that the GSA's management control and financial management systems, taken as a whole, provide reasonable assurance, considering the material weaknesses described in the Management Discussion and Analysis, and that the objectives of the Federal Managers' Financial Integrity Act (FMFIA), Section 2 and Section 4, and the Federal Financial Management Improvement Act (FFMIA), are being achieved. The content of the enclosed FMFIA report is based on information provided by GSA's managers, as well as on advice provided by the agency's Management Control Oversight Council (MCOC). It is also based on the results of the audit of GSA's Financial Statements.

Managers have evaluated their programs and have attested that their management controls comply with the Office of Management and Budget's (OMB) Circular A-123, Management Accountability and Control. The responsible systems managers and financial management officials have evaluated GSA's financial management systems in accordance with OMB Circular A-27, Financial Management Systems.

During FY 2002, management control issues surfaced from a variety of sources. The MCOC, under the chairmanship of the Deputy Administrator, examined a wide range of management issues that were brought to its attention. The Inspector General, in his role as an advisory member of the MCOC, continues to provide useful, constructive suggestions for improving the agency's management control and financial management policies and practices.

Stephen A. Perry
Administrator

January 31, 2003

milestone 2

Management Discussion and Analysis

Navigation Points — While GSA's mission statement serves as true North, our values and goals serve as our navigation points helping us plot a course for a successful future.

MANAGEMENT DISCUSSION AND ANALYSIS

How Far We Have Come

The General Services Administration (GSA) has been carrying out its mission to acquire and provide goods, services, and facilities to support the needs of other Federal agencies for 53 years.

To carry out its mission, the agency's primary goals were established in 1949 when the 81st Congress mandated the consolidation of the Federal Government's property and administrative services. GSA's current responsibilities reflect how the original goals have evolved within the context of business technology, culture, and legislative intent to meet agencies' needs by centralizing support duties and maximizing efficiency and oversight.

The administrative services under GSA's regulatory purview include the management of real and personal property, travel and transportation, motor vehicles and aircraft, and mail. The scope and impact of our 53-year evolution has resulted in expanding GSA's influence within the Federal Government and with the American public.

While Federal agencies comprise the majority of GSA's customers, our client base has grown to include State and local governments, international partners, thousands of vendors, and American citizens. Despite our new missions and objectives, the goals of the past still echo in our business practices today—goals such as good customer service, competitive value, stewardship, fiduciary integrity, and accountability to the taxpayer.

GSA is constantly evolving to keep in step with the times. We are a change agent in Government, becoming ever more attentive to the needs of our fellow Federal associates and the citizens for whom they work. We have committed ourselves to bringing best practices and the latest technology to the Federal workplace, while leveraging the large Federal market to provide the Government the best value available for commercial-quality goods and services. These tools will lead to a successful future for GSA, and enable the agency to better serve the American public.

Each GSA associate can see the path they must take to achieve our Mission Statement as well as our Values and Goals.

These goals provide the framework for where GSA is heading as an agency. In FY 2002, we completed our Strategic Plan and FY 2003

General Services Administration Mission Statement

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

General Services Administration Values & Goals

VALUES

- Ethics and integrity in all we do
- Respect for fellow associates
- Results orientation
- Teamwork
- Professionalism

GOALS

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

Performance Plan based on these tenets. The plan outlines the specific activities we will undertake to fulfill these goals, and we have established performance measurements to provide a yardstick that will let us know how we are doing in pursuit of these goals. At GSA, we are building a more disciplined approach to performance measurement—going beyond the requirements of the Government Performance and Results Act (GPRA or Results Act). We are bringing together the whole agency, and incorporating additional accountability into the management process. Each quarter we determine the progress each business division is making toward its objectives.

The GSA Organization

GSA provides its services through the coordinated efforts of eleven regional offices and its central office in Washington, D.C. GSA's five major business areas are the line operations of our organization. GSA's major Services and Offices, combined with the staff organizations, create a synergy that GSA leverages to obtain new business, and to increase our Governmental and functional responsibility. Our hard work is paying off, GSA revenues grew by approximately 11 percent in FY 2002. In addition, we streamlined our organization with the closure and consolidation of 6 of the Federal Supply Service's depots. In FY 2002, GSA had 13,937

GSA Organization Chart

ADMINISTRATOR
Stephen A. Perry

DEPUTY ADMINISTRATOR
Thurman M. Davis, Sr.

CHIEF OF STAFF
David H. Safavian

FEDERAL SUPPLY SERVICE
Donna D. Bennett

FEDERAL TECHNOLOGY SERVICE
Sandra N. Bates

PUBLIC BUILDING SERVICE
F. Joseph Moravec

OFFICE OF GOVERNMENTWIDE POLICY
G. Martin Wagner

NEW ENGLAND REGION
BOSTON, MA
Dennis R. Smith

NORTHEAST AND CARIBEAN REGION
NEW YORK, NY
Karl H. Reichelt

MID-ATLANTIC REGION
PHILADELPHIA, PA
Barbara L. Shelton

SOUTHEAST SUNBELT REGION
ATLANTA, GA
Edwin E. Fielder, Jr.

GREAT LAKES REGION
CHICAGO, IL
James C. Handley

THE HEARTLAND REGION
KANSAS CITY, MO
Bradley Scott

GREATER SOUTHWEST REGION
FT. WORTH, TX
Scott Armey

ROCKY MOUNTAIN REGION
DENVER, CO
Larry Trujillo

PACIFIC RIM REGION
SAN FRANCISCO, CA
Peter G. Stamison

NORTHWEST/ ARCTIC REGION
AUBURN, WA
Jon R. Kvistad

NATIONAL CAPITAL REGION
WASHINGTON, D.C.
Donald C. Williams

OFFICE OF THE CHIEF FINANCIAL OFFICER
Kathleen M. Turco

OFFICE OF THE CHIEF PEOPLE OFFICER
Gail T. Lovelace

OFFICE OF CONGRESSIONAL & INTERGOVERNMENTAL AFFAIRS
Shawn McBurney

OFFICE OF CITIZEN SERVICES & COMMUNICATIONS
M. J. Jameson

OFFICE OF THE CHIEF INFORMATION OFFICER
Michael Carleton

OFFICE OF ENTERPRISE DEVELOPMENT
Boyd Rutherford

OFFICE OF PERFORMANCE IMPROVEMENT
Boyd Rutherford

OFFICE OF GENERAL COUNSEL
Ray McKenna

OFFICE OF CIVIL RIGHTS
Madeline Caliendo

OFFICE OF INSPECTOR GENERAL
Daniel R. Levinson

GSA BOARD OF CONTRACT APPEALS
Stephen M. Daniels

full-time equivalents (FTE's) employees; FTE's have been in this range since 1998. GSA's Services and Offices, which work together to serve the needs of our many diverse customers, consist of the following:

- Public Buildings Service (PBS)
- Federal Supply Service (FSS)
- Federal Technology Service (FTS)
- Office of Citizen Services and Communications (OCSC)
- Office of Governmentwide Policy (OGP).

In November 2002, legislation was enacted to establish the Department of Homeland Security. Two elements of GSA will be transferred to the new Department: the Federal Protective Service (FPS) from the PBS and the Federal Computer Incident Response Center (FedCIRC). The impact of these transfers on GSA financial resources and FTE is still being determined.

The GSA Public Buildings Service

The mission of the Public Buildings Service is to deliver a superior workplace for the over 1.1 million Federal workers while ensuring the precise management of over 334 million square feet of space in office buildings, courthouses, laboratories and border stations. Additionally, the PBS is charged with securing superior value for the American taxpayer. The agency also preserves and maintains 414 historic properties, of these, 33 are on, or eligible for, the National Register at the national, State, or local level, and 105 buildings are potentially eligible for the National Register. The remaining 89 historic properties are 50 or more years old but have not been evaluated for National Register eligibility, although they would likely qualify. The PBS is a leader in the design, construction, and operation of buildings to reduce the negative impacts on the environment and to maximize the health and comfort of building occupants. It provides quality childcare space throughout the U. S. The PBS vision is to be universally recognized as the best public real estate organization in the world.

The PBS Business Lines

- Building Operations
- Rental of Space
- Construction and Acquisition of Facilities
- Repairs and Alterations
- Property Disposal

The GSA Federal Supply Service

The Federal Supply Service provides goods and services for the Federal marketplace, providing customers with economical, efficient, and effective service delivery and significant savings in time and administrative costs. Agencies can make best-value choices among 4 million products and services available from more than 10,000 commercial suppliers under contract to the FSS. The FSS employs world-class business practices

The FSS Business Lines

- Commercial Acquisition
- Supply
- Personal Property Management
- Travel and Transportation Management
- Vehicle Acquisition and Leasing

and on-line access through its award-winning e-business system—GSA*Advantage!*™ In FY 2002, the FSS' business volume was $27.3 billion, and is projected to grow to over $30 billion in FY 2003.

The GSA Federal Technology Service

The Federal Technology Service provides local and long distance telecommunications, information technology (IT), and information security services to Federal agencies and other authorized entities on a fee-for-service basis. Through two business lines, IT Solutions and Network Services, the FTS mission is to deliver best value and innovation to support government agency missions worldwide. The FTS works with agency customers to understand their missions and requirements, and to help them choose, acquire, implement, and manage the funding for the best solutions to meet those needs. The FTS connects agencies with private sector providers through contracts that leverage government buying power to provide state-of-the-art IT and telecommunications products and services at excellent prices.

The FTS Business Lines

- IT Solutions
- Network Services
  - Local Telecommunications Services
  - Long-distance Telecommunications Services

The GSA Office of Citizen Services and Communications

The newly established Office of Citizen Services and Communications is the cornerstone of this Administration's egov strategy. It is the first step in the creation of a state-of-the-art vehicle that citizens, businesses, and governments can use to access and employ information and services. This is a citizen-centric, results-oriented vehicle attuned to the needs of Americans in the 21st century.

The OCSC develops, implements, and manages information content, and maintains a variety of information channels, including the Federal Citizen Information Center (FCIC) and the *FirstGov* Web portal, to bring together a vast array of useful Federal services and information, making them easily accessible to the public. The OCSC also is responsible for *USA Services* and supports other egov initiatives. In addition, the Communications division of the OCSC provides staff support in the areas of public affairs, marketing, events planning, graphic and video arts, GSA.gov Web site governance, and editorial services.

The OCSC Business Lines

- Citizen Services
- Communications
- Business Management

The GSA Office of Governmentwide Policy

The OGP provides a government-wide policy infrastructure that supports Federal agencies in the management of property, technology, and administrative services. The OGP's mission is to improve government-wide management. The office is responsible for carrying out the policy and regulatory functions assigned to GSA by Congress and the President, and exercises GSA's

authority as one of the central management agencies of the Federal Government. The OGP brings interagency groups together to collaborate on developing the policies and guidelines for the implementation of Federal laws, Executive Orders and other Executive Branch guidance. The OGP facilitates government-wide reform by providing Federal managers with business-like incentives, tools, and flexibility to prudently manage their assets. The OGP also identifies and promotes best practices to make the Federal Government's management processes more efficient and effective.

The GSA Staff Offices

The Staff Offices of GSA provide foundational support for the organization. *The Office of the Chief People Officer (CPO)* provides policy and technical guidance concerning the human capital of GSA. *The Office of the Chief Information Officer (CIO)* provides policy and technical guidance concerning the GSA IT. *The General Counsel* provides legal support and policy guidance. *The Office of Enterprise Development (OED)* provides opportunities for small businesses to participate in Government acquisition. *The Office of the Chief Financial Officer (CFO)* provides policy leadership in strategic planning, budgeting and financial management. The *Office of Congressional and Intergovernmental Affairs* operates as a liaison between GSA and Congress; and the *Board of Contract Appeals* hears and decides contract disputes between government contractors and GSA or other executive agencies.

Management Issues

While we have made progress in addressing the issues and challenges before us, GSA still faces a number of significant challenges that may affect our performance in FY 2003. A complete picture of GSA and the status of our programs must also include a discussion of the current issues identified by management that may have a major impact on our future operations. These issues include the following:

FTS/FSS Overlap

In recent years, there has been a convergence of IT services and other expert services and management tools, available from the FTS and the FSS. Today many if not most goods and services provided by GSA have an IT aspect. GSA believed that the FTS and the FSS resources supporting technology and expert services could be better leveraged for our customers. A management and technology consulting firm was hired to review the situation and make recommendations.

The study concluded that GSA essentially has the right mix of products and services necessary to serve Federal customers. However, there are opportunities to improve service to customers and reduce costs. The study recommendations included:

- Combining and re-aligning the functional areas in the FSS and the FTS that focus on:
  - Market research
  - Marketing
  - Customer account planning and management
  - Sales
  - Service delivery
  - Contract development and maintenance
- Ensuring organizational incentives are aligned with customer and organizational needs; and
- Expanding expert assistance services (technical and procurement) into other GSA product lines.

GSA has organized joint teams of the FSS and the FTS managers to address the recommendations, and they have begun the implementation of these recommendations.

Creation of the Office of Performance Improvement

President Bush has called upon all Federal agencies to improve performance in order to provide better services to the American people. GSA has not had an office whose sole task was to lead this effort. In response to

The events of September 11, 2001, focused greater attention on emergency planning and management in GSA.

the need, GSA established the Office of Performance Improvement. The new office will support the Administrator and the leaders of the Services and Staff Offices in identifying, developing, and executing changes necessary to achieve significant performance improvements. In addition, the office will oversee the implementation of action plans, process changes, organizational changes, and other performance improvement initiatives developed to meet the GSA-wide goals, such as the resolution of the FTS/FSS overlap.

Emergency Management

The events of September 11, 2001, focused greater attention on emergency planning and management in GSA. GSA's capability to continue to perform our duties during an emergency is an important management issue. In November 2001, GSA convened a National Emergency Management Conference, with representation from all Services, staff offices, and regions. This set the stage for development of a two-year, multi-phased, continuity of operations enhancement and implementation strategy. Its key objectives are to enhance national and local continuity of operations planning (COOP) and testing, improve GSA's ability to meet its obligations under the law, and institutionalize effective and efficient systems and processes.

In FY 2002, GSA focused on the Phase I fundamentals. This included a review and enhancement of existing COOP plans, establishment of Senior Emergency Response Teams (SERT), issuance of national policy for alternate sites, identification and acquisition of alternate sites that are policy-compliant, enhancement of IT connectivity and backup, establishment of emergency notification and communication systems, and examination of backup regional capabilities. GSA also conducted testing of telephone cascade lists, office-specific drills, and full tabletop exercises in each region and Central Office.

In FY 2003, GSA will focus on the needs of Phases II and III, including real-time exercises at the alternate sites, integration of field locations in regional exercises, and full integration of communications, IT, and other critical support systems.

Intragovernmental Transactions Business Rules

The General Accounting Office (GAO) classified accounting for transactions between Federal agencies as a government-wide material weakness. The inability to properly account for these transactions is one factor that has prevented a clean opinion on the government-wide financial statements. Obviously, with the large volume of business that each of the Services conducts with other agencies, GSA must be part of the solution to this problem.

The OMB drafted business rules to help standardize business processes among agencies. In the business rules, the OMB addresses the assignment of unique business location codes, registration in a central contractor database, and mandatory data elements for intragovernmental bills and invoices. Implementing the rules requires the CFO to modify systems and procedures, and work with the Services to assure that GSA obtains the necessary information needed regarding our customer agencies and vendors. When implementation is complete, GSA will be able to reconcile accounts with our Federal agency partners.

Management of the Government's Real Property Inventory

GSA has a major role as a steward of the government's real property. The lack of authority for GSA and other agencies to use advanced tools and techniques for this purpose is an important management issue. To remedy the situation, the Administration has proposed legislation to enhance government-wide real property management, and bring the policies and business practices by which Federal agencies manage their property assets into the 21st century. GSA would be affected by these changes both in its operational responsibility in the PBS and in its policy role in the OGP. Briefly, these amendments to the Federal Property and Administrative Services Act of 1949 would: 1) improve life cycle planning and management; 2) allow greater flexibility to optimize asset performance; 3) provide incentives for better property management; and 4) streamline and enhance processes. Enactment of the changes will encourage and empower Federal agencies to optimize their asset portfolios, and will lead to better use of Federal property and a reduction in unneeded Federal holdings across Government.

Government Credit Card Fraud and Abuse

GSA awards contracts for charge cards to be used by all Federal agencies for purchases, travel expenses, and motor vehicle expenses. While these cards provide convenience and reduce administrative costs, there are concerns that inadequate controls over their use have led to fraud and abuse. The contractors providing travel cards have expressed concerns with cardholder delinquency and write-offs on individually billed travel card accounts. Under OMB leadership, an interagency task force has been working to ensure that charge card abuses are effectively addressed.

Agencies have numerous tools for management and oversight of the card programs. Realizing the need for the most current and complete data available, GSA mandated that contractors provide electronic reports to agency managers. These reports are secure and easy to access via the Internet. Agencies use these reports to assist in the identification of questionable transactions, split purchases (improperly splitting a single purchase into two or more micro-purchases to avoid otherwise applicable competition requirements), improper cardholder limits exceeding a cardholder's warrant authority, and fraudulent activity. Remedial actions taken by the agencies have included wage garnishments, and 400,000 account closures at the Department of Defense (DOD).

GSA works with the agencies to provide training and make them aware of the management tools that are available. Although control of card use ultimately rests with the agencies, GSA continues to work to minimize the risk to the Government, and ensure the proper use of the cards. GSA, together with its charge card contractors, hosts an annual training conference for agency managers on best practices and the use of electronic reporting. Additionally, GSA hosts agency purchase, travel, and fleet card work groups, and publishes various training and educational resources for agency managers and cardholders. These are available in hard copy or on the GSA *SmartPay* Web site.

Federal Building Security

GSA has long provided security for the safety of Federal tenants and visitors to GSA-controlled space. Since September 11, 2001, our security needs and response to threats have dramatically changed and increased. We are now working with the FBI, the CIA, and State and local law enforcement agencies in the sharing of intelligence information that helps us to better assess the credibility of threats. GSA has expanded our training in physical security, ensuring that our security professionals are trained and kept current in the latest technologies. In addition, GSA ensures that security professionals have access to intelligence information so that they can develop specific countermeasures tailored to each facility. We have also increased our ability to assess the effectiveness of a number of countermeasures including building design modifications, site modifications, increased guard service, and new technologies. Our customers and associates have become vital and vocal members of each Building Security Committee. There is no permanent resolution of the security issue. As old threats are resolved, new ones will very likely arise. Ensuring that the necessary level of security is provided will continue to be an area of emphasis for GSA management.

Proper Use of the FSS Schedules Program

The IG has raised concerns that GSA's implementation of changes to the Multiple Award Schedules (MAS) program as required by the Federal Acquisition and Streamlining Act and the Clinger Cohen Act may not result in fair and reasonable prices for Federal customers. Under this program, GSA negotiates price discounts with multiple vendors providing comparable commercial supplies or services. The basic MAS contract prices are determined to be fair and reasonable at the time of award; Federal agencies may deal directly with the vendors, and may order and pay for supplies or services at GSA-negotiated prices. They may also negotiate lower prices based on specific requirements. In FY 2001, the business volume under MAS was $16.8 billion.

The FSS and the Offices of Acquisition Policy within the OGP and General Counsel are participating with the IG to review current procurement practices and look at needed enhancements to pricing activities. The group is focusing on the determination of fair and reasonable prices. The group's recommendations will likely lead to an expansion of the use of preaward audits. Preaward audits are conducted prior to award of a Schedules contract to ensure the Government receives the rates the vendor gives its most favored clients. The use of such preaward audits will also be extended to contract modifications which have received more emphasis in recent years as the MAS program has sought continuous coverage for schedules through "evergreen" contracts. "Evergreen" contracts are renewed on a regular basis, provided that the contractor continues to offer fair and reasonable prices.

In addition, GSA conducts various administrative functions in awarding the contracts. This eliminates the need for customer agencies to also perform these administrative functions when placing orders against Schedule contracts. This streamlined process allows purchasers to concentrate on the actions they can take at the ordering level to obtain best value pricing. In fact, the Federal Acquisition Regulation (FAR) provides procedures for customer agencies to ask for better pricing, and directs agencies to do so when the orders are of significant value. Agencies who properly use the Schedule ordering procedures can save significant cost and administrative savings. Currently GSA collects a 1 percent fee from vendors to fund the MAS program. GSA intends to reduce this 0.75 percent in FY 2004. Consideration is being given to reducing this fee to bring it more in line with program expenses.

In recognition of the importance of agencies using the Schedule program properly, GSA provides continuous education to customers. Last year 2000

General Services Administration Agency-wide Goals

PROVIDE BEST VALUE FOR CUSTOMER AGENCIES AND TAXPAYERS — Use customer feedback to determine customer needs and take actions to seize opportunities to provide customer savings.

ACHIEVE RESPONSIBLE ASSET MANAGEMENT — Manage assets directly controlled by GSA to achieve maximum benefit for the taxpayers.

OPERATE EFFICIENTLY AND EFFECTIVELY — Make GSA run smoothly. Use the Internet and other tools to provide information, services and contracting opportunities, and to enable customers to complete transactions on-line.

ENSURE FINANCIAL ACCOUNTABILITY — Develop financial tools needed to effectively manage GSA, and maintain clean audit opinions on GSA's annual financial statements.

MAINTAIN A WORLD-CLASS WORKFORCE AND WORLD-CLASS WORKPLACE — Recruit, develop, and retain the talent needed to meet our goals within a positive and productive work environment.

CARRY OUT SOCIAL ENVIRONMENTAL AND OTHER RESPONSIBILITIES AS A FEDERAL AGENCY — Broaden the number of competitors for procurement opportunities; protect the environment; assist agencies in providing accessibility to information technology for persons with disabilities; and perform other related responsibilities.

people attended the Professional Services Expo. The FSS provided training sessions on the proper use of Schedules. GSA has also worked in partnership with the DOD, the largest Schedule customer, on specific training initiatives for DOD. Currently GSA is working on additional online, classroom, and CD training for customers on the proper use of Schedules. GSA/FSS has budgeted $1.9 million for training in FY 2003.

Progress in Reaching our Destination – Summary of Key Performance Goals and Results

The Government Performance and Results Act requires agencies to plan for and measure the performance of their programs. In meeting the requirements of GPRA, the GSA Strategic Plan, issued on April 3, 2002, presents the agency's six agency-wide goals for ensuring that GSA remains a critically important part of providing good Government. GSA's FY 2003 Annual Performance Plan links the agency's performance goals to our six agency-wide goals.

GSA's *Strategic Plan* will guide the agency's associates in fulfilling the agency's mission. Achieving the agency's mission through accomplishing the six agency-wide goals is making GSA an even more critical element in the achievement of the missions of the other Federal agencies.

The GSA Strategic Plan and FY 2003 Annual Performance Plan can be found at www.gsa.gov/annualreport.

Key Performance Measures

Each agency-wide goal is supported by a number of performance goals. Performance goals establish expected performance for the fiscal year. The annual performance goals provide an agency view of the performance of GSA's five business divisions. Each division developed its own section of the GSA Annual Performance Plan and performance goals built around the agency's Strategic Plan. The most significant or key performance goals within each of the six agency-wide goals were selected for inclusion in this Management's Discussion and Analysis and are summarized in the table on page 19. The full discussion of FY 2002 performance goals and results is in the Performance against Performance Goals section of this report.

Measures

GSA's performance against its key measures paints a picture of solid and improving performance. We have deployed new technology, and have become more skilled in identifying and fulfilling the requirements of our customers. As we continue to emphasize performance measurement and make our planning more outcome-oriented, these results will improve.

GSA met its customer satisfaction targets. In the non-mandatory environment in which GSA operates, customer satisfaction is crucial to the agency's continued success. Of course, equally or more important is providing value for the taxpayers. GSA is also doing well in these measures as discussed in the Performance against Performance Goals section of this report.

Asset management highlights the stewardship aspect of GSA's mission. The greatest amount of assets entrusted to GSA's care is the inventory of public buildings managed by the PBS. The key measure presented against this agency-wide goal shows that GSA is reducing the percentage of non-revenue producing space (space that is vacant or for other reasons not occupied by rent paying tenants). With the new Portfolio Strategy and the amendments to the Property Act under consideration by Congress, GSA will have the tools in hand to do an even better job of managing these valuable assets.

GSA has room for improvement against the goal of *operating efficiently and effectively*. The agency attained the target for operating costs in office or similarly serviced space and for reducing the FSS operating costs. The cost per mile in the Interagency Motor Fleet was better than the target by $0.0059 or approximate 1.6 percent.

GSA has placed greater emphasis on goals relating to operations. GSA recognized that it needed to apply more rigor in this area. This increased emphasis will help GSA sharpen the focus on ongoing results. To enhance our performance management capability, the agency implemented the Performance Measurement Tool in early FY 2003. This tool will make performance measurement information easily available to all levels of the organization.

The financial information contained in this report reflects GSA's efforts to *ensure financial accountability*. Other actions of note include moving from the development to the deployment phase of the new accounting system of record, *Pegasys*, the reliance on the use of electronic transactions, and the improvement of the cash position of the IT Fund.

GSA has completed an integrated Human Capital Plan including the identification of its mission critical occupations and skills. This year for the first time, the measurement tool used for this goal is the Gallup Q12, an industry standardized survey that measures employee attitudes to differentiate the top performing workplaces from average and low performing ones across America. GSA's 67th percentile result should be considered a baseline. Gallup has determined that organizations that achieve a grand mean score in the 75th percentile are considered

Table 1: GSA's Key Performance Measures

● Exceeded our goals ● Met our goals ● Did not meet our goals

TARGET MET	MEASURE	FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
Provide Best Value for Customer Agencies and Taxpayers						
●	Percent of tenants that rate the PBS owned and operated services as satisfactory or better.	83%	83%	84%	85%	86%
●	Percent of tenants that rate the PBS leased space and services as satisfactory or better.	83%	83%	82%	83%	84%
●	Percent growth in Federal agency usage of the FSS programs.	26.6%	27.8%	1.8%	3.5%	19.2%
●	Percent of FTS satisfied customers as indicated on annual customer survey.	80%	76%	N/A	74%	74%
Achieve Responsible Asset Management						
●	Reduce the amount of non-revenue producing space in the PBS inventory to 12.2 percent.	13.5%	12.2%	11.8%	12.2%	11.8%
Operate Efficiently and Effectively						
●	Maintain operating costs in office and similarly serviced space at 16% below private sector benchmarks.	18% below	16% below	16% below	16% below	17% below
●	Reduce the FSS operating costs: Cost per $100 business volume	$2.28	$1.88	$2.20	$2.02	$1.76
●	Cost per mile.	$0.3065	$0.3326	$0.3533	$0.3611*	$0.3655*
Ensure Financial Accountability						
●	Receive clean opinion on financial statements and issue Performance and Accountability Report by due date.	100%**	100%	100%	100%	100%
●	Increase the percentage of vendor payments made by electronic media such as Electronic Funds Transfer and purchase credit card.	62%	71%	79%	80%	81%
Maintain a World-Class Workforce and World-Class Workplace						
●	Increase the rank percentile in the Gallup Q12 survey which measures the culture of the agency.	N/A	N/A	N/A	67th	67th***
Carry Out Social, Environmental, and Other Responsibilities as a Federal Agency						
●	Meet or exceed the goal of providing contracting opportunities to small business.	41.5%	40.3%	40.1%	40.0%	40.2%****

* The FY 2002 cost-per-mile target, established in FY 2000, reflects estimated inflation at that time. At the end of FY 2002, the target was based on actual inflation would have calculated to $0.3716 and the actual cost-per-mile is $0.3655.

** Not formaly included in the plan.

*** FY 2002 was the first year GSA administered the Q12 survey agency-wide. The ranking of the 67th percentile forms a baseline. The goal for subsequent years will reflect the 75th percentile, which Gallup has defined as world-class performance.

**** This measure reflects overall program performance. It is the only measure counted in the determination of whether GSA meets the GSA-wide goal. Numbers presented in the FY 2002 Actual column are preliminary and subject to verification within GSA as well as by the Small Business Administration.

world-class workplaces. GSA's ultimate goal is to achieve a score in the 75th percentile.

The final agency-wide goal covers a range of activities. GSA continues to be a strong participant in socio-economic contracting, protection of the environment, making technology accessible to people with disabilities, and other programs which further social objectives.

The Road to Accountability – Financial Highlights

For the 15th straight year, GSA's financial statements received a clean audit opinion. The FY 2002 audit report on GSA's financial statements was issued by the independent accounting firm of Pricewaterhouse-Coopers LLP (PwC). Our preparation of these statements is part of GSA's goal to ensure accountability over the resources entrusted to us, as well as to provide accurate and reliable financial and performance information. Agency management is accountable for the integrity of the financial information presented in the financial statements.

The financial statements and financial data presented in this report have been prepared from GSA's accounting records in conformity with generally accepted accounting principles (GAAP) in the United States. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

Overview of Financial Position

Assets. Total assets were $24,409 million at the end of FY 2002. This represents an increase of $920 million (3.9 percent) over the previous year's total assets of $23, 489 million. This increase is largely attributable to Funds with U. S. Treasury, which increased $838 million. GSA's assets reflected in the *Consolidating Balance Sheets* are summarized in the following table *(dollars in millions)*:

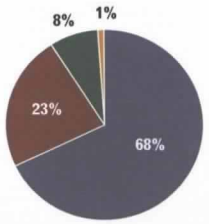
Table 2: GSA Assets

	FY 2001	FY 2002
Property and equipment, Net	$ 16,210	$ 16,624
Funds with U. S. Treasury	4,891	5,729
Accounts Receivable, Net	2,212	1,865
Other Assets	176	191
Total Assets	**$23,489**	**$24,409**

Taken together Property and Equipment combined with Funds with U. S. Treasury, comprise 92 percent of total assets for FY 2002. The $838 million increase in Funds with U. S. Treasury was primarily due to: (1) resources available to invest in construction of Federal buildings in the Federal Buildings Fund, (2) earnings generated from GSA revolving funds, and (3) changes implemented to accelerate billing processes within the Information Technology Fund. The $5,729 million Funds with U. S. Treasury is available to GSA to liquidate outstanding commitments, to provide working capital to the revolving fund programs and contains balances that will fund future needs. While the majority of these balances ($5,233 million) are available for such future needs, $2,804 million of the balance is

Figure 1: GSA Assets

GSA ASSETS FY 2002



- Property and Equipment, Net
- Funds Balance with Treasury
- Accounts Receivable, Net
- Other Assets

committed to funding of building construction and alteration projects provided for in legislation or through reimbursable funding arrangements.

Property and Equipment, increased by the $414 million (2.6 percent) from FY 2001 property acquisitions of $2.0 billion during the fiscal year, less the recorded depreciation of $1.3 billion and the $0.3 billion in property disposals accounts for this increase.

Liabilities. In FY 2002, total Agency liabilities decreased by $357 million (5.7 percent) from $6,217 million in FY 2001 to $5,860 million. Accounts Payable and Debt represent 77 percent of GSA's Liabilities. Liabilities as reported on the *Consolidating Balance Sheets* are summarized in the following table:

Table 3: GSA Liabilities

LIABILITIES	FY 2001	FY 2002
Accounts Payable	$ 2,215	$ 2,195
Debt	2,397	2,308
Unfunded Debts/Liabilities	1,122	1,025
Deferred Revenues/Advances	375	244
Other Liabilities	108	88
Total Liabilities	**$6,217**	**$5,860**

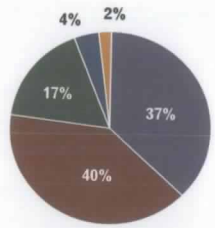
The $2,308 million of debt is 39 percent of the total liabilities, of which $103 million is unfunded. Periodically, in lieu of direct appropriations, GSA receives authority to finance construction of buildings from the Federal Financing Bank and the expenditure of the funds is amortized over a 30 year period. GSA has almost depleted its authority to borrow and accordingly has adopted a strategy to relieve this debt burden. In FY 2002, debt decreased by $89 million.

Liabilities of $1,025 million (18 percent) were unfunded, i.e., budgetary resources were not available to cover these liabilities. For most unfunded liabilities, budgetary resources are reduced in the year payment is due, in accordance with OMB funding guidelines. The most significant unfunded liabilities consisted of $285 million of unfunded capital lease liability, $192 million in worker's compensation actuarial liability, $167 million liability to the Judgment Fund and $190 million in environmental and disposal contingent liabilities.

GSA defers the recognition of income on fees collected for services that have yet to be provided. Deferred Revenues totaled $244 million at the end of FY 2002, a decrease of $131 million (34.9 percent) over the FY 2001 balance of $375 million. This decrease is due to the Federal Technology Service eliminating advance billings. Deferred revenues will continue to decrease as GSA implements OMB's new business rules for intragovernmental transactions that will prohibit GSA from using advance billings for Federal clients.

Figure 2: GSA Liabilities

GSA LIABILITIES FY 2002



- Accounts Payable
- Debt
- Unfunded Debts / Liabilities
- Deferred Revenues / Advances
- Other Liabilities

Ending Net Position. *The Consolidating Statements of Changes in Net Position* reflects those accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year.

GSA's Net Position at the end of FY 2002 on the *Consolidating Balance Sheets* and the *Consolidating Statements of Changes in Net Position* was $18,549 million, a $1,277 million (7 percent) increase from the prior fiscal year. Net position is calculated by:

Cumulative Results of Operations	$18,407
Unexpended Appropriations	+ 142
Net Position	**$18,549**

or

Total Assets	$24,409
Total Liabilities	- 5,860
Net Position	**18,549**

The $1277 million increase in Net Position resulted from $467 million in Net Income from Operations generated from GSA's revolving funds, $627 million in appropriations received and $183 million from other operations (e.g., transfers from other agencies and non-exchange revenue).

Results of Operations

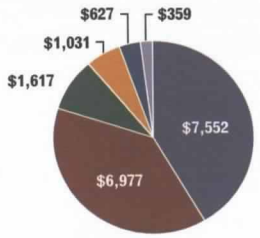
The results of operations are reported in the *Consolidating Statements of Net Cost* and the *Consolidating Statements of Changes in Net Position* and in the *Supplemental Consolidating Statements of Operations*. The *Consolidating Statements of Net Cost* presents the Revenue less Expenses in deriving the Net Income from (or Net Cost of) Operations of the Agency's three largest fund entities that support its three major business divisions in reporting the agency's Net Income from (or Cost of) Operations. All remaining GSA funds are aggregated and reported on the *Consolidating Statements of Net Cost* under Other Funds. Revenues are primarily generated from intragovernmental sales of goods and services.

Total Net Income (Cost) of Operations from sales by GSA's business lines, after intra-departmental eliminations, was $467 million compared to $300 million in FY 2001, a 56 percent increase. This increase is attributed to the growth in the Information Technology Fund's Net Income from Operations of $91 million (131 percent)—a $22 million increase from the prior year's loss of $69 million. Also contributing to the increase was a $62 million increase in the General Supply Fund's Net Income from Operations. Total GSA revenues increased $1,734 million (11 percent) while total expense grew by $1,567 million (10 percent).

The accompanying charts summarize the activity on GSA's *Consolidating Statements of Net Cost* and the *Consolidating Statements of Changes in Net Position* by showing the funds available to GSA in FY 2002 through GSA sales activities and appropriations received by GSA and how the funds were used.

Figure 3: Revenue Sources

GSA REVENUE SOURCES FY 2002



- Building Rents and Services
- Information Technology Services
- Sales of Supplies
- Motor Vehicle Services
- Appropriations Received
- Other

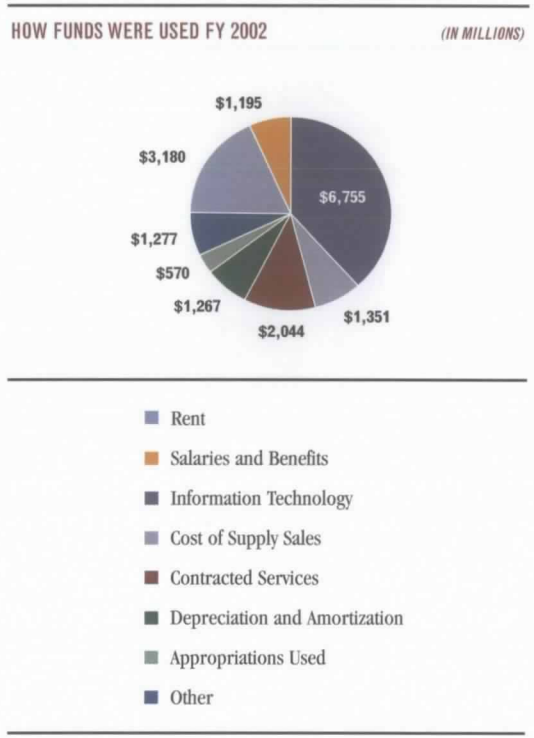
Budgetary Issues and Challenges

The *Combined Statement of Budgetary Resources* provides the detail on how budgetary resources were made available to the agency for the year. It also provides the

status of these resources at end of the fiscal year. GSA had obligations of $21,167 million on total budgetary resources of $25,890 million. Budgetary resources increased by $2,898 million (12.6 percent) from 2001 budgetary resources of $22,992 million. Most of the GSA's funding comes from customers through reimbursements to revolving funds for the purchase of goods and services or as rent paid for space in GSA-owned and leased buildings. Direct appropriations were also received from Congress of $195 million to cover such expenditures as personal property utilization and donation, real property disposal, critical infrastructure protection, government-wide policy, and the newly formed OCSC. Direct appropriations of $433 million were also received for the Federal Buildings Fund (FBF) for new construction, primarily for new courthouses, and $149 million from the President's Emergency Response Fund to add security and security improvements.

The current funding levels within the FBF cannot meet the demand for all new construction given that the demand for new construction dollars is significantly increasing. Options are limited—for example, leasing space is often no longer an option for certain agencies, like the Federal Bureau of Investigations. The Judiciary has identified a need for new courthouses totaling $2.3 billion over the next three years. Of this amount, approximately $1 billion of new facilities are under design. Also contributing to the demand for construction funds is the need for new U. S. border facilities. Since leasing is not a viable option and limited funds are available within the FBF, additional direct appropriations will be needed to meet the demand for construction dollars.

Figure 4: How Funds Were Used



The PBS will continue to strive to obtain the resources necessary to resolve the approximately $5.6 billion backlog of building maintenance and repair work. This remains one of the PBS' biggest financial challenges. To address that challenge, the PBS launched the PBS Strategy for Restructuring and Reinvesting in the Owned Inventory. This strategy restructure and transform our portfolio.

GSA is committed to the President's Management Agenda and has been selected by the Administration to serve as the managing partner on five of the twenty-four egov initiatives under this agenda. While GSA is making very good progress on the egov initiatives, and is working with OMB and partner agencies to obtain the resources to successfully deliver on these initiatives given the continued expanding role of egov.

Limitation of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for the General Services Administration pursuant to the requirements of Chapter 31 of the United States Code section 3515(b). While these statements have been prepared from GSA's books and records in accordance with the formats prescribed in OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, these statements are in addition

to the financial reports used to monitor and control the budgetary resources that are prepared from the same books and records. These statements should be read with the understanding that they are for a component of the U. S. Government, a sovereign entity. One implication of this is that unfunded liabilities reported in the statements cannot be liquidated without legislation that provides resources to GSA.

Ensuring Integrity Along the Way – Management Controls, Systems and Compliance with Laws and Regulations

The Federal Managers' Financial Integrity Act requires that agencies conduct annual reviews of the adequacy of management controls for Federal programs and activities. Based on these reviews and other evaluation work conducted throughout the year, such as Office of the Inspector General (OIG) and GAO audits, GSA provides a statement of assurance regarding the effectiveness of management, administrative and accounting controls, and financial management systems. The Administrator's 2002 annual Assurance Statement is provided in his opening letter contained at the beginning of this report.

The Management Control Oversight Council oversees the Agency's management control program. The MCOC, chaired by the Deputy Administrator, examines a wide range of significant management issues that were brought to its attention. The MCOC reviews Regional Administrator and the HSSO annual Assurance Statements, significant issues raised in OIG and GAO reports and management control evaluations conducted during the fiscal year, as well as concerns raised by the OIG in its annual audit of the Regional and HSSO Assurance Statements. Additionally, The Inspector General, acting in his role as an advisory member of the MCOC, provides suggestions to the MCOC for improving the agency's management control and financial management policies and practices.

Chart A, sections 2 and 4, summarizes the current status of GSA material weaknesses and non-conformances. Section 2 material weaknesses are discussed in OMB Circular A-123, *Management Accountability and Control*, and defined in GSA's *Management Control Improvement Handbook ADM P 5400.41A*. Section 4 non-conformances within GSA are identified in accordance with OMB Circular A-127, *Financial Management Systems*.

Section 2 material weaknesses are defined as a weakness that significantly impairs fulfillment of an agency or component's mission, deprives the public of needed services, violates statutory or regulatory requirements, significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; results in a conflict of interest; merits the attention of the agency head/senior management, the Executive Office of the President, or the relevant congressional oversight committee; or is of a nature that omission from the report could reflect adversely on the actual or perceived management of the agency.

GSA/Federal Protective Service Control Centers

A study conducted of GSA's control centers disclosed significant risks related to the GSA/FPS control centers. FPS had developed a plan to upgrade all regional control centers with state-of-the-art equipment; however, over time FPS recognized that it could gain economies of scale by consolidating some of the centers into Megacenters. To correct the material weakness, FPS established regional dispatch centers that coordinate with the Megacenters, installed new telecommunications systems in all the regions, and transferred all of its regional alarm accounts to the appropriate Megacenter. A final review to ensure that the actions taken are producing the intended results is scheduled for February 2003.

A. Statistical Summary of Performance

Section 2, Internal Control Systems

	NUMBER REPORTED FOR THE FIRST TIME	FOR THAT YEAR, NUMBER THAT HAVE BEEN CORRECTED	FOR THAT YEAR, NUMBER STILL PENDING
Prior Years	47	45	2
1997 Report	2	2	0
1998 Report	1	0	1
1999 Report	0	0	0
2000 Report	0	0	0
2001 Report	0	0	0
2002 Report	0	0	0
Total	**50**	**47**	**3**
Number corrected in FY 2002:	0		

Section 4, Financial Management Systems

	NUMBER REPORTED FOR THE FIRST TIME	FOR THAT YEAR, NUMBER THAT HAVE BEEN CORRECTED	FOR THAT YEAR, NUMBER STILL PENDING
Prior Years	8	8	0
1997 Report	1	1	0
1998 Report	2	2	0
1999 Report	2	0	2
2000 Report	0	0	0
2001 Report	0	0	0
2002 Report	0	0	0
Total	**13**	**11**	**2***
Number corrected in FY 2002:	0		

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

B. Material Control Weaknesses

	FIRST REPORTED	TARGET DATE FOR CORRECTION IN FY 2001 REPORT	CURRENT TARGET DATE FOR CORRECTION
GSA/FPS Control Centers:*			
The first Megacenter opened in Denver in FY98. The construction of the remaining three Megacenters was completed in FY 1999. All regional alarm accounts have been transferred to their respective Megacenter. The telecommunications networks for Regions 5, 6, 7, 8, 9, 10, and 11 were installed. Funding became available for completion of systems in regions 1, 2, 3, and 4, and installation was completed in April 2002. The region 3 Megacenter took over dispatch for regions 1 and 2 October 2002. Consequently, FPS has revised the date of the final action to December 2002.	CY 1995	2002	2003
Multiple Award Schedule Program:			
Currently, completion of this material weakness is being tracked and corrected via Office of the Inspector General internal audit A83007/F/W/V98000. At the completion of all action items, a management control review or other detailed review will be performed to ensure that the actions taken are producing the intended positive results.	CY 1996	2002	2003
Security Enhancements in Federal Buildings:*			
The item *Develop Building Security Countermeasure System (BSCS)* data field to record actual countermeasure cost, will no longer be tracked using the BSCS. Instead, the FPS will transition to the new Security Tracking System. Actual countermeasure costs will be tracked thru *Pegasys*. The PBS will continue to monitor and institute security measures to provide maximum building security and protection of our Federal workforce. The action item *Bring Department of Justice (DOJ) Report to Closure* is dependent upon actions by the Interagency Security Committee (ISC), which has not finalized its *Minimum Security Standards For Leased Space*. The ISC has determined that the draft standards require the review of the private sector. Following this review, the ISC will have until June 2003 to review and finalize the draft. The ISC will then coordinate the final draft with the National Security Council (NSC) and the OMB. This process revises the completion date for bringing the DOJ report to closure to September 15, 2003. Upon the final draft being approved by the NSC and the OMB, an instructional letter and a GSA order regarding the standards will be issued by December 15, 2003. At the completion of all action items, a management control review or other detailed review will be performed to ensure that the actions taken are producing the intended results.	CY 1998	2002	2004

**To be transferred to the Department of Homeland Security*

Multiple Award Schedule Program

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

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

Currently, correction of this material weakness is being tracked and corrected via OIG internal audit A83007/F/W/V98000. Milestones in the OIG audit and material weakness action plan call for GSA to implement an Offer Registration System within FSS-Online and complete a review to ensure that the actions taken are producing the intended results. The material weakness is scheduled for correction by April 2003.

Security Enhancements in Federal Buildings

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

Since this material weakness was identified in FY 1998, GSA has taken a number of steps to implement security countermeasures and accurately report their costs. The action item *Bring DOJ Report to Closure* is dependent upon actions by the Interagency Security Committee (ISC), which has not finalized its *Minimum Security Standards for Leased Space*. The ISC has determined that the draft standards require the review by the private sector. Following this review, the ISC will have until June 2003 to review and finalize the draft. The ISC will then coordinate the final draft with the National Security Council (NSC) and Office of Management and Budget. Once finalized, PBS will issue an instructional letter and a GSA order. This process revises the completion date for bringing the DOJ report to closure to December 15, 2003.

Upon the final draft being approved by the NSC and the OMB, an instructional letter and a GSA order will be issued regarding the standards. After issuance of the GSA order, six months will be required to determine if the corrective actions are producing the intended results. Therefore, the milestone date for completing the review and closing this material weakness is revised to June 15, 2004.

C. Systems Non-Conformances

As required by Section 4 of the FMFIA, GSA evaluates its financial management systems annually for compliance with the Federal financial management systems requirements identified in OMB Circular No. A-127, *Financial Management Systems*.

Based on all review work performed during 2002, it is our conclusion that GSA is in substantial compliance with the requirements referred to in Section 4 of the FMFIA and the FFMIA, notwithstanding the two system non-conformances discussed below. These system non-conformances relate to the need to improve entity-wide system security management and oversight, and the need to improve systems development, implementation, and change controls processes.

GSA is working diligently to address security controls issues that could compromise the safety of our Federal buildings.

Entity-wide System Security Management and Management Oversight

Significant progress was made during 2002 to address issues raised in prior years. Specifically, the Office of the Chief Information Officer has taken action to: issue additional IT security policy guidelines; enhance systems monitoring and Federal Computer Incident Response Capability incident reporting; provide security awareness training; develop and implement an IT security policy compliance database; and provide quarterly compliance reports for management review. Despite these improvements, GSA still needs to effectively implement and enforce its existing security policies and guidelines. To address this challenge, GSA's CIO plans to develop and issue additional policy guidance regarding technical standards for specific platforms, monitoring access attempts, and security violations. In addition, the CIO plans to complete ongoing efforts to develop and implement more effective enforcement and reporting guidelines to promote policy compliance. The planned target date to complete these actions is December 31, 2002.

The FY 2002 PricewaterhouseCoopers Electronic Data Processing (EDP) Management Letter which reviewed GSA systems and application controls further recommended that GSA's Services and Staff Offices take additional actions to strengthen network and application security controls. Appropriate action plans to address these recommendations are currently being developed.

Systems Development, Implementation, and Change Controls

Additional efforts are still needed to improve controls relating to system development and implementation processes at GSA. During the past year, GSA has made progress in this area. Specifically, the Office of the Chief Information Officer initiated efforts to update Systems Development Life Cycle (SDLC) policies, began to develop an expanded system change management process and related procedures, and began to develop a Quality Control Handbook. To complete action on this issue, the Office of the Chief Information Officer plans to complete all SDLC policies and procedures, complete the Quality Control Handbook, and coordinate these efforts with the auditors. The CIO plans to complete these planned actions by March 30, 2003.

The FY 2002 EDP Management Letter further recommended that GSA's Services and Staff Offices take additional actions to strengthen change control policies and procedures and develop a systems development life cycle for several significant portions of GSA's financial systems. Appropriate action plans to address these recommendations are currently being developed.

D. Summary of Additional Issues

During the past fiscal year, GAO issued two reports on GSA programs that the OIG identified as issues the Management Control Oversight Council needed to address to ensure proper recognition of potential problems. The MCOC discussed these issues and they were not considered by the MCOC to be material weaknesses.

Customers Being Charged Higher Fees Than Necessary

GAO report GAO-02-734, entitled *Contract Management: Interagency Contract Programs Need More Oversight*, found that despite consistently high earnings in the schedules program, GSA has not adjusted the 1 percent contract service fee it charges customers. Program customers are, in effect, being consistently overcharged for the contract services they are buying, while GSA is using excess earnings to support other programs.

The report recommends that GSA should adjust the Federal Supply Schedules program fee to reflect costs more closely. GSA agreed with the report findings and has agreed to review alternatives and determine appropriate fee changes.

Metropolitan Area Acquisition (MAA) Program

GAO report GAO-02-325, entitled *Telecommunications: GSA Action Needed To Realize Benefits Of Metropolitan Area Acquisition (MAA) Program*, found that although the MAA contract implementation is progressing, in most metropolitan areas GSA remains behind schedule for completion.

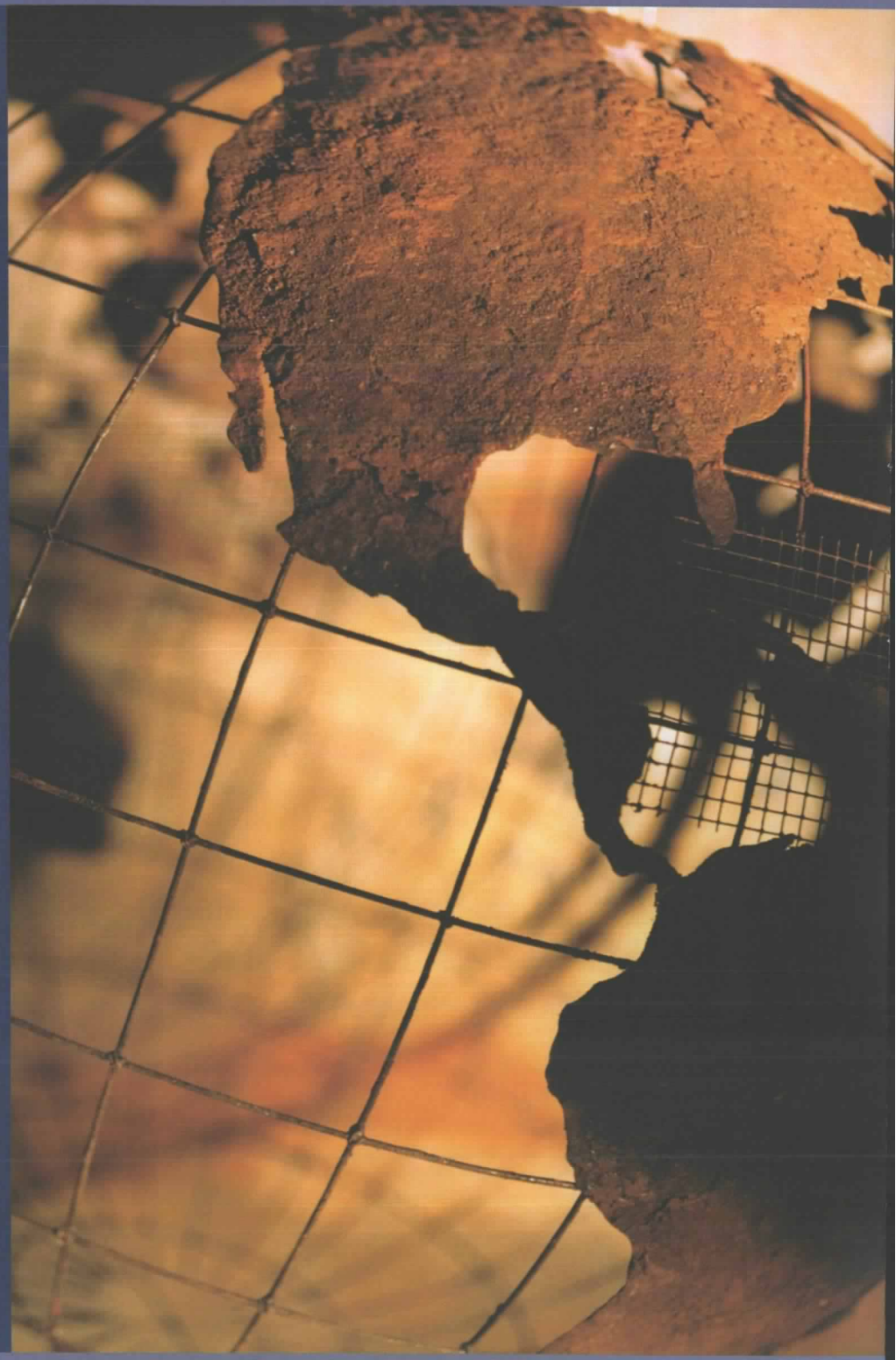
The report recommends that GSA should develop current, realistic time frames for completing ongoing MAA contract implementations, and it should develop and apply appropriate performance measures to monitor and manage the progress of those implementation efforts.

In response, GSA has developed an implementation timeline in coordination with FTS regional and national offices. GSA has also developed performance measures and established performance tracking procedures. GSA is currently in the process of compiling and publishing annually MAA fees charged to customers.

milestone 3

FY 2002 Performance Against Performance Goals

Measuring our Progress — By strengthening our performance goals and measures, GSA is moving toward better management of our agency.



FY 2002 PERFORMANCE AGAINST PERFORMANCE GOALS

The Journey: Satisfying Customers Needs

GSA used its mission, values and goals as guideposts for its journey to become a more dynamic, diverse and innovative leader in FY 2002. Whether supplying vehicles, security and intelligence personnel to support the 2002 Winter Olympics in Salt Lake City or supplying firefighting equipment to the firefighters battling forest fires in the western U. S., GSA's transformation over the past year enabled it to become more responsive to its customers and their needs.

Great customer service means different things to different customers. It can even mean different things to the same customer at different times. For GSA, great customer service can mean mobilizing to meet a natural or man-made disaster. It can also mean being a wise counselor to an agency just being created or reorganized, or it can mean simply being a reliable source for high quality products and services. The common thread of all these is trust. GSA must earn the trust of our customers and the taxpayers or there ceases to be a reason for us to exist. Here are some examples of where we believe we have earned trust this year.

Within hours of the September 11th attacks, GSA was working to bring help in New York and Washington. GSA associates from all regions coordinated their efforts and filled thousands of requests for goods and services, providing hundreds of vehicles, housing for emergency workers and National Guardsmen, construction equipment, protective clothing and search and rescue equipment for months after the attacks. GSA even received and filled a request from the NYC Fire Department for burial flags. GSA's support of the Federal Emergency Management Agency (FEMA) and its efforts to reestablish Federal offices in New York City continued well into FY 2002.

Even as GSA met the challenge of providing constant support to so many agencies, it was simultaneously working to reestablish downed telecommunications in lower Manhattan and the Pentagon. GSA was able to establish core network services to the Pentagon within 24 hours and connectivity to all displaced users in about 60 days. GSA associates worked tirelessly to reestablish service in New York and, in April 2002, permanently restored damaged service lines in the area.

In October, a different threat presented GSA with unprecedented challenges as letters containing anthrax began to surface in Florida and on Capitol Hill. GSA quickly developed emergency contracts for immediate anthrax testing and sampling in 84 government-owned and leased facilities. Additional contracts enabled GSA to implement anthrax cleanup requirements where necessary. The anthrax attacks might also have overwhelmed the telecommunications systems for the Centers for Disease Control and Prevention (CDC) in Atlanta, Georgia, had GSA not upgraded the center's voice and data systems days before the 9/11 attacks.

There are other less dramatic examples of great customer service. GSA won kudos from the Naval Sea Logistics Command for our timely response in relocating the Concord Naval Weapons Center. The PBS identified new space, built out the space to fit the Center's needs, and then coordinated with the FTS for wiring, cable and power, and the FSS for furniture, carpeting and office supplies.

The new Transportation Security Administration was in immediate need of office space at Chicago's O'Hare Airport. GSA quickly worked with Chicago's Aviation Department to establish a licensing agreement. GSA also arranged for temporary furniture and equipment to be shipped and installed through Multiple Award Schedules. The FTS supplied telecommunications service, and the PBS made certain the space was ready for occupancy all within one month after the initial requirement was agreed upon.

While GSA associates on the East Coast worked tirelessly to deal with the 9/11 tragedy, GSA associates in the Southwest coordinated with FEMA to supply firefighting equipment to the firefighters battling the forest fires raging in New Mexico and Colorado. Still other GSA associates responded to the devastation left by typhoon Chata'an in Guam and Chuuk. The

storm damaged large portions of the islands' power grids and contaminated the water systems. GSA contracting officers and leasing specialists deployed for more than four weeks to assist FEMA. GSA worked to provide supplies and services and assisted in the establishment of a mobilization center to marshal supplies for airlift to Chuuk.

GSA's mission, values, and goals provide the guidance and inspiration that have led the agency to achieve better service for its customer agencies and the American public. The agency's higher standards and achievements have led to a record of success in FY 2002.

Watching Our Compass: GSA's 2002 Business Results

This report is based on GSA's agency-wide goals. It comprises the work of the PBS, the FSS, the FTS, the OCSC, the OGP and the Staff Offices focused on those goals. Each Service and Office has interpreted the goals in the rich context of its business operations. The performance results are for the most part specific to each organization. In the future, as we refine our performance management process, we will be focusing on improving the operation of GSA as a whole and not just our operational units.

Provide Best Value for Customer Agencies and Taxpayers

GSA works to satisfy our agency partners by developing and delivering innovative solutions to meet their needs for space, products and services, technology and telecommunications. GSA achieved this strategic goal, meeting 17 of its 20 performance goals. We incorporate customer feedback and satisfaction data in planning and decision-making. Annual customer satisfaction surveys help gauge our progress and determine needed areas of improvement. In FY 2002, GSA achieved its goal to provide best value for customer agencies and taxpayers. GSA assists them in achieving savings for products and services. For example, the MAA program provided customer agencies savings amounting to more than $35 million for local telecommunications services. The long-distance telecommunications program, FTS2001, saved its customers more than 32 million on domestic outbound switched voice services.

Measuring Customer Satisfaction with GSA

Measurement of customer satisfaction is essential to all service organizations. Done right, this will lead to increased value for our customers and increased savings for the taxpayers.

The PBS deploys powerful analytical measures to find out how well its performance reflects consistency, quality, and speed of execution. The primary tools are the PBS Customer Satisfaction Survey, developed in conjunction with the International Facilities Management Association, and the Ordering Official survey. These surveys provide hard quantitative and qualitative information from the entire spectrum of customers from building tenants to agency leaders. Results from these two surveys showed that the PBS met its FY 2002 target

- Eighty-six percent of customers surveyed were satisfied with the PBS-owned and operated space, up two percent from FY 2001.
- Customer satisfaction with leased space was also better than expected. Eighty-four percent of customers in leased space were satisfied while 88 percent of customers holding new leases were satisfied with the PBS space.
- The percentage of satisfied customers in newly constructed space rose from 89 percent to 90 percent in FY 2002.

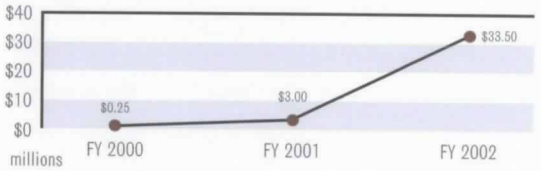
Further increases in customer satisfaction will require more teamwork and continual executive focus. The PBS recently set up the Office of Customer Service to better understand the needs of the customer and how we can fulfill them. More intelligence will flow from the newly established network of regional and national account representatives as they work with agency leaders to build mutual understanding and trust. We have not succeeded until the customer's needs have been met in his or her own eyes and the customer's mission has been achieved.

GSA's other Services are also proud of their results. We are developing and delivering creative solutions to meet customers' needs for products and services, technology and telecommunications. The FSS uses total business volume as a indicator of its success in serving customers. The FSS exceeded their $23.7 billion business volume of target by $3.6 billion. The top product offerings were professional services and IT.

Figure 5: Growth in Federal Agency Usage of FSS Programs

The FTS is using powerful Customer Relationship Management (CRM) technology like the best in the private sector to identify and seize business opportunities for sales of IT Solutions. They also provide end-to-end telecommunications services that meet the local and long-distance needs of the Federal Government.

Figure 6: Estimated Cost Savings due to MAA Implementation and Pricing



- Under the MAA program for local telephone service, the FTS awarded six industry partners new contracts in 26 cities. Savings exceeded the target of $10 million by $23.5 million.
- Nearly 85 percent of the Federal customer base benefits from local telecommunications price reductions through our programs, which saved them about $36 million.

Figure 7: Downward Trend in the Average Line Rate for Local Service

- Within the long distance arena, the FTS completed the FTS2000 to FTS2001 transition in early FY 2002. This effort was the largest telecommunications transition ever undertaken, and required the change of contract telecommunications service providers and equipment at over 50,000 locations government-wide.
- Since 1999, there has been a 60 percent overall price reduction for the FTS2001 contract relative to the FTS2000 contract.
- Based on price differences applied to actual minutes of usage bought by Government customers from the FTS2001 contract during FY 2002, cost savings for the FTS2001 domestic outbound Switched Voice Service (SVS) were $32.8 million relative to the annual target of $31.3 million.

- The cost of FTS2001 long-distance voice services has declined 23 percent during the past year, from 3 cents per minute in FY 2001 to 2.3 cents per minute in FY 2002.
- The FTS reduced overhead rates from 8 percent in FY 2001 to 7 percent in FY 2002, while sales increased by 22 percent.

The FTS's IT Solutions business line develops tailored, cost-effective solutions for the customer through technical procurement and project management support. Often these are complex projects involving hundreds of millions of dollars. A recent satisfied customer was the EPA. The FTS awarded an $800 million, seven-year task order for IT and telecommunications support services for one of their offices. The FTS also awarded a task order for Mobile Remote Emitter Simulators for the Air Force. With this, trainees can simulate fighter combat against enemy air defenses. Other parts of DOD will be able to use it too, and the potential value of the contract is $500 million.

GSA's *FirstGov* is the official Internet portal to the Federal Government. This year we redesigned and expanded it to better serve the needs of the American public. In the aftermath of September 11th, Americans turned to *FirstGov* for emergency information–visits to the site hit record numbers. Due to the increased traffic flow, the site was redesigned to improve delivery capabilities. *FirstGov* was named one of Yahoo's 50 best Internet sites this year.

Taking a Leadership Role to Help Our Customers

For GSA a big part of providing best value for taxpayers means leading GSA's sister agencies to operate more efficiently. The OGP is central to this role. It builds and maintains a policy framework that unites the Federal Government for areas of GSA responsibility. Often this work is highly technical. Here are two examples: The OGP finished development and testing of the E-Authentication Risk Assessment Methodology. The OGP then deployed the methodology for six of President Bush's egov initiatives. This will help make sure that persons using the systems are authorized users. Second, the OGP led the way for the development of Extensible Markup Language (XML) schemas for OMB. Simply put, XML makes it easier for computers to talk to one another.

The OGP works side-by-side with other Federal agencies to help them improve their performance measurement processes. The number of agencies that use government-wide performance measures increased by more than 40 percent, exceeding the target of 300.

Achieve Responsible Asset Management

GSA manages a significant portion of the government's investments in real estate, vehicles and other fixed assets of over $23 billion. There are other assets such as IT systems that GSA manages as well. Conserving and enhancing the value of the taxpayers' investment is a top priority in each of GSA's areas of responsibility. GSA achieved 5 of its 8 performance goals in this area. As with any other revenue-based service organization, we ensure that our existing assets generate an adequate return and that new assets are acquired prudently. We achieve this through appropriate preventative maintenance, security, sound financial analysis and effective long-range capital planning and control.

The PBS property portfolio accounts for the majority of GSA's assets. For most people, GSA means buildings. The PBS has developed a dynamic portfolio strategy to restructure the Government-owned inventory so that it consists primarily of properties that generate sufficient funds to meet capital reinvestment needs.

Reinvestment capital should go to properties that perform well financially and meet long-term Federal space needs. In spite of substantial expenditures for repair and alterations in recent years, the Federal need remains substantial. It has been calculated as high as $5.6 billion.

The following are examples of PBS asset management results for FY 2002.

- The ratio for potential revenue received improved by 0.3 percent from 92.4 percent in FY 2001 to 92.7 percent in FY 2002.
- The PBS achieved its target for non-revenue producing space in Government-owned properties; holding it at 11.8 percent.
- The PBS missed its target of 3.0 percent for reducing non-revenue producing leased space by 0.1 percent.

Figure 8: Percentage of

Non-Revenue Producing Space in the Leased Inventory

The PBS will slim down by disposing of assets that are expensive to operate and maintain, produce little or no net income to contribute to operations and reinvestment needs, require significant capital repairs, or do not serve customer agencies. As of July 2002, the PBS had placed 581 such assets on a watch list. The watch list contains properties with negative cash flow whose current and prospective performance is poor. Ninety-two of these properties are in the disposal process and 183 are in workout. Workout involves identifying and selecting specific remedies to improve cash flow and/or performance. Possible resolutions for watch-listed buildings include exchange, disposal, renegotiated rents, out-lease, conveyance to tenants, cost containment, and short-term hold. The portfolio strategy aligns the portfolio with GSA's agency-wide goal to deliver best value for customer agencies and taxpayers.

IT investment, managed by the office of the CIO, is a vital aspect of asset management. Today every big enterprise lives or dies based on its IT support. Developing and managing GSA's IT investment is critical to achieving GSA's mission; therefore, the CIO developed and implemented a model to guide the selection, control, and evaluation of all GSA IT investments. This is a more rigorous and structured approach than we used in the past. We also established rules for control of investments, enterprise architecture, and desktop computer purchases and support services.

Operate Efficiently and Effectively

GSA's commitment to efficient and effective operations ties directly to its performance management process. This process goes beyond what is required by the Government Performance and Results Act and other management legislation. It focuses the whole agency on our Mission, Values and Goals. Improving the process is a bigger job than we thought it was. Overall, GSA did not succeed in achieving the agency-wide goal this year. We were successful on 11 out of 21 goals.

Like many Government agencies, GSA has made significant strides in improving its operational management and flattening its bureaucracy. For FY 2003, where we have missed goals, we will develop and execute remediation plans, improve our measures, and double our efforts to succeed.

We implemented the Performance Measurement Tool (PMT) early in FY 2003. The PMT will permit close monitoring of performance against targets at all levels of GSA and display and analyze exceptions. The broad picture of an organization's performance the PMT paints will help us to spot trends and areas for in-depth evaluation.

Reducing Operating Costs through the Performance Management Process

An example of how GSA is reworking its performance management process is the FSS' new Performance Measurement System. Built on the "balanced scorecard" concept, the process is helping the FSS integrate nationwide business planning and organizational development with performance management. This supports proven business practices; links Service strategy, business planning and overall program and organizational development; and measures performance.

The FSS reduced the distribution points in its supply network from eight to two. Technology efficiencies in physical distribution, and the national package distribution system (FedEx, UPS, USPS, etc.), made it possible to serve FSS customers from the two remaining distribution points with only moderate increases in delivery times for some customers. The two remaining centers are the Eastern Distribution Center (EDC) located in Burlington, New Jersey, and the Western Distribution Center (WDC) located in Stockton, California.

The FSS management has determined that relocating the WDC to an existing distribution facility at Sharpe Army Depot in Lathrop, California makes strategic sense. The move will be completed in March 2003. Calculations indicate continuous net savings of approximately $9.3 million annually after the repayment of the initial investment, with a payback period of less than three years. Capital outlays of approximately $20 million are anticipated, for such things as building and material handling system modifications, furnishing and implementing technology systems, and relocation of stock and operations. Sharpe will have an integrated warehouse management system that will make it possible to adopt many commercial best practices in distribution management.

Throughout GSA, we are focusing on how to improve efficiency while reducing operational costs. For example, the PBS developed a targeting scheme for operating costs to consider the three components of its operating cost measure: cleaning, maintenance and utilities. By setting an overall target derived from the targets for these three components, regional offices can concentrate spending to increase efficiency and effectiveness. This provides the regions latitude if needs arise to use funds where they are most required without affecting measured performance. By controlling these operating costs, the PBS is able to keep its costs 17 percent below the industry average.

Within the FTS, operating costs as a percentage of gross margin fell from 93.8 percent to 85.0 percent in FY 2002. The savings resulted from improved acquisition processing that led to cost savings for GSA's customers. Better customer communications led to fewer problems regarding requirements and service delivery expectations.

The FTS

- Met its negotiated service delivery dates 91 percent of the time exceeding the target by 0.1 percent..
- Continues to reduce MAA service delivery time—shortening the number of days from order placement to delivery from 150 days to 43 days in FY 2002.
- Narrowly missed its 90 percent target for implementation of the MAA program. The shortfall was primarily attributable to the Winstar bankruptcy and the lengthy legal process of transferring Winstar's responsibilities. Winstar held contracts in 12 out of the 26 cities.

Figure 9: MAA Implementation Progress – Percent Completed

Major Challenges

The PBS failed to meets its targets on three of six measures under this agency-wide goal. The PBS should collect sufficient revenue from clients for leased space to cover the associated costs of those leases. These costs include payments to the lessors, the administrative costs of leasing, and operating costs for those leases requiring depreciation for the PBS funded tenant and building improvement. The PBS exceeded its target for net income for operating leases.

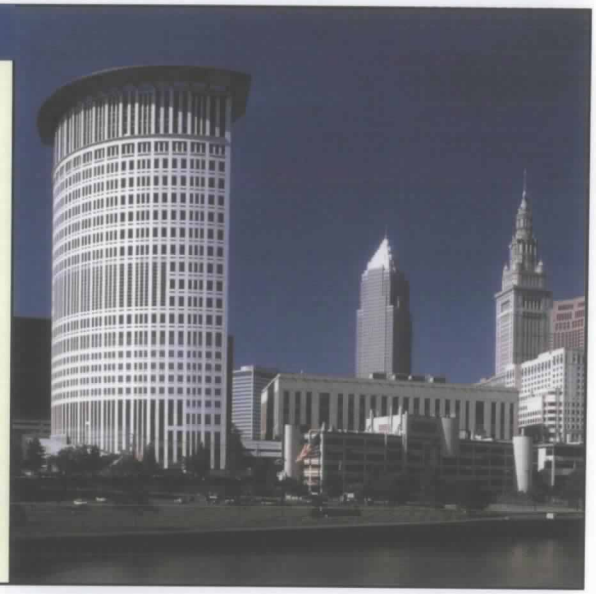
Figure 10: Net Income for Operating Leases

The PBS failed to meet several of its construction and acquisition of facilities performance targets for FY 2002. The PBS has revised its internal control processes, and developed more accurate methodologies for quantifying its business operations and performance. However, the PBS completed construction of six new facilities in FY 2002, and finished major repairs and alterations on an additional four facilities.

The OGP developed several government-wide management information systems to support decision-making in the management of property, technology, and administrative services. For FY 2002, the OGP exceeded its goal for the number of agency programs that participate in these systems by more than 200 percent. The OGP also provides policy frameworks through issuance of policies and guidelines for the management of property, technology and administrative services. In writing these policies and guidelines, the OGP

The Six Construction Projects

- Federal Building and Courthouse in London, Kentucky;
- Chamblee CDC Environmental Lab in Georgia;
- Montgomery Johnson Annex in Montgomery, Alabama;
- Albany King Courthouse in Georgia;
- Stokes Courthouse (shown here) in Cleveland, Ohio;
- Hammond, Indiana Courthouse, which received a GSA Concept Award.



The Four Major Repairs and Alterations Projects

- Interstate Commerce Commission-Customs in Washington, DC;
- Woodlawn Social Security Administration Annex;
- Menlo Park USGS1 project;

strives to eliminate legal and Government jargon. The OGP missed its target in the number of regulations written in plain language, largely due to the regulatory review process, which is outside of the OGP's control. The initial goal was to write or revise the policies in a more user-friendly, "plain language" manner. The OGP projected writing or revising more policies, regulations, and guidelines in plain language than were actually possible to publish in FY 2002.

The CPO made significant strides in reducing its cycle time for recruiting new applicants. The CPO exceeded its recruiting cycle time target by reducing the recruiting cycle time of 54.5 days, down from 60 days in FY 2001.

Ensure Financial Accountability

GSA must make sure that taxpayer dollars are secure and well-managed. This is a basic responsibility of any government agency. Financial data serves as the backbone for business planning, thus the quality of the data can make the difference between success and failure. GSA succeeded in achieving this agency-wide goal in FY 2002.

A fully integrated, transaction-level accounting system known as *Pegasys* forms the foundation of GSA's financial management. GSA completed conversion to this sophisticated system in FY 2002. The credit card and funds management modules were two of the first systems implemented and they worked well throughout FY 2002. At the same time, GSA focused on the implementation of the second phase, which involved accounts payable and general ledger functionality. The system meets the requirements of the FMFIA and the FFMIA for the use of the Standard General Ledger at the transaction level. This makes GSA's finances more easily comparable to those of other Federal agencies. Beginning in FY 2003, *Pegasys* becomes GSA's official financial reporting system. Work to convert feeder systems will continue.

GSA has taken several key steps to improve its financial performance as outlined in the President's Management Agenda. The agency has implemented an audit recovery contract to ensure the accuracy of payments to commercial vendors. GSA was also selected to participate in a best practice review of the Government Purchase Card program due to the stringent control and oversight currently in place for GSA cardholders. GSA's Travel card in FY 2002 reached a new low delinquency rate of 2.1 percent compared to the FY 2001 of 7 percent.

The Agency's clean audit opinion and its progress on financial performance reflect GSA's firm

Service Accomplishments

- In FY 2002, the PBS was able to contribute $1.4 billion of its total revenues to its capital investment program. This amount equals 4.3 percent of the Functional Replacement Value of the PBS' real estate holdings, slightly better than the FY 2002 target percentage.
- The FSS met its private sector type financial targets, that closely track direct and indirect costs.
- The cash position of the Information Technology Fund has dramatically improved. At the end of FY 2002 it was $226 million versus $76 million in FY 2001. Because of increased business volumes and a long time lag between GSA's payments to contractors and cash receipts from federal agencies, the cash level had been dangerously low. The FTS and the CFO worked with OMB, the Department of the Treasury and its customer agencies to improve cash and accounts receivable management, in particular by increasing the frequency of billings each month.

commitment to sound financial management to achieve the President's Management Agenda.

Maintain a World-Class Workforce and World-Class Workplace

GSA achieved or exceeded its performance goals on the measures under this agency-wide goal. GSA's success on this goal was due to the leadership of the CPO to improve planning and execution of HR business processes. The CPO developed an agency-wide Human Capital Strategic Plan that aligned the President's Management Agenda with the mission and program objectives in GSA's overall Strategic Plan. In the early stages of formulating the plan, we focused on three key HR processes--recruiting, developing, and retaining the highly skilled associates needed to operate our programs. The Services and Staff Offices were then able to work on office-specific plans to augment the agency-wide plan complete with metrics that identified and defined mission critical occupations and competencies.

Recruiting a World-Class Workforce

Federal jobs have not been a prime choice of the MTV generation keeping young talent from our doors. In a highly competitive recruitment market, GSA must not only compete with the private sector, but also clearly show how we are different and better than other Federal agencies. Therefore, we developed a strategy which emphasizes the opportunities, benefits and vast number of career choices within GSA, telling recent and upcoming college graduates, *You Can Do That Here*. We invite graduates to be part of what will be a world-class workforce. In addition, GSA launched an automated recruiting system *GSAJobs*. The system speeds up the recruitment and selection process and allows people to apply electronically. The results yielded increased applications, and allowed the human resource staff to devote more time to serving job applicants.

In addition to the programs developed by the CPO, the CFO hired twenty-five new associates under the Financial Management Specialist (FMS) Program. They start in an extensive training program that includes a two-year certification program and rotational assignments in each of GSA's financial organizations. These men and women may ultimately hold financial jobs in any part of GSA, not just the CFO.

Training a World-Class Workforce

Once new associates are on the job, training makes them more productive and encourages them to stay. GSA's On-Line University (OLU) is the most cost-effective weapon GSA has in its training arsenal to help our associates learn. The CPO works with business partners to identify, develop and refresh available courses. The addition of new courses geared towards helping associates better contribute to the achievement of GSA's mission and goals increased overall usage of OLU in FY 2002. Total registrations were 24,959. While many of the course registrations are attributed to mandatory course offerings such as ethics training, the OLU registrations for elective courses also increased. Elective registrations were 3,903—a 17.66 percent increase over FY 2001.

The Clinger-Cohen Act requires enhancing the skills and knowledge of our acquisition workforce. GSA launched the Applied Learning Center for acquisition associates in FY 2002. This augments the traditional training and education process by allowing acquisition associates to demonstrate "applied learning" in both simulated and real life scenarios. Pilot development began in May 2002 and will run to April 2003. The GSA Office of Acquisition Policy works in concert with the CPO to consistently address skill gaps for Mission Critical Occupations (MCO) in the acquisitions field and related fields such as real estate and IT.

Developing competency models is essential to productive recruitment and training programs for critical occupations. To that end, GSA is working with cross-agency teams within the PBS and the CIO to

develop competency models for key real estate and IT positions. Phase I of these efforts was completed in FY 2002. We identified the competencies needed in a position, ranked the competencies, and built the competency models. Completion of the entire program is slated for FY 2003.

Developing Tomorrow's Leaders

We need great leaders as well as great managers. In March 2002, GSA established the Leadership Institute, which consists of five programs:

- Leadership for New Supervisors
- Leadership for Results
- Focused Leadership Learning
- Advanced Leadership Development Program
- Maximizing Executive Leadership

GSA designed the programs to meet a higher level of leadership competence for the 21st Century and fully address the President's Management Agenda goal to ensure continuity and quality of executive leadership.

Rewarding World-Class Performance

While recruitment and training are essential parts of the process so are retention and performance review. The best and brightest will find another job if they are not recognized where they are. In March 2002, GSA conducted a thorough evaluation of the GSA Awards Program. The study concluded that GSA's awards program was healthy, but identified some opportunities for improvement. The program is open and flexible, and provides recognition and reward for associate performance – as it should. However, some inconsistencies in data were identified suggesting the need to maintain one accurate and reliable source of award information. Rewards need to be directly linked to performance measurement throughout the agency with an emphasis on the actions the associate must take to meet expectations. Finally, those individuals in support roles need to be rewarded on a more equitable basis with those in line functions.

Maintaining a World-Class Workplace

Each year GSA surveys its employees to determine their attitudes toward their work environment. The Gallup Q12 survey is an industry standardized survey of employee attitudes concerning their organization environment. The CPO administered this survey to the entire agency for the first time in November 2001. The grand mean score from the November 2001 administration of the survey serves as a benchmark. GSA ranked in the 67th percentile as rated against other organizations utilizing Gallup's survey. The 75th percentile is defined as a world-class workplace. GSA is targeting this level for FY 2003. In order to improve GSA's ranking, the CPO has developed and implemented action plans to address the concerns expressed by GSA associates.

Providing interoperable smart-card identification/access cards is one way GSA is working to ensure the safety of its associates. Where GSA is the only tenant in a building, installing smart-card technology is not a problem. However, in most places, GSA is one of several agencies in a building. Some of those buildings are Federal buildings controlled by GSA and some are leased buildings controlled by private landlords. Installing a smart-card access system requires all tenants to agree to use the system, and a way for each to pay a fair share. Absent a law or Executive Order providing consistent direction to all Federal agencies, this is a difficult issue to resolve. GSA brought the issue to the attention of the Office of Homeland Security, and deferred the completion of its implementation plan until further advised by Homeland Security.

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

As a Federal agency, GSA must be a good neighbor and steward. The activities that support these responsibilities cover a wide range, from improving access for small businesses to provide goods and services to the government to increasing the magnitude, quality, and outreach of Federal information. GSA succeeded in accomplishing this goal in FY 2002—successfully reaching targets on 8 of 11 measures.

Our Social Responsibilities

GSA supports jobs for people who may need extra help or a special workplace through programs such as the Javits-Wagner-O'Day. We support the rehabilitation of prisoners through the Federal Prison Work program. But perhaps our greatest impact in the community is through promoting opportunities for small businesses with the Federal Government, resulting in jobs and economic well-being for thousands of Americans. GSA's Office of Enterprise Development works hard with the small business community to enhance the opportunities for small businesses to obtain Government contracts for their products. Working together with the Small Business Administration, the OED develops targets that broaden the number of competitors for procurement opportunities. Overall GSA achieved its goal for FY 2002 based on preliminary data. The FSS small business volume increased by $1.9 billion; however the increase was not enough for the FSS meet it target of 34.88 percent of total business volume. The FSS contracting personnel will continue to use contractor visits to assist small businesses in seeking opportunities.

Figure 11: Percentage of FSS

Socioeconomic Business Volume

Helping better the quality of life for Federal workers is important to the PBS. One way the PBS works to achieve that objective is by providing childcare centers in Federal buildings. The PBS continues to encourage parents to take advantage of the Federal childcare subsidy program. The availability of affordable childcare can be an incentive for recruiting parents with young children. The PBS helps centers seek accreditation to show its facilities are among the best within the community. The Service met its participation target, but narrowly missed it accreditation goal.

The OGP succeeded in meeting its target for increasing the number of agency programs meeting their social and environmental responsibilities for areas that pertain to GSA. For example, the OGP works to increase IT accessibility to Government for people with disabilities. In this role, the OGP assists both Federal agencies and the private sector in meeting the goals of Section 508 of the Rehabilitation Act. This might include, for instance, making it possible for blind people to use the Internet. GSA's Buy Accessible Web site *Section508.gov* allows information and assistive technology vendors to post product and service descriptions. The Web site provides a convenient marketplace for Federal purchasers and vendors to transact business and meet the needs of America's special populations.

The OCSC provides multi-channel public access to Federal information. GSA obtains this information from other Federal agencies and distributes it to members of the public as they request it. They monitor public access points (callers to the call centers, Web site visitors, and mail requests) to ensure that the OCSC is providing services in the appropriate medium. The traffic to the *FirstGov* Web site in FY 2002 was impressive with over 90.1 million page accesses.

- FY 2002 brought continued increases in accesses to FCIC Web-based products (up 7.5 percent) and in FCIC publication distribution (up 12.4 percent).
- Telephone inquires showed a decline (down 7.6 percent).
- Toll free calls appear to be down due to the increase in Internet traffic to FCIC. Overall, the FCIC enjoyed a 7.5 percent increase in traffic.

Figure 12: Accesses to FCIC Information Products by the Public

Our Environmental Responsibilities

GSA is a responsible steward of the environment and is committed to saving energy, especially when it saves taxpayer dollars. The PBS continues to use environmentally safe and sustainable energy sources where possible and economically feasible. The long-term goal is to reduce energy consumption by 30 percent from the 1985 baseline by FY 2005. The PBS exceeded its FY 2002 target of 20 percent with a 21.6 percent reduction.

The PBS is committed to reducing the financial liability for environmental clean-up costs in the owned and leased inventory. In order to identify both the environmental financial liability and the risk associated with properties, the PBS is conducting environmental assessments of its inventory. GSA's goal is to complete the environmental assessments of its highest risk facilities by FY 2003. The PBS completed all of its assessments scheduled for this year.

Our Responsibilities as a Federal Agency

GSA's mission demands that we be available to our customers and the American public in times of national emergency. Our readiness takes many forms.

As a result of the catastrophic events of September 11th, the CIO reevaluated the readiness posture of the GSA's IT infrastructure. Although many of the components were designed with redundancy in mind, the realization that physical facilities could be lost in their entirety resulted in a new way of looking at backup systems and redundancy. The CIO significantly improved the reliability and readiness of components such as email systems, the wide area network, Internet access, and field office connectivity.

GSA continues to take proactive steps to reduce threats to its facilities and tenants. Each year, the PBS surveys its facilities and identifies the top 10 high-risk facilities for remediation in each of GSA's eleven regions. Through these remediation efforts, GSA will reduce the overall threat index. The threat reduction target for FY 2002 was 20 percent and the PBS exceeded that target by 18.57 percent.

Finally, GSA has made an agency-wide commitment to developing its Continuity of Operations Plan and training thousands of GSA employees on how to execute it. The COOP lays out what needs to be done to keep the agency functioning in the face of a natural or man-made disaster. GSA revised and improved its COOP framework, and made modifications accordingly. In addition, GSA instituted a program whereby each location undertakes a tabletop exercise to evaluate the completeness of the COOP and identifies the improvements needed to make it more effective. Maintaining a state of emergency readiness results from drilling COOP exercises regularly. We are proud to report that we have exceeded our drilling target by eight percent. Whatever happens, you can rely on GSA to perform.

GSA continues to take proactive steps to reduce threats to its facilities and tenants.

FY 2002 GSA PERFORMANCE MEASURES DATA

Provide Best Value for Customer Agencies and Taxpayers

PBS PERFORMANCE GOAL: Percent of tenants that rate the PBS owned and operated services as satisfactory or better.

MEASURE: Percentage of tenants that rate the PBS-owned and operated services as satisfactory or better.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
83%	83%	84%	85%	86%

PBS PERFORMANCE GOAL: Increase the percentage of ordering officials that are satisfied with the PBS space and services.

MEASURE: Percentage of ordering officials that rate their business dealings with the PBS as 4 or 5 on a 5-point scale.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	59%	61%	66%

PBS PERFORMANCE GOAL: Reduce the threat to Federal facilities.

MEASURE: Percentage of reduction in Composite Threat Index.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	26%	20%	39%

The PBS uses the threat index as a means of identifying and evaluating threats to the Federal workplace, and of assessing program effectiveness in reducing these threats. The data supporting the measure comes from the Facility Security Risk Management (FSRM) surveys done periodically on all the PBS controlled buildings. A threat index is calculated for each building surveyed. This index focuses on three key elements: (1) Real or perceived reason to attack U. S. Government facilities or their tenants; (2) Vulnerabilities provided by circumstances, time and place; and (3) Demonstrated capabilities for violence or resources to carry out a violent or disruptive act at the facilities. This element is based on the historical risk and the potential for discovering risk that a particular region may employ.

Based upon these three elements, all individual facility data is compiled to form a Regional Composite Threat Index. Regional indices are combined to assess progress nationally through a composite score.

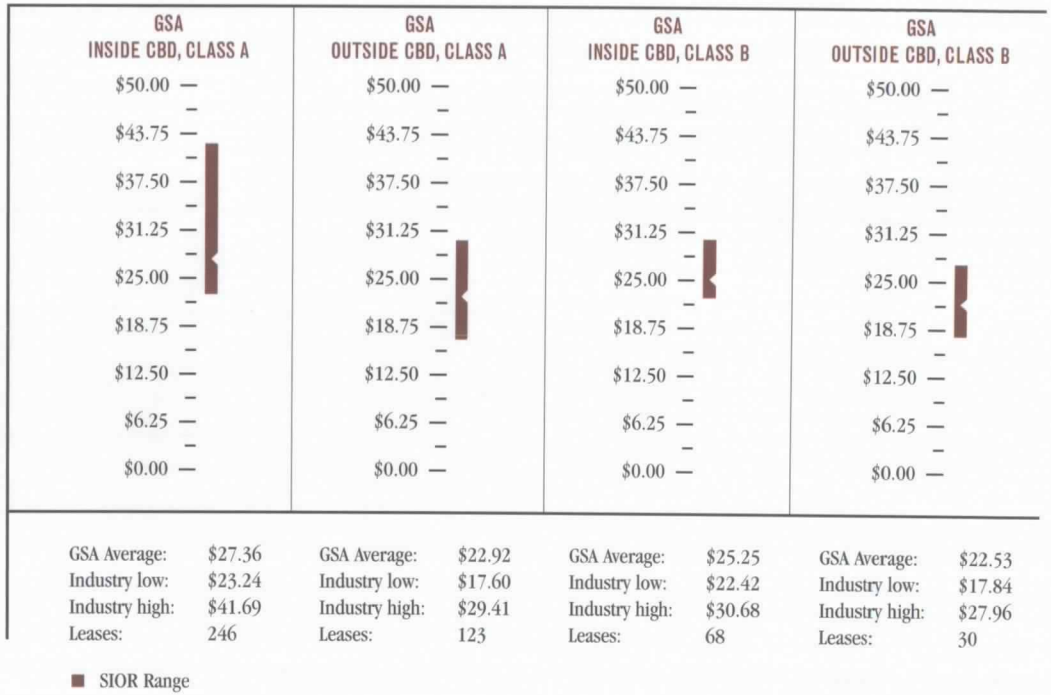
The data section discusses these systems as data sources.
* Not an established measure.

PBS PERFORMANCE GOAL: Keep the cost for new GSA leased office space at or below each of the four market ranges (categories) being tracked.

MEASURE: Cost for leased space relative to the market for each of the four categories.

4th Quarter Cost of Leased Space Relative to Market

(Average fully serviced office lease PBS cost/sq.ft.)



1. Class A space inside a Central Business District (CBD). Class A space is defined as excellent location, high-quality tenants, high quality finishes, well-maintained, and professionally managed.
2. Class A space outside a CBD.
3. Class B space inside a CBD. Class B space is defined as good location, professionally managed, fairly high-quality construction, and tenancy.
4. Class B space outside a CBD.

The data section discusses these systems as data sources.
* Not an established measure.

PBS PERFORMANCE GOAL: Percent of building tenants that rate the PBS space and services as satisfactory or better.

MEASURE: Percentage of tenants that rate leased space and newly leased space and services as satisfactory or better.

	FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
All Leases	83%	83%	82%	83%	84%
New Leases	89%	88%	87%	88%	88%

PBS PERFORMANCE GOAL: Achieve a 90 percent tenant satisfaction rating in newly constructed buildings.

MEASURE: Percentage of satisfied customers in newly constructed buildings.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
91%	86%	89%	90%	90%

FSS PERFORMANCE GOAL: Percentage growth in Federal agency usage of FSS programs.

MEASURE: Percentage growth in Federal agency usage of FSS programs.

	FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
Business Volume *(in millions)*	$17,600M	$22,500M	$22,900M	$23,700M	$27,300M
Percentage of Change	26.6%	27.8%	1.8%	3.5%	19.2%

Business volume is the total value of the items or services the customer agency purchases using a FSS Schedule (including the fee that the FSS receives as a result of this purchase). For other FSS programs that are not fee based, business volume refers to total sales, including costs of goods sold.

The data section discusses these systems as data sources.
* Not an established measure.

FTS PERFORMANCE GOAL: Provide customer satisfaction with FTS products and services, delivery reliability, and performance quality.

MEASURE: Percentage of satisfied customers as indicated on the annual customer survey.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
80%	76%	N/A†	74%	74%

†The FTS did not conduct a survey in FY2001

FTS PERFORMANCE GOAL: Foster competition

MEASURE: Percentage of Task and Delivery Orders subject to fair opportunity.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	70%	≥75%	70%

WHY WE MISSED THE TARGET: The number of logical follow-on task orders and orders applying other exceptions resulted in a 70 percent rate of achievement rather than the target of 75 percent. The Client Support Centers will increase efforts to lower the number of logical follow-on orders during FY 2003.

FTS PERFORMANCE GOAL: Assist customers in achieving significant savings in the acquisition of products and services.

MEASURE: Estimated cost savings due to MAA implementation and pricing.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	$0.25M	$3.0M	$10.0M	$33.5M

The data section discusses these systems as data sources.
* Not an established measure.

FTS PERFORMANCE GOAL: Assist customers in achieving significant savings in the acquisition of products and services.

MEASURE: Estimated cost savings due to FTS2001 use and pricing for domestic outbound switched voice service.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	$63.9M	$36.6M	$31.3M	$32.8M

FTS PERFORMANCE GOAL: Provide competitive prices to customers for local and long distance services.

MEASURE: Continue downward trend in the average line rate for local service.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
$19.74	$18.81	$18.00	$17.00	$15.84

FTS PERFORMANCE GOAL: Provide competitive prices to customers for local and long distance services.

MEASURE: Price per minute for domestic outbound switched voice service.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
6.4¢	4.5¢	3.0¢	2.2-2.6¢	2.3¢

The data section discusses these systems as data sources.
* Not an established measure.

OGP PERFORMANCE GOAL: Ensure adoption of Federal Premier Lodging Program (FPLP) within the 77 target markets.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	165,355	105,932

MEASURE: Number of room nights under FPLP contract.

WHY WE MISSED THE TARGET: The OGP missed the target due to having more offers for participation than the contracting officers could handle during the fiscal year. Solicitations for 18 locations have closed with an overwhelming response from the lodging industry. The OGP was expecting an average of 10 to 20 offers from each location. However, over 600 offers were received from properties in these 18 locations – an average of 33 offers per location. Consequently, due to the amount of time needed to collect the required documents and information from each property, the contracting office has had to slow down its award making progress.

On October 1, 2001, the first two awards were made under the FPLP in Denver and Chicago. We have since made contract awards in 17 metropolitan areas representing approximately 230 individual contracts with properties. We are currently in the process of evaluating additional locations.

NEXT STEPS: FY 2003 Target has been revised from 550,000 to 330,000. Those awards not made in FY 2002 will be made in FY 2003. The original usage target of 550,000 for FY 2003 did not anticipate the response of the lodging industry. Original target was based on the assumption that all of the awards would have been made in FY 2002.

All contract awards in the remaining locations should be made during the 2nd quarter of FY 2003. The first quarter will see awards being made in 18 locations where solicitations have closed and offers have been received. In addition, new solicitations for FPLP locations in California and Texas will be released in the first quarter with awards being made in the 2nd quarter of 2003. GSA will also be looking to partner with an appropriate activity to begin expanding FPLP to include conference/meeting lodging and services.

The data section discusses these systems as data sources.
* Not an established measure.

OGP PERFORMANCE GOAL: Satisfy authentication needs for 100 percent of the President's Management Council (PMC) egov initiatives.

MEASURE: Number of the PMC egov initiatives with completed authentication needs assessment and determined solutions sets.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	6	6

The OGP provides leadership to the Federal community in the identification of high payoff opportunities for using digital technologies as part of the strategy to create a more citizen-centric Government. Our success can be attributed to the development and testing of an E-Authentication Risk Assessment (ERA) Methodology. We successfully applied ERA methodology to six egov initiatives (E-Travel, E-Grants, Integrated Acquisition, GovBenefits Business Compliance, and E-Clearance).

OGP PERFORMANCE GOAL: Promote the use of XML for the Federal President's Management Council egov initiatives.

MEASURE: Number of the President's Management Council egov initiatives adopting XML recommendations, leveraging industry specifications, and registering data interfaces.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	1	2

Extensible Markup Language will be used on several fronts to support the structuring of data and verification of standards. Each of the 24 egov initiatives that exchange data between systems will need to develop XML Schema to fulfill interoperability requirements.

The data section discusses these systems as data sources.
* Not an established measure.

OGP PERFORMANCE GOAL: Increase the number of agency programs using OGP performance measures.

MEASURE: Number of agency programs that use OGP performance measures.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	218	300	380

CFO PERFORMANCE GOAL: Meet the OMB targets for study and direct conversion of FTE's as shown in latest GSA FAIR Act Inventory.

MEASURE: Number of FTE positions studied and dollars saved.

	FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
Number of FTE Studied	N/A*	N/A	N/A	367 FTE	398 FTE
Dollars Saved	N/A	N/A	N/A	$2.00M	$2.07M

CIO PERFORMANCE GOAL: Maintain a 95 percent customer satisfaction rating in services provided.

MEASURE: Percentage of customers rating service and support provided by the CIO as highly effective.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	95%	84%

WHY WE MISSED THE TARGET: The CIO conducted three surveys of its GSA internal customers in FY 2002. One survey was aimed at GSA associates, as users of services that the CIO provides to GSA. The second survey was aimed at professional IT associates and other associates who deal with the CIO in coordinating, ordering, or otherwise managing IT in GSA. A third survey went to the customers of the CIO managed Desktop Management Services contractor in the Central Office. The results of those surveys, combined with the day-to-day feedback from customers of the Desktop Management Services have provided the CIO with a basis for its customer satisfaction score. The CIO expects that performance will improve in FY 2003 especially for those customers of Desktop Management Services as the contract moves into its second year, and early coordination issues have been resolved.

The data section discusses these systems as data sources.
* Not an established measure.

CPO PERFORMANCE GOAL: Support Government-wide Continuity of Operations Planning in accordance with Presidential Decision Directive 63.

MEASURE: Percentage of customers satisfied with COOP training.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	50%	92%

Achieve Responsible Asset Management

PBS PERFORMANCE GOAL: Achieve optimal potential revenue.

MEASURE: Percentage of potential revenue received.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	92.4%	92.7%†	92.7%

†The FY 2001 actual score and the 2002 target were revised to reflect new measure methodology. Previously, the average billed amount per leased building was used. Now the measure uses the actual billed amount for leased space to get a more accurate score.

PBS PERFORMANCE GOAL: Reduce the non-revenue producing space in the PBS inventory to 12.2 percent.

MEASURE: Percentage of non-revenue producing space in Government-owned inventory.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
13.5%	12.2%	11.8%	12.2%	11.8%

The data section discusses these systems as data sources.
* Not an established measure.

PBS PERFORMANCE GOAL: Reduce the non-revenue producing space in the leased inventory.

MEASURE: Percentage of non-revenue producing space in leased inventory.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
3.7%	3.3%	2.7%	3.0%	3.1%

WHY WE MISSED THE TARGET: The PBS missed its target of 3.0 percent leased non-revenue producing space (NRPS). However, by the end of the calendar year this score should significantly improve. The PBS has six large unbilled leases included in this measure that make up 24 percent of the PBS's total leased NRPS. Half of these leases are expiring and will drop off the inventory by December 2002. The other half of vacant leases are newly assigned and billing will begin in the first quarter of FY 2003. The PBS continues to aggressively market vacant space and utilize outleasing opportunities. In FY 2002, the PBS made signed occupancy agreements mandatory to help the PBS eliminate gaps between the time when space becomes available and when a revenue stream begins.

PBS PERFORMANCE GOAL: Improve the annual cycle time for properties that are subject to the Federal Property and Administrative Services Act of 1949.

MEASURE: Annual cycle time of properties subject to 1949 Act in days from report of excess until property awarded.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	174 Days	327 Days	232 Days

PBS PERFORMANCE GOAL: Dispose of excess property efficiently and effectively.

MEASURE: Ratio of dollar returned to dollar spent.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
15:1	16:1	18:1	17:1	22:1

The data section discusses these systems as data sources.
* Not an established measure.

OGP PERFORMANCE GOAL: Promote and assist agencies in implementing needed reforms to improve asset management practices because of passage of Property Act reform legislation.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	N/A	0

MEASURE: Number of successful reforms to improve asset management practices because of passage of Property Act reform legislation.

WHY WE MISSED THE TARGET: The Office of Real Property worked with the Administration and Congress to develop and promote a legislative package to enhance current property management authorities. Despite many successes in moving the legislation forward, the 107th session of Congress adjourned this year without enacting the bill. Other competing legislative priorities for National defense have been the focus of the Administration and Congress since the September 11th attack. We anticipate passage of the bill in FY 2003.

CFO PERFORMANCE GOAL: Make accurate payments.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	0.10%	0.01%

MEASURE: Percentage of dollars collected by recovery audit contract.

The data section discusses these systems as data sources.
* Not an established measure.

CIO PERFORMANCE GOAL: Improve IT capital planning and Investment Control, and Implementation.

MEASURE: Percentage of major IT investment projects that are within 10 percent of planned cost and schedule.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	100%	82%

WHY WE MISSED THE TARGET: During FY 2002, the Office of the Chief Information Officer made a concerted effort to monitor and assist the services and staff offices and to increase the level of awareness at all levels of the need to control cost and schedule. As part of its efforts to monitor major IT projects, the CIO published within GSA the *IT Capital Planning and Investment Control Guide*; conducted IT Investment and Capital Planning Reviews; reviewed and analyzed service and staff office IT capital spending plans; participated on the *Pegasys* Quality Assurance Team; and solicited the services and staff offices for GSA specific improvements to enhance I-TIPS support of GSA processes.

NEXT STEPS: The Office of the Chief Information Officer expects performance will improve during FY 2003 due to both the concerted effort to monitor services and staff offices and an increased awareness of the need to control cost and schedule.

Operate Efficiently and Effectively

PBS PERFORMANCE GOAL: Maintain operating costs in office and similarly serviced space at 16 percent below private sector benchmarks.

MEASURE: Percentage of difference between GSA's operating costs per rentable square foot for office and similarly serviced space and private sector costs.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
18% below	16% below	16% below	16% below	17% below

The data section discusses these systems as data sources.
* Not an established measure.

PBS PERFORMANCE GOAL: Reduce the loss on operating leases.

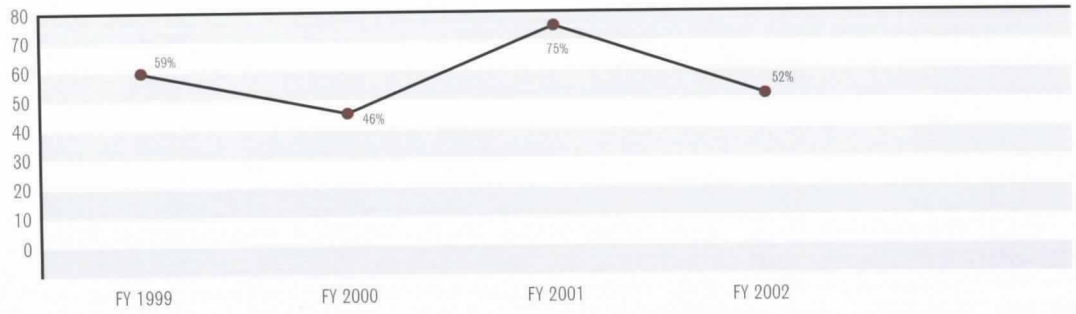
MEASURE: Recovery of leased costs based on net income for operating leases.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
($61.0M) loss	($66.2M) loss	($57.2M) loss	($28.6M) loss	$41.6M gain

PBS PERFORMANCE GOAL: Improve the percentage of construction projects completed on schedule.

MEASURE: Percentage of construction projects completed on schedule.

FY 1999	FY 2000	FY 2001	FY 2002 TARGET	FY 2002 IN PROGRESS
59%	46%	75%	78%	52%



WHY WE MISSED THE TARGET: A new method of measurement is applied in FY 2002. It is preferred because it measures the performance of all projects over $10 million instead of the limited number of projects completed in just one year. The measurement being further developed for the FY 2004 Plan will measure schedule performance using standard earned value techniques. The data needed to measure performance in this manner will be captured beginning November 2003 and is not available for this year's report.

The data section discusses these systems as data sources.
* Not an established measure.

PBS PERFORMANCE GOAL: Reduce the cost escalation rate for new construction projects to 1 percent.

MEASURE: Construction projects cost escalation rate.

FY 1999	FY 2000 IN PROGRESS	FY 2001 IN PROGRESS	FY 2002 TARGET	FY 2002 IN PROGRESS
0.8%	5.7%	2.3%	1.0%	7.3%

WHY WE MISSED THE TARGET: A new method of measurement is applied in FY 2002. It is preferred because it measures the cost escalation of all projects over $10 million instead of the limited number of projects completed in just one year. The data needed to measure cost escalation in this manner will be captured beginning November 2003 and is not available for this year's report.

PBS PERFORMANCE GOAL: Improve the percent of repair and alterations projects completed on schedule.

MEASURE: Percentage of R&A projects completed on schedule.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
69%	80%	80%	82%	87%

The data section discusses these systems as data sources.
* Not an established measure.

PBS PERFORMANCE GOAL: Reduce the cost escalation rate for repairs and alterations projects.

FY 1999	FY 2000	FY 2001	FY 2002 TARGET	FY 2002 ACTUAL
(2%)	1%	0%	1%	3%

MEASURE: R&A projects cost escalation rate.

WHY WE MISSED THE TARGET: A new method of measurement is applied in FY 2002. It is preferred because it measures the cost escalation of all projects over $10 million instead of the limited number of projects completed in just one year. The data needed to measure cost escalation in this manner will be captured beginning November 2003 and is not available for this year's report.

The PBS did not meet its overall cost escalation target of 1 percent; however there were no cost escalations in FY 2002 which indicates progress in this measure. The actual cost escalation rate exceeded the target due to escalations and/or reprogramming actions on three major R&A projects. These escalations were due to: emergency repairs in the Rhode Island Federal Building/US Courthouse, project phase changes resulting from a 2-year delay in receipt of funding and construction stoppage for a NATO conference in the ICC Customs Connecting Wing, and scope and security upgrades in the Brooklyn Post Office/US Courthouse.

Since these and other older projects began, the PBS established the Construction Excellence program to provide high quality construction for the best value using the best business practices. The program emphasizes completing projects on time and within budget. In addition, the PBS now uses an effective web based project information system to track schedules and budgets throughout the life of a project. A new comprehensive estimating tool identifies all project support costs for more accurate budgets. More detailed explanations of these new PBS programs are explained in the percentage of construction projects completed on schedule measure.

FSS PERFORMANCE GOAL: Reduce the FSS operating costs.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
$2.28	$1.88	$2.20	$2.02	$1.76

MEASURE: Cost per $100 business volume.

The data section discusses these systems as data sources.
* Not an established measure.

FSS PERFORMANCE GOAL: Reduce operating costs.

MEASURE: Cost per mile.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
$0.3065	$0.3326	$0.3533	$0.3611	$0.3655

WHY WE MISSED THE TARGET: The FY 2002 cost-per-mile target, established in FY 2000, reflects estimated inflation at that time. At the end of FY 2002, the actual inflation-based target calculates to $0.3716 and the actual cost-per-mile is $0.3655.

FTS PERFORMANCE GOAL: Ensure cost efficiency of operations.

MEASURE: Operating expenses as percentage of gross margin.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
75.3%	95.8%	93.8%	91.0-96.0%	85.0%

FTS PERFORMANCE GOAL: Assist customers in achieving significant savings in the acquisition of products and services.

MEASURE: Percentage of dollar savings between Independent Government Cost Estimates and award amounts.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	≥10%	6.3%

WHY WE MISSED THE TARGET: This measure was established in FY 2002. Actual results for prior fiscal years were not available so the initial target was set at savings of greater than 10 percent. Based on actual 2nd quarter FY 2002 results of 4.5 percent savings, the FY 2002 target appears to be too aggressive. The FY 2003 target has been adjusted to 7 percent savings.

The data section discusses these systems as data sources.
* Not an established measure.

FTS PERFORMANCE GOAL: Improve the acquisition processes and methods to reduce time to award.

MEASURE: Percentage of negotiated award dates for services and commodities that are met or bettered.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	≥90%	91%

FTS PERFORMANCE GOAL: Provide timely and effective service delivery.

MEASURE: Number of days from MAA order placement to service delivery.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	150 days	150 days	90 days	43 days

FTS PERFORMANCE GOAL: Provide timely and effective service delivery.

MEASURE: Implementation progress of MAA implementation - percent completed.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
0%	10%	68%	90%	88%

WHY WE MISSED THE TARGET: The target goal of 90 percent implementation was narrowly missed due primarily to the Winstar bankruptcy. Winstar holds MAA contracts in 12 out of 26 cities. Fair consideration issues also contributed to implementation delays.

The data section discusses these systems as data sources.
* Not an established measure.

OGP PERFORMANCE GOAL: Improve clarity of the OGP's policies, regulations and guidelines.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	32	20

MEASURE: Number of regulations issued in plain language.

WHY WE MISSED THE TARGET: The OGP missed our FY 2002 target by about 35 percent. We overestimated the total number of regulations, guidelines, and agency directives within the OGP's sphere of influence that were necessary to publish in FY 2002. Several policies and regulations the OGP had planned to publish in FY 2003 were delayed because of the regulatory process, and circumstances outside of its control. In addition, the OGP has revised the scope of this measure in terms of the range of policy publications we should count. The OGP previously only counted official regulations and policies. The measure for FY 2002 added informal guidelines and other policy-related publications. The change made the data collection process confusing, but we are working to improve the measure, as well as the collection process.

NEXT STEPS: We have addressed the measurement and data collection issues. We expect to exceed the target for FY 2003.

OGP PERFORMANCE GOAL: Expand functionality of shared management information systems to allow for better decision-making in Government management of property, technology, and administrative services.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	174	410

MEASURE: Number of agency programs that participate in the OGP's shared management systems to support decision-making in management of property, technology, and administrative services.

The data section discusses these systems as data sources.
* Not an established measure.

OCSC PERFORMANCE GOAL: Increase awareness, usage, and customer satisfaction with *FirstGov* Web site.

MEASURE: Percentage of customers that rate *FirstGov* Web site as satisfactory or better (using on-line customer surveys).

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	65 ACSI Index†	66 ACSI Index†

†American Customer Satisfaction Index. The FY 2002 Annual Performance Plan shows that the target for this measure was 85 percent; however, the measurement device was changed after the plan's publication. The ACSI index cannot be converted to a percentile; therefore, a new target was established. The new target is set as a correlate of the 85th percentile. The ACSI index is a more rigorous gauge of *FirstGov*'s performance and the survey is indexed against private sector Web site performance.

CFO PERFORMANCE GOAL: Comply with Federal Financial Management Improvement Act.

MEASURE: GSA use of *Pegasys* for standard general ledger by October 2002.

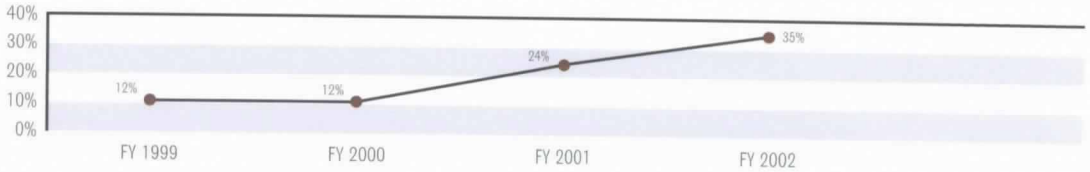
FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	100%	100%

The data section discusses these systems as data sources.
* Not an established measure.

CFO PERFORMANCE GOAL: Increase the percentage of vendor invoices received by Electronic Data Interchange through the Internet.

MEASURE: Percentage of electronic invoices received.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
12%	12%	24%	28%	35%



CFO PERFORMANCE GOAL: Increase the percentage of invoices collected through Treasury's On-line Payment and Collection System.

MEASURE: Percentage of invoices collected on-line.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
82%	85%	88%	89%	89%

The data section discusses these systems as data sources.
* Not an established measure.

CIO PERFORMANCE GOAL: Resolve all high-risk vulnerabilities and conditions detected by IT audits or reviews within 30 days of findings and recommendations.

MEASURE: Percentage high-risk audit action items resolved within 30 days of finding.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	100%	83%

WHY WE MISSED THE TARGET: The vulnerabilities that have taken longer than 30 days to resolve were due to the complexities involved in the resolution. Frequently patches were needed to GSA's over 1,000 servers and/or 17,000 workstations. The CIO is making every effort to improve coordination with the services, staff offices, and regions to ensure that remedial actions are timely and effective. The CIO continues to work closely with the Office of the Inspector General on the conduct and reporting of audits and reviews.

NEXT STEPS: The CIO's expectations are that performance will improve due to a concerted effort to resolve each vulnerability in a timely manner, an increase in security staffing by 1.5 FTE in FY 2002, and GSA's move to the Windows 2000 server operating system throughout the agency. Having a single consistent server platform will simplify the remediation process in many instances.

CPO PERFORMANCE GOAL: Improve cycle time for recruiting.

MEASURE: Average number of days from receipt in HR to referral to manager.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	60.0 days	55.0 days	54.5 days

The data section discusses these systems as data sources.
* Not an established measure.

Ensure Financial Accountability

PBS PERFORMANCE GOAL: Generate a capital investment contribution of 4.2 percent of the Functional Replacement Value of the owned inventory in FY 2002 and 4.4 percent in FY 2003.

MEASURE: Contribution available for capital as a percentage of FRV.

	FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
Contribution	$1,200M	$1,200M	$1,200M	$1,400M	$1,400M
Percentage of FRV	4.1%	3.7%	3.5%	4.2%	4.3%

The primary source of revenue to the Federal Buildings Fund is rental receipts from tenant agencies. The majority of the revenue is used to operate buildings and to lease space. The remaining revenue "contributes" to capital investment, basic repairs, modernization and new construction. To the extent that the PBS is successful in maximizing revenue and reducing expenses, it generates this "contribution."

FSS PERFORMANCE GOAL: Minimize the variance between planned and actual costs by accurate forecasting and pricing.

MEASURE: Planned vs. actual cost

	FY 1999	FY 2000	FY 2001	FY 2002 TARGET	FY 2002
Planned	$3,038M	$3,063M	$3,141M	$3,171M	
Actual	$3,177M	$3,136M	$3,146M		$3,398M
Variance	4.58%	2.38%	0.16%	-3.00 to +3.00%	7.15%

WHY WE MISSED THE TARGET: The Supply and Procurement business line experienced a higher than planned business volume for FY 2002. The 2002 fire season was the second largest in the past 50 years, resulting in higher than planned fire suppression equipment business volume. As total cost includes cost of goods sold, the variance was adversely affected.

The data section discusses these systems as data sources.
* Not an established measure.

FSS PERFORMANCE GOAL: Minimize the variance between planned and actual costs by accurate forecasting and pricing.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
93.70%	94.84%	97.09%	95.08%	96.99%

MEASURE: Total cost as percent of revenue.

WHY WE MISSED THE TARGET: The Supply and Procurement business line experienced a higher than planned business volume for FY 2002. The 2002 fire season was the second largest in the past 50 years, resulting in higher than planned fire suppression equipment business volume. As total cost includes cost of goods sold, the percent of cost as compared to revenue was adversely affected.

FSS PERFORMANCE GOAL: Minimize the variance between planned and actual costs by accurate forecasting and pricing.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
11.67%	7.86%	7.61%	7.41%	6.93%

MEASURE: Direct cost as percent of revenue.

The data section discusses these systems as data sources.
* Not an established measure.

FTS PERFORMANCE GOAL: Improve the financial condition and solvency of the Information Technology Fund.

MEASURE: Revenue planned vs. actual

	FY 1999	FY 2000	FY 2001	FY 2002
Planned	$4,195M	$4,838M	$5,850M	$6,322M
Actual	$3,697M	$5,063M	$6,218M	$7,091M
Goal +/- 2.5% of plan	-11.9%	4.7%	6.3%	12.2%

WHY WE MISSED THE TARGET: Actual revenue exceeded the target by 12.2 percent. This favorable variance is primarily attributed to a significantly larger customer base in the Regional IT Solutions business unit and Regional Telecom business unit higher than planned due to Department of Defense participation under the WITS2001 contract.

FTS PERFORMANCE GOAL: Improve the financial condition and solvency of the Information Technology Fund.

MEASURE: Net operating result plan vs. actual

	FY 1999	FY 2000	FY 2001	FY 2002
Planned	-$91.9M	-$107.4M	-$81.7M	-$8.1M
Actual	$16M	-$55.2M	-$58.1M	$34.0M
Goal +/- 2.5% of plan	82.6%	48.6%	28.9%	333.3%

WHY WE MISSED THE TARGET: Net operating results were significantly over plan due primarily to the resolution of prior year contract disputes.

The data section discusses these systems as data sources.
* Not an established measure.

FTS PERFORMANCE GOAL: Improve the financial condition and solvency of the Information Technology Fund.

MEASURE: Retained earnings budget vs. actual

	FY 1999	FY 2000	FY 2001	FY 2002
Planned	$178.5M	$90.5M	$159.1M	$167.2M
Actual	$265.2M	$208.3M	$149.9M	$183.9M
Goal +/- 2.5% of plan	48.5%	130.2%	5.8%	10.0%

WHY WE MISSED THE TARGET: Retained earnings for the IT Fund were approximately 10.0 percent over the plan. Net operating results exceeded the plan due primarily to the resolution of prior year contract disputes.

OGP PERFORMANCE GOAL: Ensure OGP expenditures are linked to performance plan strategic priorities.

MEASURE: Percentage of resources aligned with strategic priorities (percentage of resources linked to specific initiatives/projects).

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	35%	60%	84%

CFO PERFORMANCE GOAL: Receive a clean opinion on financial statements and issue Performance and Accountability Report by due date.

MEASURE: Receive clean opinion on financial statements and issue Accountability Report by due date.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	100%	100%

The data section discusses these systems as data sources.
* Not an established measure.

CFO PERFORMANCE GOAL: Have no internal control material weaknesses and eliminate reportable conditions for financial and non-financial components identified in the auditor's Management Letter.

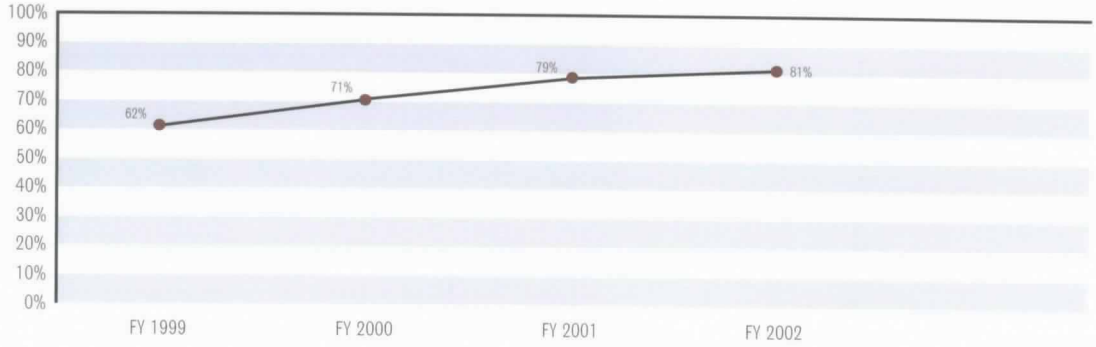
MEASURE: Zero internal control material weaknesses (financial and non-financial components).

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	0	0

CFO PERFORMANCE GOAL: Increase the percentage of vendor payments by electronic media such as Electronic Funds Transfer and purchase credit card.

MEASURE: Percentage of invoices paid electronically.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
62%	71%	79%	80%	81%



The data section discusses these systems as data sources.
* Not an established measure.

Maintain a World-Class Workforce and World-Class Workplace

OGP PERFORMANCE GOAL: Establish core technical and general competencies and government-wide standards for program areas within the OGP's responsibility.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	7	6

MEASURE: Number of OGP program areas with established core competency requirements.

WHY WE MISSED THE TARGET: The OGP missed the target by one program area, which is largely due to reorganization efforts that have split parts of the OGP into other areas of GSA. When the target of 7 was projected, the OGP had 10 program areas. The target was intended to achieve a 70 percent level of core competency requirements within the OGP. Currently, there are 7 OGP program areas. The actual number of 6 program areas accomplishing core competency requirements represents an 86 percent level of achievement, which is a higher degree of success even though the original target was missed. We are committed to improving our performance by developing a more structured approach to competency development with the OGP.

OGP PERFORMANCE GOAL: Improve overall score on the Gallup Q12 survey.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	3.40	3.90	3.71

MEASURE: Total grand mean score on the Gallup Q12 survey

WHY WE MISSED THE TARGET: The OGP missed its FY 2002 target by 5 percent, or roughly 20 points. The exact cause for this is difficult to determine. The goal of 3.90 was an aggressive stretch target. Although the Gallup team that reviewed the data considered that the improvement from 3.40 to 3.71 as excellent progress, the causes for not achieving the 3.90 score are not clear. The OGP will continue to implement action plans for the areas needing improvement.

The data section discusses these systems as data sources.
* Not an established measure.

CPO PERFORMANCE GOAL: Increase use of On-Line University as a cost-effective method to improve employee skills.

MEASURE: Percentage of increase in number of registrations.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	2,276 baseline	6,410 182% increase	15% increase over FY 2001	24,959 290% increase

CPO PERFORMANCE GOAL: Increase professional competency of GSA's acquisition workforce as determined by the Clinger Cohen requirements.

MEASURE: TBD

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	N/A	N/A

GSA began working on an Applied Learning Center for acquisition associates in FY 2002 and will continue work in FY 2003. GSA plans to develop a pilot of an applied learning concept that augments the traditional training and education process by allowing its acquisition associates to demonstrate "applied learning" in both simulated and real life scenarios. Pilot development began in May 2002 and will run from January to April 2003. The project is on schedule. The procurement of vendors for the pilot is in the final selection stages. If the pilot is successful, GSA intends to expand the concept on an incremental basis throughout the agency. The Office of Acquisition Policy has the lead on this effort in GSA. The CPO is assisting them in this effort and ensuring that there is some level of consistency in how we address the skills gaps for our Mission Critical Occupations. Our acquisition workforce has been determined to be one of our MCO's.

The data section discusses these systems as data sources.
* Not an established measure.

CPO PERFORMANCE GOAL: Develop competency models for key real estate positions.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	N/A	N/A

MEASURE: TBD

The Public Buildings Service conducted focus groups in central office and with each of the regional offices. The focus groups discussed the PBS associates' current competencies and future competencies. Then they rated these competencies using Office of Personnel Management (OPM) lists of general and technical competencies plus added competencies not included on the list. In each case the groups found consistency among competencies. The lead team then mapped the competencies according to highly critical and well or least positioned to deliver.

Through these focus group discussions, the PBS discovered that they would need to decide whether it is an organization of generalists that perform project, business, and customer management or an organization of traditional occupational specialists. The PBS wants to assess its workforce with an external contractor to assist them. The contractor will implement an automated tool by loading the list of competencies and assess proficiency in each. The PBS is projecting that this will be accomplished by January 2003.

The data section discusses these systems as data sources.
* Not an established measure.

CPO PERFORMANCE GOAL: Develop competency models for key information technology positions.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	N/A	N/A

MEASURE: TBD

The CPO has consulted with the OPM to conduct a competency model for the IT Occupational Series and all ten-specialty areas. The CPO pulled together focus groups comprised of Subject Matter Experts to rate the competencies for the 2210 series. In each focus group there was a representative from each of the GSA Services and Staff Offices that provided input to the process. The OPM identified the competencies that were rated as important in the Government-wide data for each specialty area and grade level group — entry (grades 5-7), intermediate (grades 9-11), full performance (grades 12-13), and senior expert (grades 14-15). The OPM included competencies in the competency model if they received an importance rating, averaged across supervisor and incumbent ratings of importance, of 3.5 or greater on a 5-point scale (1 = Not Important, 2 = Somewhat Important, 3 = Important, 4 = Very Important, 5 = Extremely Important). The process was very intense but the outcome allowed GSA to see an "as is" IT competency model for each of the ten specialty areas.

The CPO presented these materials to the GSA CIO Council who will provide feedback on the results. The next step is to work with senior CIO managers to develop a "to be" model. Once this is accomplished, we intend to provide an automated tool to allow associates to determine their skill gap.

The CPO supported the CIO in a GSA-wide survey conducted this year to assess the IT competency level of Executives and Senior Managers. The survey results were shared with the CIO. The CPO will participate in a focus group session with Services and Staff Offices, CIO's and senior staff to review the results and consider next steps.

The CIO has the lead on this effort in GSA. The CPO is assisting them in this effort and ensuring that there is some level of consistency in how we address the skills gaps for our Mission Critical Occupations. Our information technology workforce has been determined to be one of our Mission Critical Occupations.

The data section discusses these systems as data sources.
* Not an established measure.

CPO PERFORMANCE GOAL: Identify high-performing associates in GSA's critical job categories to enable GSA to improve its strategies to recruit and retain talented associates.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	N/A	N/A

MEASURE: TBD

GSA completed an agency-wide awards study in FY 2002 to determine the distribution of rewards across the organization. A more refined study will be conducted of awards to high performing associates in our Mission Critical Occupations now that those occupations have been clearly identified in GSA. This will be done in conjunction with determination of competencies for each of the Mission Critical Occupations and the skill gap analysis that will be done in fiscal year 2003. Once these items are completed, GSA should be able to identify its high performing associates and, at that point, use the information to improve its recruiting and retention strategies.

CPO PERFORMANCE GOAL: Increase the rank percentile in the Gallup Q12 survey that measures the culture of the agency.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	67th Percentile	67th Percentile†

MEASURE: Increase total grand mean score.

†FY 2002 was the first year the survey was administered to all of GSA. The 67th percentile can be considered a baseline. Organizations that attain the 75th percentile are described as world-class.

CPO PERFORMANCE GOAL: Implement a standard identification card system in GSA nationwide.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	4.0%	5.6%

MEASURE: Percentage of GSA that has implemented standard identification card system.

The data section discusses these systems as data sources.
* Not an established measure.

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

PBS PERFORMANCE GOAL: Improve energy reduction in standard facilities from 20 percent below the FY 1985 baseline in FY 2002 to 22 percent below in FY 2003.

MEASURE: Percentage energy reduction from the FY 1985 baseline.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
17.3%	20.0%	18.4%	20.0%	22.5%

PBS PERFORMANCE GOAL: Maintain the number of children of Federal employees who receive care at GSA childcare centers.

MEASURE: Percentage of children from Federal families receiving care in GSA childcare centers.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
55%	56%	56%	56%	56%

PBS PERFORMANCE GOAL: Achieve 100 percent accreditation of all eligible GSA childcare centers.

MEASURE: Percentage of eligible child cares centers accredited.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
70%	88%	83%	88%	86%

WHY WE MISSED THE TARGET: The popularity of this accreditation program in the private sector has created long delays. The process currently takes as long as ten months, six months longer than originally projected. Accreditation of GSA childcare centers continues to be a high priority and GSA is working with the remaining centers to achieve it.

The data section discusses these systems as data sources.
* Not an established measure.

PBS PERFORMANCE GOAL: Reduce the financial liability for environmental clean-up costs for Government-owned and leased inventory.

MEASURE: Percentage of GSA owned and leased inventory assessed.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	100%	100%

FSS PERFORMANCE GOAL: Increase customer agency support of government-wide socioeconomic goals.

MEASURE: Percentage of socioeconomic business volume.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
28.17%	30.55%	33.10%	34.88%	33.73%

WHY WE MISSED THE TARGET: Target was missed due to the large increase of business volume above trend. Socioeconomic business volume increased as projected, but the increase was not at the magnitude of the increase in overall business volume. The FSS contracting personnel will continue to use contractor visits to assist small businesses in seeking opportunities.

The data section discusses these systems as data sources.
* Not an established measure.

FTS PERFORMANCE GOAL: Raise level of awareness of information security across the Federal Government.

MEASURE: Number of agencies reporting to FedCIRC from each Tier.

	FY 1999	FY 2000	FY 2001	FY 2002 TARGET	FY 2002
Tier 1 Reporting Target Number of Agencies Targeted for Reporting	N/A*	N/A	N/A	42 21	
Total Agencies Reporting	**N/A**	**N/A**	**31**		**10**

WHY WE MISSED THE TARGET: We missed our target even though FedCIRC representatives met with forty targeted agencies, and agencies that scored low regarding compliance. We emphasized the importance of partnering with FedCIRC, and the necessity of reporting computer security incidents. We continue to actively meet with targeted agency representatives to encourage partnering.

OGP PERFORMANCE GOAL: Increase the number of agency programs meeting their social and environmental responsibilities in areas of the OGP responsibility.

MEASURE: Number of agency programs meeting their social and environmental responsibilities in the OGP program areas.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	N/A	4

The data section discusses these systems as data sources.
* Not an established measure.

OCSC PERFORMANCE GOAL: Provide FCIC information products to the American public targeting 31.9 million accesses during FY 2002 and 34.8 million accesses in FY 2003.

MEASURE: Number of accesses to FCIC information products by the public.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
15.8M	23.2M	29.8M	31.9M	32.0M

CPO PERFORMANCE GOAL: Update and exercise GSA Continuity of Operations Plans.

MEASURE: Percentage of GSA's COOPs that have been reviewed and updated.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	100%	100%

CPO PERFORMANCE GOAL: Update and exercise GSA Continuity of Operations Plans. Maintain GSA readiness to respond to emergencies.

MEASURE: Percentage of GSA organizations participating in annual COOP exercises.

FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL
N/A*	N/A	N/A	50%	58%

The data section discusses these systems as data sources.
* Not an established measure.

OED PERFORMANCE GOAL: Meet or exceed goal of providing contracting opportunities to small businesses.

MEASURE: Achieve or exceed GSA-wide small business procurement goals.

	FY 1999 ACTUAL	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 TARGET	FY 2002 ACTUAL†
Small Business	41.5%	40.3%	40.09%	40.0%	40.16%

† This measure reflects overall program performance. It is the only measure counted in the determination of whether GSA meets the GSA-wide goal. Numbers presented in the FY 2002 Actual column are preliminary and subject to verification within GSA as well as by the Small Business Administration.

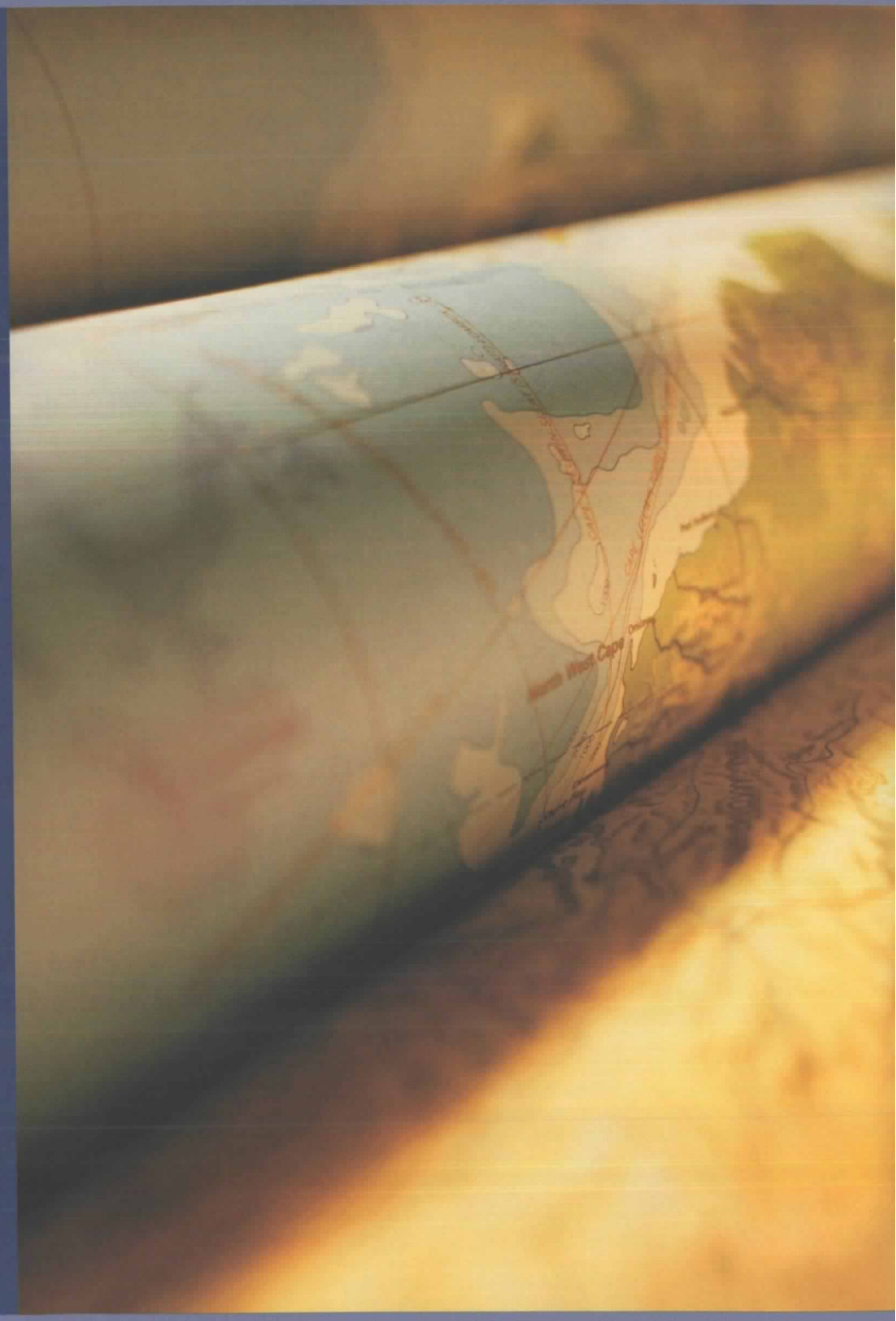
The data section discusses these systems as data sources.
* Not an established measure.

milestone 4

GSA Financial Statements

GSA celebrates receiving a clean audit opinion for its 15th consecutive year.

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



LETTER FROM THE CHIEF FINANCIAL OFFICER

Kathleen Turco

On August 5, 2002, I joined GSA as the Chief Financial Officer. My new associates and I welcome the many challenges that face financial management today and I know that the GSA CFO organization will play a vital role in creating a successful future for GSA.

During fiscal year 2002, GSA continued to make substantial progress in improving our management accountability over the resources entrusted to us. This is reflected by the clean audit opinion for the 15th straight year on our audited financial statements. The CFO organization has been tasked by the Administrator to manage two of the five government-wide initiatives for the President's Management Agenda. During FY 2002, we initiated plans and targets to address "getting to green" as part of our overall Federal financial management program at GSA. We also actively pursued and were awarded a lead role in the Office of Personnel Management's E-Payroll program. The E-Payroll program will allow the CFO Office to service a number of additional agencies in partnership with the Defense Finance and Accounting Service. By expanding GSA's payroll services the Government as a whole will save money.

In addition to the audited financial statements, this Performance and Accountability Report provides the financial and program performance results on how well GSA has achieved its strategic and performance goals as well as a discussion of the most serious management challenges facing the agency. This year's results reflect our aggressive approach and our firm commitment to improved financial and program performance.

We recognize that to better service our Federal clients, we need accurate data and that accurate data makes for better decision-making. Ensuring that data is current and reliable is a critical goal for the agency. In our pursuit of this goal, effective October 2002 we are pleased to report that GSA has completed its conversion to its new Joint Financial Management Improvement Program compliant financial system we refer to as *Pegasys*. Our implementation of *Pegasys* also makes GSA fully compliant with the Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act requirements for use of the Standard General Ledger at the transactions level.

To further meet the President's Management Agenda's "Improve Financial Performance" initiative, GSA has successfully implemented a pilot audit recovery program which identifies overpayments and the failure to take deductions on payments made to commercial vendors. Under this program, the contractor is paid based on the actual amount of funds collected by GSA. Plans include expanding the pilot program to include reviewing all contracts GSA-wide.

We also have in place a Quality Assurance Program at each of our payments centers to accurately assess their payment performance and to gather accurate and reliable data for reporting on the agency's compliance with the Prompt Payment Act. During this fiscal year, an independent review was conducted of our Heartland Finance Center's Quality Assurance Program that provided recommendations on making further improvements to the program. We plan to conduct a similar assessment at our Forth Worth payment center.

In the financial business services we provide to other Federal agencies, we have made significant improvements in fiscal year 2002, particularly in our electronic business activities:

- Payroll activities increased by 6 percent by increasing our payroll cross servicing with other Federal agencies while maintaining costs at their existing levels. GSA now provides payroll services for

approximately 26,000 individuals across 33 federal agencies and Presidential Commissions, in addition to providing payroll for our own associates.

- 91 percent of all invoices were paid on time and 89 percent of all early payment discounts were taken which earned GSA $3.1 million in rebates.
- 81 percent of invoices were paid electronically, exceeding the target of 80 percent. Electronic payments represented 88 percent of dollars disbursed.
- 35 percent of invoices were received electronically, an increase of 10 percent over fiscal year 2001.
- 99 percent of GSA associates had their payments direct deposited.

We are committed to using program results to inform budget decisions by pursuing the President's Management Agenda initiative to integrate budget and performance. We have worked hard to improve performance measures and align them with resource requirements. This has resulted in a fiscal year 2004 Budget Request that integrates our plans with the budgeted resources. We also developed a Performance Management Tool (PMT) to track the progress of the agency's external and internal performance goals.

An important factor in ensuring sound financial accountability is maintaining strong internal controls. We are encouraged that no new material weaknesses or reportable conditions were reported in FY 2002. However, under the Federal Managers' Financial Integrity Act (FMFIA), three internal control reportable conditions and two system non-conformances reported by management, which are not considered material, still remain open from prior years. Our plans for correcting these remaining weaknesses are discussed in the management controls section of this report. Our financial statement auditors also continued to report four reportable conditions carried over from prior years. None of the weaknesses reported by the auditors were considered material. Two of those reportable conditions mirror the systems related findings disclosed by management in the FMFIA report, and the two other weaknesses relate to internal control deficiencies in the Public Buildings Service. Each of the four weaknesses are described in the auditor's opinion on the financial statements.

During fiscal year 2002, we implemented a credit card management program that has significantly improved our management controls to prevent and detect improper purchase and travel card usage. Changes under this program include:

- Restricting the issuance of purchase cards to 26 percent of the GSA associates and mandatory purchase card training for cardholders and approving officials;
- Issuance of monthly questionable charges report to all GSA executives and managers requiring their review and concurrence along with an automated checklist for approving officials requiring managers to review and approve questionable purchases /charges of their associates.

These two enhancements have allowed GSA to significantly reduce our delinquency rates and will ensure that approving officials are reviewing all purchases that have been charged. Additionally, we have placed blocks on 44 different merchant category codes for the purchase card that are deemed "high risk".

For the travel card program, we have implemented a split disbursement capability so that when a traveler submits their travel voucher, the financial system allows the traveler to split payments between what is owed directly to the credit card company and the amount due to the traveler. This reduces the chances for late or missed payments.

We realize that our associates ultimately determine our success. To address immediate and projected skills gaps in financial management across GSA, a Financial Management Specialist Program was created. This program has proven successful for GSA and attractive to graduates. Over a two-year period, interns rotate throughout GSA's financial offices and gain valuable

analytical and financial knowledge to complement their undergraduate studies.

As we look ahead, we see many opportunities to better serve the taxpayers of this nation. Expansion of E-Commerce is key to our providing best value to our customers while allowing us to implement commercial-like best practices. As we realize the full benefits of our new *Pegasys* financial system implementation, we will seek new and improved business processes and ways to standardize our accounting procedures. We will use our SGL compliant financial system as a springboard to expand into more advanced accounting techniques such as activity based costing and integration of performance and financial management. My goal as CFO is to place new tools in the hands of GSA managers.

We are very pleased with the improvements we have made during this past fiscal year, but we recognize that more can be accomplished. Through the teamwork and dedicated efforts of our GSA associates, we will continue the journey toward achieving our planned objectives and reporting on the results timely and accurately. We will call upon everyone in the coming year to assist in creating a successful future at GSA by living our values everyday and working together to achieve our goals.

Kathleen M. Turco

Kathleen Turco
Chief Financial Officer

January 31, 2003

INDEPENDENT AUDITOR'S REPORT

U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

January 8, 2003

MEMORANDUM FOR STEPHEN A. PERRY
ADMINISTRATOR (A)

KATHLEEN M. TURCO
CHIEF FINANCIAL OFFICER (B)

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

SUBJECT: **Audit of the General Services Administration's Fiscal Years 2002 and 2001 Financial Statements**

This memorandum transmits PricewaterhouseCoopers LLP's report on its Fiscal Years 2002 and 2001 financial statement audit of the General Services Administration, and the Office of Inspector General's report on internal controls over performance measures.

Results of Independent Audit

The Chief Financial Officers Act of 1990 (P.L. 101-576) requires GSA's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the Agency's financial statements. Under a contract monitored by the OIG, PwC, an independent public accounting firm, performed the audit of GSA's Fiscal Years 2002 and 2001 financial statements. The contract required that the audit be performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

PwC issued unqualified opinions on GSA's Fiscal Years 2002 and 2001 consolidated and combined financial statements and the financial statements of individual funds (Federal Buildings Fund, General Supply Fund, and Information Technology Fund). However, PwC did identify four reportable conditions concerning GSA's need to (1) further strengthen network and application security controls, (2) continue to improve change controls over GSA's financial applications, (3) improve the controls over the integrity of rent data, and (4) improve the controls over the transfer of substantially complete construction in process projects.

OIG Evaluation of PwC's Audit Performance

To ensure the quality of the audit work performed, we conducted a review of PwC's audit of GSA's Fiscal Years 2002 and 2001 financial statements. Specifically, we:

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

However, due to the timing for completing the GSA Fiscal Year 2002 Annual Report, we have not completed our review of the working papers prepared by PwC.

PwC is responsible for the attached auditor's report dated December 19, 2002, and the conclusions expressed therein. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on GSA's financial statements, management's assertions about the effectiveness of its internal controls over financial reporting, or GSA's compliance with certain laws and regulations. However, our review, as qualified above, disclosed no instances where PwC did not comply with generally accepted government auditing standards.

Report on Internal Controls over Performance Measures

In accordance with Office of Management and Budget Bulletin No. 01-02, the OIG performed the necessary audit procedures to obtain an understanding of the design and operation of internal controls over the reliability of data supporting the performance measures reported in the Management Discussion and Analysis section of GSA's Fiscal Year 2002 Annual Accountability Report. Last year, we identified a reportable condition regarding the need to clearly assign responsibility and accountability within GSA for verifying and ensuring the reliability of the data supporting the reported performance measures. This year, we noted that the CFO had taken significant steps to implement a process to ensure the adequacy of internal controls over Agency performance data. Accordingly, we no longer consider that these control problems constitute a reportable condition.

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

REPORT OF INDEPENDENT ACCOUNTANTS

PRICEWATERHOUSECOOPERS

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

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

- The consolidated balance sheets of the GSA and individual balance sheets of the FBF, the GSF, and the ITF as of September 30, 2002 and 2001, and the related consolidated and individual statements of net cost, consolidated and individual statements of changes in net position, combined and individual statements of budgetary resources, and consolidated and individual statements of financing, for the fiscal years then ended are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that as of September 30, 2002, the GSA maintained in all material respects effective internal control over financial reporting for the GSA, the FBF, the GSF, and the ITF; and
- No reportable instances of noncompliance with the laws and regulations we tested.

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the GSA and individual balance sheets of the FBF, the GSF, and the ITF as of September 30, 2002 and 2001, and the related consolidated and individual statements of net cost, consolidated and individual statements of changes in net position, combined and individual statements

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of budgetary resources, and consolidated and individual statements of financing for the fiscal years then ended. These financial statements are the responsibility of the GSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Also, except for the provisions of paragraph 6.f. relating to internal control over performance measures, we conducted our audits in accordance with Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. The work required by paragraph 6.f. was performed by the GSA Office of Inspector General, and the objective of that work was to gain an understanding of and report deficiencies in the design of internal control over performance measures, rather than to plan the financial statement audit. Auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated, combined, and individual financial statements referred to above, present fairly, in all material respects, the financial position of the GSA, the FBF, the GSF, and the ITF at September 30, 2002 and 2001, and their net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02 except for the provisions of paragraph 6.f. and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination was of the internal control in place as of September 30, 2002.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are

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subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the GSA, the FBF, the GSF, and the ITF systems of accounting and internal control are in compliance with the internal control objectives in OMB Bulletin No. 01-02, requiring management to establish internal accounting and administrative controls to provide reasonable assurance that transactions be properly recorded, processed, and executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (ii) general laws identified in OMB Bulletin No. 01-02, and summarized to permit the preparation of the consolidating and combining financial statements in accordance with accounting principles generally accepted in the United States of America and that assets be safeguarded against loss from unauthorized acquisition, use or disposal, is fairly stated, in all material respects, as of September 30, 2002.

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

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A material weakness, as defined by the AICPA and OMB Bulletin No. 01-02, is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited or to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that none of the four reportable conditions that follow is a material weakness as defined by the AICPA and OMB Bulletin No. 01-02.

1. GSA needs to further strengthen network and application security controls.

GSA needs to further strengthen network and application security controls. In performing our audit, we tested general computer controls and application controls over financially significant systems. In each of the past four years, GSA has had a reportable condition on the need to improve entity-wide system security management and oversight. GSA has made significant progress in addressing the security issues raised in prior years, and now has a defined security management structure, a robust information technology security policy and an IT security program plan supported with detailed IT security procedural guides, technology hardening guides and security awareness training. GSA also has initiated a plan to conduct risk assessments for all major applications, and the IT Security Department has started reviewing entity-wide compliance with security policies and procedures.

Despite these accomplishments, GSA's systems environment remains threatened by security and related exposures impacting key elements of its financial systems and networks. The detailed findings identified during testing from fiscal year 1998 through fiscal year 2002 are contained in Sections III through VIII in our EDP management letter for fiscal year 2002 dated October 21, 2002. The general areas where exposures exist, and the services and/or applications, for which each is applicable, include:

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- Application-specific security policies, procedures and automated access controls
  - CFO – *Pegasys*; FSS – FMS, FSS-19, FSS On-line; FTS – TOPS; PBS – IRIS, STAR
- Documentation, approval and periodic recertification of user access
  - CFO – *Pegasys*, NEAR; FSS – FMS, FSS-19, FSS On-line; FTS – ITOMS; PBS – IRIS
- Programmer and security administrator access to production code and data
  - CFO – VITAP; FSS – FMS; FTS – TOPS, ITOMS; PBS – IRIS, STAR
- Security monitoring
  - FSS – FMS, FSS On-line, GSA*Advantage!*™; FTS – TOPS; PBS – IRIS, STAR
- Network and server security
  - CIO; CFO; FSS; FTS; PBS

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

Recommendation

The GSA CFO should continue to work with the GSA CIO and the service line CIOs, staff offices, and regions, to resolve the detailed findings in our fiscal year 2002 EDP management letter.

Further strengthening the network and application security controls across the agency will help to ensure that the current and future systems environment will meet a minimum level of security. This environment includes the GSA wide-area network backbone maintained by the Office of the CIO, the application systems maintained by the services and staff offices, and the local area networks and smaller data centers in the Regions.

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2. Change controls over GSA's financial applications continue that need improvement.

Change controls over the GSA's financial applications continue to need improvement. During each of the last three fiscal years financial statement audits (1999, 2000 and 2001), the GSA has had a reportable condition regarding the need to improve development, implementation and change controls. During fiscal year 2002, the GSA made significant progress in addressing the development, implementation and change control issues raised in prior years. Specifically, GSA CIO has:

- Created, finalized and distributed IT Security Procedural Guide: *Developing a Configuration Management (CM) Plan CIO-IT Security-01-05*
- Drafted the *GSA IT Systems Management Handbook (CIO P2140.1.C)* (draft), (August 30, 2002)

The Office of the CFO and each individual service has also taken action in this area, including the following:

- CFO implemented the IPMIA Methodology to support the Independent Verification and Validation (IV&V) Program for *Pegasys* (May 28, 2002)
- FSS developed and implemented change control procedures (regular and emergency) for GSA*Advantage!*™ and developed emergency change procedures for FSS-19. The FSS also completed post-implementation reviews of FSS-19 (October 31, 2001) and GSA*Advantage!*™ (November 30, 2001)
- FTS released the *FTS System Development Life Cycle Standard* (October 2001), and the *FTS Configuration Management Planning Standard* (February 2002)
- PBS contracted with IV&V services to provide independent review and approval of changes to STAR (April 1, 2002)

In addition, GSA's Capital Planning Guide contains expanded documentation requirements for systems planning and management, and links development and security controls to capital projects.

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Most of the efforts noted above have enhanced the development, implementation, and change controls relative to future, current and/or recent implementation efforts. However, significant portions of GSA's financial systems are mature applications for which change controls need to be documented or enhanced. Our fiscal year 2002 EDP management letter contains detailed findings in the following areas, relative to the following services and/or applications:

- Strengthen change control policies and procedures
  - CFO – VITAP; FSS - FMS, FSS-19; FTS – TOPS; PBS - IRIS
- Develop a systems development lifecycle methodology
  - CFO – NEAR; CIO; FSS – FMS, FSS-19; FTS – TOPS

GSA's system environment remains threatened by a lack of consistent development, implementation, and change controls. Inadequate or inconsistent systems development, implementation, and change controls can lead to wasted resources, unauthorized changes to applications, projects that fail to meet business needs, and also contribute to system security weaknesses.

Recommendation

The GSA CFO should continue to work with the GSA CIO, service line CIOs, staff offices, and regions to resolve the findings noted in the fiscal year 2002 EDP management letter.

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

In fiscal years 1998, 1999, 2000, and 2001, we found reportable conditions related to the rent data used to support the management of the FBF. While we noted improvements from the prior years, especially that occupancy agreements (OAs) existed for all leased and owned client billing records tested, we continued to find differences between the

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client rent bills, OAs, and the System for Tracking and Administering Real Property (STAR). We also noted instances where occupancy agreements were unsigned. Our tests included reviewing controls over new pricing at GSA's regional offices and evaluating the accuracy of data in STAR. The detailed findings will be included in our fiscal year 2002 year-end management letter.

PBS began to move forward in addressing the issues with action plans that include polling regions on best practices for ensuring that the pricing policy is followed and reflected in the OAs, system enhancements to the OA Tool, updates to the Pricing Desk Guide, centralized panels for resolution of questions, and validation of space. However, many of these action items were not completed by year-end, or for those that were, they were not effective for all of fiscal year 2002. In addition, we noted that many anticipated completion dates in the action plans have not been met and thus have been extended into future years.

Recommendation

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

- Use the occupancy agreements as the basis for supporting space assignments in federally owned and leased buildings as discussed in the Pricing Desk Guide. Specifically, PBS should continue to ensure that customer agencies are being billed in accordance with the Pricing Desk Guide and the OA. In addition, GSA should continue implementation of action items to integrate the OA Tool with STAR to ensure that data between the two are consistent. GSA also should perform periodic supervisory reviews to ensure that the OAs and STAR are in agreement.
- Execute the validation schedule for the spatial data integrity project that will validate space in federally owned and leased buildings.

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4. Controls over transferring substantially complete construction in process projects need improvement. In fiscal year 2001, we identified a reportable condition related to GSA not performing timely transfers of construction projects out of the construction in process (CIP) general ledger accounts upon substantial completion. In response to last year's reportable condition, PBS implemented action plans to address these findings. During our testing this year, we noted improvements in both the number of errors and the magnitude of the financial statement adjustment, however we still noted issues in fiscal year 2002.

When a new CIP project is established, regional personnel are expected to enter all necessary information, including the expected date of completion, into the Inventory Reporting Information System (IRIS). This information allows GSA central office personnel to monitor the status of construction projects. Once a project is substantially complete, the project manager should enter the date of substantial completion in IRIS so that the project will be transferred into Real Property Accounting Depreciation System (RPADS), GSA's property sub-ledger. GSA is aware that weaknesses in these processes can lead to the failure to recognize the completion of construction projects on a timely basis. Therefore, PBS performs procedures to identify and manually adjust substantially complete projects that were not systematically moved into RPADS. For new construction projects, and major repair and alteration projects greater than $500,000, PBS distributes a semi-annual questionnaire to track the status of these projects and ensure timely transfer from CIP to the building account. For basic repair and alteration projects, PBS instituted new procedures during fiscal year 2002. The procedures include sending to regional personnel for their resolution the projects that are over $10,000 and 95% financially complete, projects with no open items, projects that are still in CIP after their expected completion date has passed, and projects archived prior to July 2002.
In order to assess whether the new procedures were effective, PBS reviewed a sample of projects under $500,000 in the CIP general ledger at year-end. The results of the sample showed that 56% of the CIP projects tested should not have been in the CIP accounts at year-end. This resulted in an understatement of expenses and a misclassification

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between CIP and the building line items on the balance sheet, which required adjustments in excess of $100 million to the fiscal year 2002 financial statements. The causes underlying these misstatements included regional personnel not entering completion dates in IRIS, regional personnel not expensing cancelled projects, problems with archived projects, and manual procedures performed by central office staff not addressing all CIP issues.

While PBS has implemented detective controls including a review of a sample of projects at year end, improvements in the preventive controls related to the data maintained in IRIS for CIP projects will be essential for GSA to successfully meet new Federal reporting requirements. For instance, in fiscal year 2003 Federal agencies will be required to submit quarterly financial statements, and in fiscal year 2004 the deadlines for annual audited financial statements will be accelerated to 45 days after the end of the year.

Recommendation

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

- PBS needs to continue its efforts review the definition of substantial completion with the regions and ensure that project managers are entering into IRIS the expected completion date at the beginning of the project and the date of substantial completion. PBS also needs to enforce procedures, which require expensing items from CIP when a project is cancelled or the item will not meet the definition of a capital asset.
- The manual processes implemented in fiscal year 2002 for basic repair and alteration projects should be strengthened and formalized. For instance, we noted that the lists of projects extracted by central office had a large volume of transactions for each region to research and resolve. In order to improve the response rate from each region and therefore the effectiveness of the new procedures, PBS should explore options to decrease the number of transactions that the regions are required to research and resolve.

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Report on Compliance with Laws and Regulations

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

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

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

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

Other Information

Our audits were performed for the purpose of expressing opinions on the GSA consolidated and combined, the FBF, the GSF, and the ITF financial statements as of and for the fiscal years ended September 30, 2002 and 2001. The

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financial statements of Other Funds and the Intra-GSA Eliminations, presented in the consolidating and combining financial statements, are presented for purposes of additional analysis of the GSA consolidated and combined financial statements. This consolidating and combining information has been subjected to the auditing procedures applied in our audits of the GSA consolidated and combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the fiscal years 2002 and 2001 GSA consolidated and combined financial statements taken as a whole.

Our audits were performed for the purpose of expressing opinions on the GSA consolidated and combined financial statements and the individual financial statements of the FBF, the GSF, and the ITF as of and for the fiscal years ended September 30, 2002 and 2001. The supplemental consolidating statements of operations and of cash flows for the years ended September 30, 2002 and 2001, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such supplemental statements have been subjected to the auditing procedures applied in our audits of the financial statements referred to above and, in our opinion, are fairly stated, in all material respects, in relation to the consolidated and combined financial statements of the GSA and the individual financial statements of the FBF, the GSF, and the ITF as of and for the fiscal years ended September 30, 2002 and 2001.

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

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the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

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

PricewaterhouseCoopers LLP

Washington, DC
December 19, 2002

INSPECTOR GENERAL'S REPORT ON INTERNAL CONTROLS OVER PERFORMANCE MEASURES

U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

November 27, 2002

MEMORANDUM FOR STEPHEN A. PERRY
ADMINISTRATOR (A)

KATHLEEN M. TURCO
CHIEF FINANCIAL OFFICER (B)

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

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

This report presents the results of the Office of Inspector General's review regarding the design and operation of the system of internal controls over performance measures reported in the Management Discussion and Analysis section of the General Services Administration's Fiscal Year 2002 Performance and Accountability Report. This report also describes our audit responsibilities for conducting the performance measure review.

Scope and Methodology

Under a contract monitored by the OIG, PricewaterhouseCoopers LLP performed the audit of GSA's Fiscal Year 2002 Financial Statements. However, the portion of the audit related to internal controls over performance measures

was performed by the OIG. During our review, we assessed the reasonableness of GSA controls concerning the existence and completeness of data supporting individual performance measures. To obtain an understanding of the controls in place, we examined current GSA Government Performance Results Act reporting policy and interviewed Office of the Chief Financial Officer officials regarding compliance with the policy. We also reviewed documentation provided by CFO officials that demonstrated that internal controls were in place and operational. Our procedures were not designed to provide assurance on internal controls over reported performance measures. Therefore, we do not provide an opinion on such controls.

We conducted this review in accordance with generally accepted government auditing standards as well as the provisions set forth in the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, related to performance measures.

Results of Audit

The results of our testing indicated that significant steps have been taken by the CFO to further implement a process to ensure the adequacy of internal controls over Agency performance data. The CFO has established a process by which all Service and Staff Office performance data will be reviewed on a rotational basis over a three-year period.

For the past two years, we have identified a reportable condition regarding the need for the CFO to verify and ensure the reliability of the data supporting the performance measures. According to OMB Bulletin No. 01-02, reportable conditions are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of an internal control that could adversely affect the organization's ability to record, process, summarize, and report performance information.

Last year, we reported that the CFO had made progress towards implementing a process to ensure Agency managers have sufficient controls over performance data. In Fiscal Year 2001, an action plan was further developed that described the process that would be used to assess controls over performance measure data. Surveys were issued

to Agency managers assessing the adequacy of controls and procedures over performance data. Also, the CFO reviewed the controls over the Public Buildings Service's performance measures. However, we recommended that the CFO needed to establish a plan for implementing the review process in other Services and Staff Offices.

This year, we found that the CFO had taken additional steps to improve the process to ensure the adequacy of internal controls over performance data. This process was successfully tested in another Service and a schedule was developed for the review of other Services' and Staff Offices' performance measures.

Specifically, the CFO issued a survey to Federal Supply Service managers to assess the adequacy of controls over Fiscal Year 2003 performance measure data, conducted a review of the FSS performance measures, and developed a plan for reviewing performance data for other Services and Staff Offices. In the CFO's assessment of the FSS performance data, it was reported that data for the performance measures comes from audited and reliable financial and business systems. The FSS designated management officials who are responsible for the performance measures, documentation was issued on the FSS Performance Measurement System, and the FSS performs monthly analysis of financial results of operations for each business line. In addition, the CFO recommended the full implementation of the Performance Management Tool to improve internal controls and to use the implementation of the PMT to train managers on assuring data integrity.

Since the CFO has implemented our recommendations to review the performance data for another Service and has developed a plan to implement a review process for all GSA Services and Staff Offices, we consider the reportable condition to be resolved.

CONSOLIDATING STATEMENTS OF NET COST

For the Fiscal Years Ended September 30, 2002 and 2001
(Dollars in Millions)

	2002	2001
FEDERAL BUILDINGS FUND:		
Revenues:		
Building Operations - Government Owned	$ 3,659	$ 3,502
Building Operations - Leased	3,974	3,507
Expenses:		
Building Operations - Government Owned	3,232	2,991
Building Operations - Leased	3,947	3,578
Net Income From (Cost of) Operations	454	440
GENERAL SUPPLY FUND:		
Revenues:		
Supply Operations	1,345	1,266
Vehicle Acquisition and Leasing	1,560	1,517
Other Programs	29	19
Expenses:		
Supply Operations	1,284	1,266
Vehicle Acquisition and Leasing	1,467	1,417
Other Programs	27	25
Net Income From (Cost of) Operations	156	94
INFORMATION TECHNOLOGY FUND:		
Revenues:		
Network Services	954	1,059
IT Solutions	6,137	5,112
Expenses:		
Network Services	896	1,128
IT Solutions	6,173	5,112
Net Income From (Cost of) Operations	22	(69)
OTHER FUNDS:		
Revenues:		
Working Capital Fund	283	252
GSA Operating Expense Fund	23	10
Other Funds	3	6
Expenses:		
Working Capital Fund	272	246
GSA Operating Expense Fund	161	154
Other Funds	67	56
Net Income From (Cost of) Operations	(191)	(188)
LESS: INTRA-GSA ELIMINATIONS:		
Revenues	431	448
Expenses	457	471
GSA CONSOLIDATED:		
Revenues	17,536	15,802
Expenses	17,069	15,502
Net Income From (Cost of) Operations	$ 467	$ 300

The accompanying notes are an integral part of these statements.

CONSOLIDATING BALANCE SHEETS

As of September 30, 2002 and 2001
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
ASSETS												
Intragovernmental Assets:												
Funds with U.S. Treasury (Note 1-D)	$ 4,639	$ 4,030	$ 428	$ 364	$ 226	$ 76	$ 436	$ 421	$ -	$ -	$ 5,729	$ 4,891
Accounts Receivable - Federal, Net (Note 7)	280	324	303	311	1,248	1,514	4	8	21	24	1,814	2,133
Prepaid Expenses and Advances - Federal	15	14	8	12	8	8	13	1	29	27	15	8
Total Intragovernmental	4,934	4,368	739	687	1,482	1,598	453	430	50	51	7,558	7,032
Inventories (Note 1-E)	3	2	157	153	-	-	-	-	-	-	160	155
Accounts Receivable - Public, Net (Note 7)	6	4	14	17	9	11	22	47	-	-	51	79
Prepaid Expenses and Advances - Public	-	-	12	8	-	1	-	-	-	-	12	9
Other Assets	8	1	3	-	5	-	3	3	15	-	4	4
Property and Equipment (Notes 1-F,2,8):												
Buildings	20,522	19,168	-	-	-	-	-	-	-	-	20,522	19,168
Leasehold Improvements	271	262	6	9	-	-	-	-	-	-	277	271
Telecommunications and ADP Equipment	-	-	-	-	167	169	-	-	-	-	167	169
Motor Vehicles	-	-	3,551	3,341	-	-	-	-	-	-	3,551	3,341
Other Equipment	73	60	100	103	95	76	30	20	-	-	298	259
Less: Accumulated Depreciation and Amortization	(9,349)	(8,467)	(1,143)	(1,052)	(186)	(169)	(10)	(11)	-	-	(10,688)	(9,699)
Subtotal	11,517	11,023	2,514	2,401	76	76	20	9	-	-	14,127	13,509
Land	1,185	1,218	-	-	-	-	-	-	-	-	1,185	1,218
Construction in Process	1,273	1,455	-	6	6	1	33	21	-	-	1,312	1,483
Total Property and Equipment	13,975	13,696	2,514	2,407	82	77	53	30	-	-	16,624	16,210
Total Assets	$ 18,926	$ 18,071	$ 3,439	$ 3,272	$ 1,578	$ 1,687	$ 531	$ 510	$ 65	$ 51	$ 24,409	$ 23,489
LIABILITIES AND NET POSITION												
Intragovernmental Liabilities:												
Accounts Payable and Accrued Expenses - Federal	$70	$82	$22	$32	$48	$53	$13	$82	$21	$24	$132	$225
Deferred Revenue and Advances - Federal	41	52	23	19	164	282	45	30	44	27	229	356
Intragovernmental Debt (Note 3)	2,308	2,390	-	-	-	-	-	7	-	-	2,308	2,397
Workers' Compensation Actuarial Liability (Note 1-J)	130	135	32	33	11	11	19	19	-	-	192	198
Other Intragovernmental Liabilities (Note 9)	192	151	6	6	2	2	22	32	-	-	222	191
Total Intragovernmental	2,741	2,810	83	90	225	348	99	170	65	51	3,083	3,367
Accounts Payable and Accrued Expenses - Public	808	775	142	132	1,079	1,060	34	23	-	-	2,063	1,990
Deferred Revenue and Advances - Public	15	19	-	-	-	-	-	-	-	-	15	19
Environmental and Disposals (Notes 6-B, 8-B)	29	63	-	-	-	-	57	81	-	-	86	144
Obligations Under Capital Leases (Note 2)	285	293	-	-	-	-	-	-	-	-	285	293
Annual Leave Liability (Note 1-H)	42	39	16	16	11	11	17	16	-	-	86	82
Deposit Fund Liability	-	-	-	-	-	-	39	40	-	-	39	40
Earnings Payable to U.S. Treasury	-	-	-	-	-	-	49	68	-	-	49	68
Other Liabilities (Note 9)	141	140	5	28	-	39	8	7	-	-	154	214
Total Liabilities	4,061	4,139	246	266	1,315	1,458	303	405	65	51	5,860	6,217
NET POSITION (NOTE 5):												
Cumulative Results of Operations	14,820	13,932	3,193	3,006	263	229	131	13	-	-	18,407	17,180
Unexpended Appropriations	45	-	-	-	-	-	97	92	-	-	142	92
Total Net Position	14,865	13,932	3,193	3,006	263	229	228	105	-	-	18,549	17,272
Total Liabilities and Net Position	$18,926	$18,071	$3,439	$3,272	$1,578	$1,687	$531	$510	$65	$51	$24,409	$23,489

The accompanying notes are an integral part of these statements.

CONSOLIDATING STATEMENTS OF CHANGES IN NET POSITION

For the Fiscal Years Ended September 30, 2002 and 2001
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUNDS		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
BEGINNING BALANCE OF NET POSITION:												
Cumulative Results of Operations	$13,932	$12,934	$3,006	$2,869	$229	$287	$ 13	$ (23)	$ -	$ -	$17,180	$16,067
Unexpended Appropriations	-	-	-	-	-	-	92	80	-	-	92	80
Net Position Beginning Balance	13,932	12,934	3,006	2,869	229	287	105	57	-	-	17,272	16,147
RESULTS OF OPERATIONS:												
Net Income From (Cost of) Operations	454	440	156	94	22	(69)	(191)	(188)	(26)	(23)	467	300
Appropriations Used (Note 1-C)	385	484	-	-	-	-	185	184	-	-	570	668
Non-Exchange Revenue (Notes 1-C, 1-G)	-	-	-	-	-	-	29	46	-	-	29	46
Imputed Financing Provided By Others	52	79	22	21	12	10	26	15	26	23	86	102
Transfer of Earnings Paid and Payable to U.S. Treasury	-	-	-	-	-	-	(2)	(37)	-	-	(2)	(37)
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	(2)	(5)	9	22	-	1	4	11	-	-	11	29
Receipts Paid and Reclassified as Payable From (To) the Land and Water Conservation Fund	-	-	-	-	-	-	67	5	-	-	67	5
Other	(1)	-	-	-	-	-	-	-	-	-	(1)	-
Net Results of Operations	888	998	187	137	34	(58)	118	36	-	-	1,227	1,113
CHANGES IN UNEXPENDED APPROPRIATIONS:												
Appropriations Received	433	477	-	-	-	-	194	188	-	-	627	665
Appropriations Used	(385)	(484)	-	-	-	-	(185)	(184)	-	-	(570)	(668)
Appropriations Transferred From Other Agencies or Funds	(3)	7	-	-	-	-	(4)	9	-	-	(7)	16
Other	-	-	-	-	-	-	-	(1)	-	-	-	(1)
Net Change in Unexpended Appropriations	45	-	-	-	-	-	5	12	-	-	50	12
ENDING BALANCE OF NET POSITION												
Cumulative Results of Operations	14,820	13,932	3,193	3,006	263	229	131	13	-	-	18,407	17,180
Unexpended Appropriations	45	-	-	-	-	-	97	92	-	-	142	92
Net Position Ending Balance	$14,865	$13,932	$3,193	$3,006	$263	$229	$ 228	$ 105	$ -	$ -	$18,549	$17,272

The accompanying notes are an integral part of these statements.

COMBINING STATEMENTS OF BUDGETARY RESOURCES

For the Fiscal Years Ended September 30, 2002 and 2001
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		GSA COMBINED TOTALS	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
BUDGETARY RESOURCES:										
Budget Authority	$ 430	$ 486	$ -	$ -	$ -	$ -	$ 221	$ 221	$ 651	$ 707
Unobligated Balance, Net - Beginning Balance	3,429	2,853	537	424	1,633	1,055	90	86	5,689	4,418
Spending Authority:										
Earned Income	7,622	6,990	3,661	3,471	7,120	6,233	322	269	18,725	16,963
Change in Unfilled Customer Orders	144	(9)	98	(144)	602	1,325	17	17	861	1,189
Prior Year Recoveries	169	138	9	11	393	276	9	12	580	437
Resources Temporarily Not Available	(530)	(651)	-	-	-	-	-	-	(530)	(651)
Capital Transfers	(72)	(70)	-	-	-	-	(14)	(1)	(86)	(71)
Total Budgetary Resources	11,192	9,737	4,305	3,762	9,748	8,889	645	604	25,890	22,992
STATUS OF BUDGETARY RESOURCES:										
Obligations Incurred	7,901	6,960	3,770	3,225	8,952	7,256	544	514	21,167	17,955
Unobligated Balance - Available	2,731	2,774	535	537	796	1,633	81	76	4,143	5,020
Unobligated Balance - Not Available	560	3	-	-	-	-	20	14	580	17
Total Budgetary Resources	11,192	9,737	4,305	3,762	9,748	8,889	645	604	25,890	22,992
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:										
Obligations Incurred	7,901	6,960	3,770	3,225	8,952	7,256	544	514	21,167	17,955
Less: Spending Authority from Offsetting Collections and Adjustments	(7,935)	(7,119)	(3,768)	(3,338)	(8,115)	(7,834)	(348)	(298)	(20,166)	(18,589)
Obligated Balance, Net - Beginning Balance (Note 1-L)	832	779	(172)	(34)	(1,558)	(995)	118	88	(780)	(162)
Less: Obligated Balance - Ending:										
Accounts Receivable	266	309	303	312	1,248	1,514	4	7	1,821	2,142
Unfilled Customer Orders	1,757	1,601	228	130	4,969	4,250	1	1	6,955	5,982
Undelivered Orders	(2,158)	(1,884)	(233)	(82)	(4,519)	(3,054)	(110)	(96)	(7,020)	(5,116)
Accounts Payable	(904)	(858)	(192)	(188)	(1,127)	(1,152)	(41)	(30)	(2,264)	(2,228)
Outlays	(241)	(212)	(64)	25	(150)	(15)	168	186	(287)	(16)
COMPONENTS OF OUTLAYS:										
Disbursements	7,412	6,796	3,605	3,461	7,120	6,120	509	483	18,646	16,860
Collections	(7,653)	(7,008)	(3,669)	(3,436)	(7,270)	(6,135)	(341)	(297)	(18,933)	(16,876)
Less: Offsetting Receipts	-	-	-	-	-	-	(23)	(18)	(23)	(18)
Net Outlays (Note 1-L)	$ (241)	$ (212)	$ (64)	$ 25	$ (150)	$ (15)	$ 145	$ 168	$ (310)	$ (34)

The accompanying notes are an integral part of these statements.

CONSOLIDATING STATEMENTS OF FINANCING

For the Fiscal Years Ended September 30, 2002 and 2001
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
RESOURCES USED TO FINANCE ACTIVITIES:	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Obligations Incurred	$ 7,901	$ 6,960	$ 3,770	$ 3,225	$ 8,952	$ 7,256	$ 544	$ 514	$ -	$ -	$ 21,167	$ 17,955
Less: Spending Authority From Offsetting Collections and Adjustments	(7,935)	(7,119)	(3,768)	(3,338)	(8,115)	(7,834)	(348)	(298)	-	-	(20,166)	(18,589)
Financing Imputed for Cost Subsidies	52	79	22	21	12	10	26	15	26	23	86	102
Other	(1)	7	2	(3)	2	17	(18)	(24)	-	-	(15)	(3)
Total Resources Used to Finance Activities	17	(73)	26	(95)	851	(551)	204	207	26	23	1,072	(535)
RESOURCES USED THAT ARE NOT PART OF THE NET COST OF OPERATIONS:												
(Increase)/Decrease in Goods and Services Ordered But Not Yet Received	(274)	18	(151)	275	(1,465)	(694)	(14)	(23)	-	-	(1,904)	(424)
Increase/(Decrease) in Unfilled Customer Orders	144	(9)	98	(144)	602	1,325	17	17	-	-	861	1,189
Costs Capitalized on the Balance Sheet	(1,240)	(1,152)	(717)	(664)	(26)	(27)	(28)	(25)	-	-	(2,011)	(1,868)
Financing Sources Funding Prior Year Costs	(30)	(30)	-	-	-	-	(11)	-	-	-	(41)	(30)
Other	(42)	(37)	(14)	16	(6)	(4)	31	18	-	-	(31)	(7)
Total Resources Used That Are Not Part of the Net Cost of Operations	(1,442)	(1,210)	(784)	(517)	(895)	600	(5)	(13)	-	-	(3,126)	(1,140)
COSTS FINANCED BY RESOURCES RECEIVED IN PRIOR PERIODS												
Depreciation and Amortization	908	864	332	291	22	17	5	4	-	-	1,267	1,176
Net Book Value of Property Sold	-	12	263	195	-	-	-	-	-	-	263	207
Other	55	(3)	8	28	-	1	-	-	-	-	63	26
Total Costs Financed by Resources Received in Prior Periods	963	873	603	514	22	18	5	4	-	-	1,593	1,409
COSTS REQUIRING RESOURCES IN FUTURE PERIODS:												
Unfunded Capitalized Costs	14	(23)	-	-	-	-	-	-	-	-	14	(23)
Unfunded Current Expenses	(6)	(7)	(1)	4	-	2	(13)	(10)	-	-	(20)	(11)
Total Costs Requiring Resources in Future Periods	8	(30)	(1)	4	-	2	(13)	(10)	-	-	(6)	(34)
Net (Income From) Cost of Operations	$ (454)	$ (440)	$ (156)	$ (94)	$ (22)	$ 69	$ 191	$ 188	$26	$23	$ (467)	$ (300)

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Years Ended September 30, 2002 and 2001

Organization

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

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

1. Significant Accounting Policies

A. Reporting Entity

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

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

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

- Columbia Hospital for Women Direct Loan Financing Account
- Federal Consumer Information Center Fund
- Working Capital Fund

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

- Allowances and Office Staff for Former Presidents
- Electronic Government Fund
- Excess and Surplus Real and Related Personal Property Holding Account
- Expenses, Presidential Transition
- Office of Inspector General
- Operating Expenses, General Services Administration
- Real Property Relocation

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

- Expenses, Disposal of Real and Related Personal Property
- Expenses, Transportation Audits
- Operating Expenses, Disposal of Real and Related Personal Property

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

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

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

B. Basis of Accounting

The principal financial statements are prepared in accordance with generally accepted accounting principles as promulgated by the Federal Accounting Standards Advisory Board, and OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*. The American Institute of Certified Public Accountant's (AICPA) Statement on Auditing Standards No. 91, *Federal GAAP Hierarchy*, established a hierarchy of GAAP for Federal financial statements as follows:

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

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

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

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

GSA's financial statements are prepared in accordance with formats prescribed in OMB Bulletin 01-09. These formats are considerably different from business-type formats. The Statements of Net Cost present the operating results of GSA by major programs and responsibilities. The Balance Sheets present the financial position of GSA using a format clearly segregating intra-governmental balances. The Statements of Changes in Net Position display the changes in equity accounts. The Statements of Budgetary Resources present the sources, status, and uses of GSA's budgetary resources. Lastly, the Statements of Financing bridge the gap between the uses of budgetary resources with the operating results reported on the Statements of Net Cost.

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

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

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

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

C. Revenue Recognition and Appropriations Used

Generally, Revolving Fund and reimbursable General Fund revenue is recognized when goods have been delivered or services rendered. In the FBF, rent revenues are earned based on occupancy agreements with customers, as space and services are provided. Revenue under nonrecurring reimbursable building repair and alteration projects is recognized under the percentage-of-completion method. In the GSF, Supply revenues are recognized as goods are provided to customers, and Motor Vehicle revenues are recognized based on rental agreements over the period vehicles are dispatched. In the ITF, telecommunications service revenues are generally recognized based on customer usage or on fixed line rates. IT Solutions revenues are earned when goods or services are provided or as reimbursable project costs are incurred. In the Working Capital Fund (WCF), revenues are generally recognized as general management and administrative services are provided to the Service components of GSA and to external customers. Such WCF revenues are earned in accordance with agreements that recover the direct cost and an allocation of indirect costs from the components of GSA receiving those services.

Non-Exchange revenues are recognized on an accrual basis on the Statements of Changes in Net Position for sales of surplus real property, reimbursements due from the audit of payments to transportation carriers, and other miscellaneous items resulting from GSA's operations where ultimate collections must be deposited in miscellaneous receipt accounts of the Treasury. Non-Exchange revenues are reported net of associated bad debt expense on uncollectible accounts.

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

D. Funds with U.S. Treasury

This total represents all unexpended balances for GSA's accounts with the U.S. Treasury. Amounts in Funds with

U.S. Treasury are based on the balances recorded by GSA in the National Electronic Accounting and Reporting (NEAR) system. Differences existing between the total balance reported by GSA that were greater (less) than those reported by the Department of the Treasury at September 30, 2002, and 2001 were as follows *(dollars in millions)*:

	FY 2002	FY 2001
Federal Buildings Fund	**$20**	$(1)
General Supply Fund	**15**	3
Information Technology Fund	**(2)**	(3)
Other Funds	**-**	5
Total	**$33**	**$ 4**

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

	FY 2002	FY 2001
Revolving Funds	**$ 117**	$ 97
Appropriated and General Funds	**128**	119
Special Funds	**147**	145
Deposit Funds	**27**	39
Miscellaneous Receipt Funds	**17**	21
Total Other Funds	**$436**	**$421**

Included in GSA's accounts are certain amounts that may be transferred to either the U.S. Treasury or the Land and Water Conservation Fund (see Note 1-G). These amounts, related to the Transportation Audits program and surplus real property disposals, are subject to transfer subsequent to GSA's determination of the internal working capital needs of these programs. Such amounts totaled $129 million and $149 million at September 30, 2002 and 2001, respectively, of which $37 million and $120 million were recorded as liabilities in the Consolidating Balance Sheets. At September 30, 2002 and 2001, the balance of Funds with Treasury that were no longer available for expenditure totaled $3 million and $1 million, respectively. Of these amounts, substantially all balances were transferred back to the Special Fund Receipt Accounts from which they were appropriated, with minor amounts returned to Treasury.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 1, *Accounting for Selected Assets and Liabilities*, the following information is provided to further identify amounts in Funds with U.S. Treasury as of September 30, 2002, against which obligations have been made, and, for unobligated balances, to identify amounts budgetarily available for future expenditures and those only available to liquidate prior obligations. Unobligated balances presented below may not equal related amounts reported on the Combining Statements of Budgetary Resources (CSBR), particularly for Other Funds, as this schedule presents elements of Funds with U.S. Treasury, which excludes other authorities reportable in the CSBR and includes balances in Funds that are not reportable in the CSBR *(dollars in millions)*:

FY 2002

	OBLIGATED BALANCE NET	UNOBLIGATED BALANCE AVAILABLE	UNOBLIGATED BALANCE UNAVAILABLE	TOTAL
FBF	$1,027	$ 2,522	$ 1,090	$ 4,639
GSF	(106)	534	-	428
ITF	(571)	797	-	226
Others	146	81	209	436
Total	**$ 496**	**$3,934**	**$1,299**	**$5,729**

FY 2001

	OBLIGATED BALANCE NET	UNOBLIGATED BALANCE AVAILABLE	UNOBLIGATED BALANCE UNAVAILABLE	TOTAL
FBF	$ 824	$ 2,552	$ 654	$ 4,030
GSF	(172)	536	-	364
ITF	(1,558)	1,634	-	76
Others	118	76	227	421
Total	**$ (788)**	**$4,798**	**$881**	**$4,891**

E. Inventories

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

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

F. Property and Equipment (See Note 8)

Property and equipment purchases and additions in fiscal years 2002 and 2001 of $10,000 or more and having a useful life of 2 or more years are capitalized and valued at cost. Property and equipment transferred to GSA from other Federal agencies on the date GSA was established is stated at the transfer value, which approximates historical cost. Subsequent thereto, equipment transferred to GSA is stated at net book value, and surplus real and related personal property transferred to GSA is stated at the lower of net book value or appraised value. Expenditures for major additions, replacements, and alterations are capitalized. Normal repair and maintenance costs are expensed as incurred. The cost of repair and alteration and of leasehold improvements performed by GSA, but financed by other agencies, is not capitalized in GSA's financial statements as such amounts are transferred to the other agencies upon completion of the project. Substantially all land, buildings, and leasehold improvements are leased to other Federal agencies under short-term cancelable agreements. Generally, these agencies are billed for leased space at rent based upon commercial rates for comparable space.

Depreciation and amortization of property and equipment are calculated on a straight-line basis over their initial or remaining useful lives. Leasehold improvements are amortized over the lesser of their useful lives or the unexpired lease term. Buildings capitalized by the Federal Buildings Fund at its inception in 1974 were assigned remaining useful lives of 30 years. Prior to 1974, no depreciation was recorded by GSA. Upon completion, construction costs are capitalized in the Land and Buildings accounts. Buildings acquired under capital lease agreements are also depreciated over 30 years. Major and minor building renovation projects carry estimated useful lives of 20 years, and 10 years, respectively. In fiscal year 2002, GSA recorded capitalized interest costs of $681,000 in the Construction in Process account associated with debt provided by the U.S. Treasury's Federal Financing Bank, as discussed in Note 3. Interest capitalized in fiscal year 2001 amounted to $1 million.

Telecommunications equipment and automated data processing equipment are used in operations to perform services for other Federal agencies for which billings are rendered. Most of the assets comprising other equipment are used internally by GSA. Telecommunications and other equipment is depreciated over periods generally ranging from 3 to 10 years. Automated data processing equipment is depreciated over periods generally ranging from 3 to 5 years.

Motor vehicles are generally depreciated over 4 to 6 years.

In fiscal year 2001, GSA implemented FASAB SFFAS No. 10, *Accounting for Internal Use Software*. This standard requires capitalization of software

development costs incurred for systems having a useful life of 2 years or more. With implementation of this standard, GSA adopted minimum dollar thresholds per system that would be required before capitalization would be warranted. For the Federal Buildings Fund, this minimum threshold is $1 million. For all other funds, it is $250,000.

G. Receipts from Disposal of Property and Equipment

GSA acts as a disposal agent for surplus Federal real and personal property. In some cases, public law entitles the owning agency to the sales proceeds, net of disposal expenses incurred by GSA. Proceeds from the disposal of equipment are generally retained by GSA to replace equipment. Under GSA's legislative authorities, the gross proceeds from some sales are deposited in GSA's Special Fund receipt accounts and recorded as Non-Exchange Revenues in the Consolidating Statements of Changes in Net Position. A portion of these proceeds is subsequently transferred to a Special Fund to finance expenses incurred in disposing of surplus property. The remainder is periodically accumulated and transferred, by law, to the Land and Water Conservation Fund administered by the U.S. Department of the Interior. Transfers in both fiscal years 2002 and 2001 were $2 million.

H. Annual, Sick, and Other Types of Leave

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

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

I. Supplemental Consolidating Statements of Cash Flows (Unaudited)

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

J. Workers' Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL) which initially pays valid claims and subsequently seeks reimbursement from the Federal agencies employing the claimants. The DOL provides the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases. The present value of these estimates at the end of fiscal year 2002 was calculated by DOL using a discount rate for 2003 and thereafter of 5.20 percent. At the end of fiscal year 2001, the discount rate used for 2002 and thereafter was 5.21 percent. The actuarial liability recorded by GSA totaled $191 million and $198 million as of September 30, 2002 and 2001, respectively.

K. Statements of Net Cost

Revenues reported by GSA's funds on the Statements of Net Cost are primarily generated from intra-governmental sales of goods and services. Each fund has established rate-setting processes governed by the laws authorizing its activities. In most cases, the rates charged are intended to cover the full cost that the funds will pay to provide such goods and services and

to provide capital maintenance. In accordance with the governing laws, rates are generally not designed to recover costs covered by other funds or entities of the U.S. Government, such as for post-employment and other inter-entity costs. Revenues from non-Federal entities make up an immaterial portion of GSA's total sales. Accordingly, where not otherwise governed by law, unique rates for non-Federal customers have generally not been established.

L. Statements of Budgetary Resources

The Combining Statements of Budgetary Resources (CSBR) present GSA's budgetary results in accordance with reporting requirements prescribed in OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, which identifies budgetary resources available for spending, the status of those resources, and the relationship between obligated balances and outlays (see Note 12). The basis of the CSBR is data reported to the U.S. Treasury on the Statements of Budget Execution and Budgetary Resources (SF 133's). However, as the CSBR is being developed, items may be identified that require adjustment to the data originally submitted on the SF 133's. Generally, such items are identified after the deadlines for reporting to the U.S. Treasury, and reflect reclassifications of balances to reflect the proper status of obligations or budgetary resources. For fiscal year 2002, the most significant of these reclassifying adjustments were recorded in the ITF to reduce accounts payable balances and reclassify them as undelivered orders for $118 million. Associated effects of these adjustments reduced accounts receivable balances and increased unfilled customer orders by $111 million. These adjustments were due to re-estimates of accrued vendor deliveries of goods and services to GSA and its customers. Similar re-estimates were required in the FBF, the most significant of which required reclassifications to increase accounts payable by $77 million, decrease undelivered orders by $101 million and decrease outlays by $21 million.

2. Leasing Arrangements

As of September 30, 2002, GSA was committed to various non-cancelable operating leases primarily covering administrative office space and storage facilities maintained by the Federal Buildings Fund and for motor vehicles in the General Supply Fund. Many of these leases contain escalation clauses tied to inflationary and tax increases, and renewal options.

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

Operating Leases

FISCAL YEAR	FBF	GSF	TOTAL
2003	$ 2,533	$ 9	$ 2,542
2004	2,215	-	2,215
2005	1,979	-	1,979
2006	1,743	-	1,743
2007	1,515	-	1,515
2008 and thereafter	7,406	-	7,406
Total minimum lease payments	$17,391	$ 9	$17,400

Capital Leases

FISCAL YEAR	FBF
2003	$ 28
2004	28
2005	28
2006	28
2007	28
2008 and thereafter	368
Total minimum lease payments	508
Less: Amounts representing Interest	(220)
Executory Costs	(3)
Total obligations under capital leases	$ 285

Substantially all leased space maintained by the Federal Buildings Fund is sublet to other Federal agencies at rent charges based upon approximate commercial rates for comparable space. The agreements covering the sublease arrangements allow customer agencies, among other things, to terminate the sublease at any time. In most cases, however, GSA believes the subleases will continue without interruption. Rental income under subleasing agreements approximated $3.4 billion and $3.2 billion for the fiscal years ended September 30, 2002 and 2001, respectively. Rent expense under all operating leases, including short-term non-cancelable leases, was approximately $3.2 billion and $3.0 billion in fiscal years 2002 and 2001, respectively.

The Consolidating Balance Sheets as of September 30, 2002, and 2001, include capital lease assets of $319 million for buildings. Aggregate accumulated amortization on such structures totaled $64 million and $54 million in those years, respectively.

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

3. Debt Financing

A. Federal Buildings Fund Purchase Contract and Lease Purchase Debt

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

In fiscal years 1993 through 1995, GSA refinanced all outstanding publicly issued Participation Certificates and Package System mortgage notes with the FFB. GSA now has title to all purchase contract buildings.

Starting in fiscal year 1991, GSA entered into several agreements to fund the purchase of land and construction of buildings under the Federal Buildings Fund lease purchase authority. Under these agreements, the FBF borrows monies through the FFB or executes lease-to-own contracts to finance the lease purchases. The program authorizes total expenditures of $1,945 million for 11 projects. In fiscal years 2002 and 2001, the FFB made advance payments on the behalf of GSA totaling $8 million and $22 million, respectively. As of September 30, 2002, and 2001, $214 million and $222 million, respectively, of borrowing authority under the lease purchase program remained available for obligation.

Resources to retire debt are obtained from annual revenues generated by the FBF. Aggregate debt maturities are as follows *(dollars in millions)*: 2003 - $86; 2004 - $56; 2005 - $47; 2006 - $35; 2007 - $38; 2008 and beyond - $1,288.

Pennsylvania Avenue Debt

The former Pennsylvania Avenue Development Corporation (PADC) originally received authority to borrow from the FFB to finance construction of the Ronald Reagan Building (RRB) in Washington, D.C., with a project budget of $738 million. Effective March 31, 1996, the PADC was dissolved, with portions of its functions, assets, and liabilities being transferred to GSA, including the RRB.

Subsequent legislation consolidated GSA's portion of these assets and liabilities into the FBF, in which the cost and associated debt for the RRB is now recorded.

In fiscal year 2002 and 2001, the FFB made $1 million and $2 million, respectively, in advance payments on the behalf of GSA for this project.

Aggregate maturities on debt related to the RRB are as follows *(dollars in millions)*: 2003 - $13; 2004 - $13; 2005 - $14; 2006 - $16; 2007 - $17; 2008 and beyond - $685.

B. Direct Loan Financing Debt

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

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

C. Schedules of Debt Arrangements

GSA's outstanding debt arrangements at September 30, 2002 and 2001 were as follows *(dollars in millions)*:

FEDERAL BUILDINGS FUND	2002	2001
Purchase Contract Debt:		
Dual System:		
Participation certificates held by the Federal Financing Bank, due at various dates from June 26, 2003, through November 15, 2004, at interest rates ranging from 8.472 percent to 9.162 percent.	$ 79	$ 127
Package System:		
Mortgage loans held by the FFB due at various dates from March 25, 2003, through March 25, 2005, at interest rates ranging from 6.399 percent to 7.939 percent.	9	15
Lease Purchase Debt:		
Mortgage loans and construction advances held by the FFB, due at various dates from August 1, 2005, through January 30, 2031, at interest rates ranging from 2.296 percent to 8.561 percent	1,462	1,479
Pennsylvania Avenue Debt:		
Ronald Reagan Building, mortgage loans due November 2, 2026, at interest rates ranging from 5.073 percent to 8.323 percent	758	769
Subtotal FBF Debt	2,308	2,390
DIRECT LOAN FINANCING DEBT		
Columbia Hospital Direct Loan Financing Account	-	7
TOTAL GSA DEBT	2,308	2,397

4. Employee Benefit Plans

A. Background

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

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

B. Civil Service Retirement System

At the end of fiscal year 2002, 40.0 percent of GSA employees were covered by the Civil Service Retirement System (CSRS), a defined benefit plan. Total GSA (employer) contributions (9.01 percent of base pay for law enforcement employees, and 8.51 percent for all others) to CSRS for all employees in fiscal years 2002 and 2001 amounted to $34 million and $33 million, respectively.

C. Federal Employees Retirement System

On January 1, 1987, the Federal Employees Retirement System (FERS), a defined contribution plan, went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. As of September 30, 2002, 59.3 percent of GSA's employees were covered under FERS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the Federal Government's Thrift Savings Plan (TSP) for each employee. Under CSRS, employees can invest up to 5 percent of their base pay in the TSP. Employees under FERS can invest up to 11 percent of base pay, plus GSA will automatically contribute 1 percent of base pay and then match employee contributions up to an additional 4 percent of base pay. During fiscal years 2002 and 2001, GSA (employer) contributions to FERS (23.3 percent of base pay for law enforcement employees and 10.7 percent for all others) totaled $50 million and $45 million, respectively. Additional GSA contributions to the TSP totaled $20 million and $18 million in those years, respectively.

D. Social Security System

GSA also makes matching contributions to the Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA). For employees covered by FERS, GSA contributed matching amounts of 6.20 percent of gross pay (up to $84,900) to SSA's Old-Age, Survivors, and Disability Insurance (OASDI) program in calendar year 2002. Additionally, GSA makes matching contributions for all employees of 1.45 percent of gross pay to the Medicare Hospital Insurance program in calendar year 2002. Only 0.7 percent of GSA's employees are covered exclusively by these programs. Payments to these programs in fiscal years 2002 and 2001 amounted to $45 million and $41 million, respectively.

E. Schedule of Unfunded Benefit Costs

Amounts recorded in fiscal year 2002, and 2001, in accordance with SFFAS Number 5 for post-employment benefits are as follows *(dollars in millions.)*

2002

	PENSION BENEFITS	HEALTH/LIFE INSURANCE	TOTAL
FBF	$15	$22	$37
GSF	7	9	16
ITF	4	4	8
Other Funds	7	7	14
Total	$33	$42	$75

2001

	PENSION BENEFITS	HEALTH/LIFE INSURANCE	TOTAL
FBF	$15	$18	$33
GSF	8	7	15
ITF	4	4	8
Other Funds	7	6	13
Total	$34	$35	$69

5. Statements of Changes in Net Position

A. Cumulative Results of Operations

Cumulative results of operations for Revolving Funds include the net cost of operations since their inception, reduced by funds returned to the U.S. Treasury, by congressional rescissions, and by transfers to other Federal agencies, in addition to balances representing invested capital. Invested capital includes amounts provided to fund certain GSA assets, principally land, buildings, construction in process, and equipment, as well as appropriated capital provided as the corpus of a fund (generally to meet operating working capital needs).

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

B. Unexpended Appropriations

Unexpended Appropriations consist of unobligated balances, and undelivered orders, net of unfilled customer orders. Undelivered orders are orders placed by GSA with vendors for goods and services that have not been received. Unfilled customer orders are reimbursable orders placed with GSA by other agencies, other GSA funds or from the public where GSA has yet to provide the good or service requested. At September 30, 2002, and 2001, balances reported as unexpended appropriations were as follows *(dollars in millions)*:

	2002	2001
Unobligated Balances		
Available	$ 77	$40
Unavailable	7	(3)
Undelivered Orders, Net	58	55
Total Unexpended Appropriations	$142	$92

6. Commitments and Contingencies

A. Commitments

In addition to future lease commitments discussed in Note 2, GSA is committed under obligations for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all GSA activities amounted to $7.0 billion in fiscal year 2002, and $5.1 billion in 2001.

In fiscal year 1999, GSA awarded two contracts for long-distance telecommunications services FTS2001 to replace the existing FTS2000 contracts that provide state-of-the-art integrated voice, data, and video telecommunications. Costs for services to be provided over the eight-year term of the contracts are estimated to be $5 billion. The contracts provide minimum revenue guarantees, of which $201 million and $722 million remained outstanding as of September 30, 2002, and 2001, respectively.

B. Contingencies

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

Contingencies Covered by GSA Funds

As of September 30, 2002 and 2001, GSA recorded liabilities in total of $102 million and $161 million, respectively, for pending and threatened legal matters for which, in the opinion of GSA management and legal counsel, GSA funds will probably incur losses. These balances are reported as Other Liabilities on the Consolidating Balance Sheets.

In addition, GSA had another $220 million and $162 million in contingencies at September 30, 2002 and 2001, respectively, where it is reasonably possible, but not probable, that GSA funds will incur some cost. Accordingly, no balances have been recorded in the financial statements for these contingencies.

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

Contingencies Covered by the Judgment Fund

In most cases, tort and environmental claims are administered and resolved by the U.S. Department of Justice and any amounts necessary for resolution are obtained from a special Judgment Fund maintained by the Department of the Treasury. In accordance with the FASAB's Interpretation Number 2, *Accounting for Treasury Judgment Fund Transactions*, costs incurred by the Federal government are to be reported by the agency responsible for incurring the liability, or to which liability has been assigned, regardless of the ultimate source of funding. In accordance with this interpretation, GSA reported $59 million and $82 million in fiscal years 2002 and 2001, respectively, of Environmental and Disposals and Other Liabilities for contingencies, which will require funding exclusively through the Judgment Fund. Of those amounts, $57 million and $78 million, result from several environmental cases outstanding at the end of fiscal years 2002 and 2001, respectively, where GSA has been named as a potentially responsible party. Environmental costs are estimated in accordance with AAPC Federal Financial Accounting and Auditing Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities of the Federal Government*.

Additional contingencies subject to ultimate funding from the Judgment Fund where the risk of loss is reasonably possible but not probable ranged from $110 million to $3.5 billion at September 30, 2002 and ranged from $109 million to $3.5 billion at September 30, 2001

The recognition of claims to be funded through the Judgment Fund on GSA's Consolidating Statements of Net Cost and Consolidating Balance Sheets is, in effect, recognition of these liabilities

against the Federal government as a whole, and should not be interpreted as claims against the assets, or resources of any GSA fund, nor will any future resources of GSA be required to liquidate any resulting losses. Further, for most environmental claims, GSA has no managerial responsibility other than as custodian and successor on claims made against former Federal entities, particularly former World War II defense related activities.

Amounts paid from the Judgment Fund on behalf of GSA were $50 million and $52 million in fiscal years 2002 and 2001, respectively. Of these amounts $38 million and $12 million, respectively, related to claims filed under the Contract Disputes Act for which payments have been or will be made to reimburse the Judgment Fund by the GSA funds liable under the contacts in dispute. The balance of claims paid on behalf of GSA do not require reimbursement to the Judgment Fund.

7. Accounts and Notes Receivable

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

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

In the Treasury and General Government Appropriations Act, 2000 (Public Law 106-58), Congress gave GSA the authority to sell a parcel of land in Washington D.C. to the Columbia Hospital for Women and provided for GSA to offer 30 year financing at 4.25% interest for the $14 million sale amount. The property was sold under this authority in September 2000, with GSA accepting a down payment of approximately $1 million, with the balance of $13 million being financed by a note with the terms indicated above. In November 2001, the Columbia Hospital for Women paid the remaining balance of the note.

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

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
CURRENT:												
Accounts Receivable - Billed	$220	$234	$127	$127	$ 97	$ 133	$27	$39	$ -	$ -	$ 471	$ 533
Accounts Receivable – Unbilled	134	161	195	206	1,160	1,392	3	7	21	24	1,471	1,742
Allowance for Doubtful Accounts	(68)	(67)	(5)	(5)	-	-	(4)	(4)	-	-	(77)	(76)
Subtotal Current Receivables	286	328	317	328	1,257	1,525	26	42	21	24	1,865	2,199
NONCURRENT:												
Notes Receivable(Net of Allowance of $31 million and $28 million in 2002 and 2001, respectively)	-	-	-	-	-	-	-	13	-	-	-	13
Total Accounts and Notes Receivable	$286	$328	$317	$328	$1,257	$1,525	$26	$55	$21	$24	$1,865	$2,212

8. Property and Equipment

A. Summary of Balances

Balances in GSA's Property and Equipment accounts subject to depreciation as of September 30, 2002, and 2001, are summarized below *(dollars in millions)*

	2002			2001		
	COST	ACCUMULATED DEPRECIATION	BOOK VALUE	COST	ACCUMULATED DEPRECIATION	BOOK VALUE
Buildings	$20,522	$ 9,080	$11,442	$19,168	$8,219	$10,949
Leasehold Improvements	277	238	39	271	222	49
Telecom and ADP Equipment	167	130	37	169	124	45
Motor Vehicles	3,551	1,094	2,457	3,341	996	2,345
Other Equipment	298	146	152	259	138	121
Total	$24,815	$10,688	$14,127	$23,208	$9,699	$13,509

B. Cleanup Costs

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

In accordance with the Federal Accounting Standards Advisory Board's Statements of Federal Financial Accounting Standards Numbers 5 and 6, *Accounting for Liabilities of the Federal Government,* and *Accounting for Property Plant and Equipment,* respectively, and interpretive guidance in Federal Financial Accounting and Auditing Technical Release Number 2 issued by the Accounting and Auditing Policy Committee, if an agency is required by law to clean up such hazard, the estimated amount of cleanup cost must be reported in the financial statements. Accordingly, GSA recognized liabilities totaling $29 million and $63 million for Environmental and Disposals costs as of September 30, 2002, and 2001, respectively, for properties currently in GSA's property inventory. In instances where no reasonable estimate of the cost to clean up a particular site could be made, GSA recognized the estimated costs for related environmental studies as is prescribed in the guidance noted above. In some instances, GSA has been named as a party in certain environmental cases where the subject property is no longer in the GSA or Federal property inventory. GSA's liability for such cases is further discussed in Note 6.

9. Other Liabilities

As of September 30, 2002, and 2001, amounts reported on the balance sheet as Other Intragovernmental Liabilities and Other Liabilities consisted of the following *(dollars in millions)*:

2002	FBF	GSF	ITF	OTHERS	TOTAL GSA CONSOLIDATED
Other Intragovernmental Liabilities:					
Workers' Compensation Due to DOL	$ 25	$6	$2	$ 4	$ 37
Deposits Held in Suspense	-	-	-	18	18
Payments Due to the Judgment Fund	167	-	-	-	167
Total	$192	$6	$2	$33	$222
Other Liabilities:					
Contingencies	$ 99	$5	$ -	$ -	$104
Long-Term Lease Commitments	-	-	-	-	-
Installment Purchase Liabilities	38	-	-	-	38
Pensions for Former Presidents	-	-	-	8	8
Unamortized Rent Abatements	4	-	-	-	4
Total	$141	$5	$ -	$ 8	$154

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

10. Unfunded Liabilities

As of September 30, 2002, and 2001, budgetary resources were not yet available to fund certain liabilities reported on the balance sheet. For the balances in question, most are long-term in nature where funding is generally made available in the year payments are anticipated. These Unfunded Liabilities consist of amounts reported on the Consolidating Balance Sheets for fiscal years 2002 and 2001, under the captions: Workers' Compensation Actuarial Liability, Other Intragovernmental Liabilities, Annual Leave Liability, Environmental and Disposals, and Other Liabilities. In addition, balances reported as Intragovernmental Debt for fiscal years 2002 and 2001, include unfunded balances totaling $103 million and $122 million, respectively. Certain other balances reported in the Consolidating Balance Sheets under the captions: Deposit Fund Liability, and Earnings Payable to Treasury, as well as amounts shown as Deposits Held in Suspense in Note 9, while unfunded by definition, will be liquidated from resources outside of the traditional funding process.

11. Non-Entity Assets

As of September 30, 2002, and 2001, certain amounts reported on the balance sheet are not available to management for use in ongoing operations and are classified as Non-entity assets (see Note 1.A). These balances consisted of the following *(dollars in millions)*:

	2002	2001
Funds with U.S. Treasury	**$61**	$87
Accounts Receivable – Public	-	2
Prepaid Expenses - Federal	**14**	1
Total	**$75**	$90

12. Reconciliation to the President's Budget

In accordance with FASAB SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, if there are differences between amounts reported in these financial statements verses those reported in the most recent Budget of the United States Government (President's Budget), they must be disclosed. Differences can occur between amounts reported in the Combining Statements of Budgetary Resources and similar amounts reported as actual results in the President's Budget. Balances submitted to the U.S. Treasury constitute the basis for reporting of actual results in the President's Budget.

In the most recent President's Budget, for the fiscal year 2003, which displays actual results for

fiscal year 2001, the Office of Management Budget modified the data that GSA reported to the U.S. Treasury. These modifications were made so that fiscal year 2001 results would be more comparative to estimated effects of implementing proposed legislation that would have required full funding by Federal agencies of post-employment employee pension and health benefit costs. As a result, OMB added estimated amounts to the balances reported by GSA as Budgetary Resources and Obligations Incurred totaling $85 million. This amount was applied to GSA's Funds in the following amounts: FBF - $42 million; GSF - $18 million; ITF - $10 million; and Other Funds - $15 million. For this same comparative purpose, OMB also added an estimated $7 million to the balances reported as Outlays in the Other Funds total.

Other differences between the CSBR and the President's Budget are due to adjustments identified by GSA during the preparation of the CSBR, which occurred after the U.S. Treasury's deadline for reporting of fund balances and budget execution results. Such adjustments to the balances reported to Treasury were made on the CSBR to more fully reflect the activity for the fiscal year ended and for balances as of September 30, 2001. Additional reconciling differences are caused by the presentation style of the President's Budget, which excludes Budgetary Resources and Unobligated Balances in expired annual appropriated funds but are appropriately included in the CSBR in the Other Funds group. Such amounts totaled $25 million and $20 million, respectively, in fiscal year 2001. The most significant comparable amounts reported in the CSBR and President's Budget, and the total differences where the CSBR contains balances greater or (less) than amounts reported in the President's Budget are as follows *(dollars in millions)*:

	FBF		GSF		ITF		OTHERS		TOTAL		
	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	DIFFERENCE
Budgetary Resources	**$10,388**	$10,476	**$3,762**	$3,782	**$ 8,889**	$ 8,887	**$604**	$593	**$23,643**	$23,738	$ (95)
Obligations Incurred	**6,960**	7,002	**3,225**	3,246	**7,256**	7,269	**514**	526	**17,955**	18,043	(88)
Unobligated Balance	**3,428**	3,475	**537**	536	**1,633**	1,619	**90**	64	**5,688**	5,694	(6)
Obligated Balance	**832**	784	**(172)**	(175)	**(1,558)**	(1,540)	**118**	118	**(780)**	(813)	33
Outlays	**(212)**	(215)	**25**	34	**(15)**	(12)	**186**	209	**(16)**	16	(32)

13. Business Restructuring Costs

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

During the period from closure announcement to actual closure, a phased shift of inventory from the six locations to the remaining two locations commenced. All final closure actions were completed by the end of March 2002 with the closing of the facility in Palmetto, GA. The two remaining facilities located in Burlington, NJ and Stockton, CA, assumed all distribution work.

The opportunity was given to all FSS associates directly affected by closures to request Voluntary Separation Incentive Payments (buyouts). GSA incurred termination costs of $3.6 million for these buyout costs which had originally been estimated and accrued for $7 million in fiscal year 2001. Lease liability costs to cancel a remaining lease commitment totaled $15.8 million. This lease cancellation cost for the warehouse facility in Palmetto, GA, the only closing facility bound by a long-term lease agreement, had originally been accrued for $26 million in fiscal year 2001.

14. Subsequent Events

On November 25, 2002, the President signed the Homeland Security Act of 2002. This legislation centralizes several entities of the Federal Government that have provided protection, security information analysis, and communications regarding threats, emergencies, and disasters within the United States. Two elements of GSA, The Federal Protective Service and the Federal Computer Incident Response Center, will be transferred to the new Department of Homeland Security in accordance with this law.

The FPS, with a staffing level of approximately 1,450 employees and a fiscal year 2003 budget of $439 million, has the primary mission of protecting Federal buildings and the Federal employees housed therein. Funding for FPS currently is generated as an element of rents charged to the Federal agencies occupying Federal buildings. The FedCIRC leads a Federal partnership to address computer security related incidents. This Center operates with a staffing level set at 25, and funding of $11 million from appropriations. For fiscal year 2003, funding for these programs is expected to remain in its current form, as elements of GSA's budget. For fiscal year 2004, changes are expected to the funding mechanisms for these two programs, which will require further legislative action. The effect of such changes is currently unknown.

Required Supplementary Information

Deferred Maintenance

As of the end of fiscal year 2002, GSA had no material amounts of deferred maintenance cost to report. GSA administers the Building Maintenance Management Program that, on an ongoing basis, maintains the Building Class inventory in acceptable condition, as defined by GSA management. GSA utilizes a condition assessment survey methodology, applied at the overall portfolio level, for determining reportable levels of deferred maintenance. Under this methodology, GSA defines "acceptable condition" and "acceptable level of service" in terms of certain National Performance Measures, formulated under the provisions of the Government Performance and Results Act of 1993.

GSA expenses normal repair and maintenance costs as incurred. Although GSA has no substantive backlog of deferred maintenance tasks, the average building in the GSA inventory is 45 years old, and only 25 percent of these buildings have had extensive modernization. This has led to a large inventory of capital Repair and Alteration (R&A) work items of which approximately $4.8 billion has not yet been addressed by an ongoing PBS R&A project. For fiscal year 2003, GSA has requested new obligational authority of approximately $986 million for the R&A program.

Intra-Governmental Balances

For fiscal year 2002, the following schedule identifies major customers of GSA's Intra-governmental revolving funds and the associated amount of sales representing over 80 percent of GSA's total consolidated revenues *(dollars in millions)*:

AGENCY	AMOUNT
Department of the Army	$ 2,413
Department of the Navy	2,154
Department of the Air Force	1,951
Department of Justice	1,874
Department of the Treasury	1,427
Judiciary	935
Dept. of Health and Human Services	658
Social Security Administration	650
Department of Defense	571
Department of the Interior	517
Department of Agriculture	473
Department of State	432
Total	$14,055

The following schedule reflects accounts receivable balances owed to GSA as of September 30, 2002, from the major customers of GSA's Intra-governmental revolving funds, representing over 80 percent of GSA's total consolidated accounts receivable *(dollars in millions)*:

AGENCY	AMOUNT
Department of the Army	$ 363
Department of the Air Force	318
Department of the Navy	312
Department of Defense	209
Department of Justice	100
Department of State	50
Corps of Engineers	45
Dept. of Health and Human Services	44
Social Security Administration	42
Total	$1,483

GSA reported $3,083 million of intra-governmental liabilities on its Balance Sheet as of September 30, 2002. Of that balance, the significant elements comprising over 80 percent of the total included borrowings from the Department of the Treasury - $2,308 million (see note 3); Workers' Compensation liabilities administered by the Department of Labor - $229 million; and Judgment Fund reimbursements due the Department of the Treasury - $167 million.

SUPPLEMENTAL CONSOLIDATING STATEMENTS OF OPERATIONS

For the Fiscal Years Ended September 30, 2002 and 2001
(Dollars in Millions) (Unaudited)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS			
											2002		2001	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	AMOUNT	% OF REV.	AMOUNT	% OF REV.
OPERATING REVENUES:														
Building Rents and Services	$7,627	$6,983	$ -	$ -	$ -	$ -	$ -	$ -	$ 75	$109	$ 7,552	43.1%	$ 6,874	43.5 %
Sales of Supplies	-	-	1,634	1,596	-	-	-	-	17	18	1,617	9.2	1,578	10.0
Information Technology Services	-	-	-	-	7,091	6,171	-	-	114	116	6,977	39.8	6,055	38.3
Motor Vehicle Services	-	-	1,039	957	-	-	-	-	8	8	1,031	5.9	949	6.0
Reimbursements	-	-	-	-	-	-	301	261	217	197	84	0.5	64	0.4
Other	6	26	261	249	-	-	8	7	-	-	275	1.5	282	1.8
Total Operating Revenues	7,633	7,009	2,934	2,802	7,091	6,171	309	268	431	448	17,536	100.0	15,802	100.0
EXPENSES:														
Cost of Supply Sales	-	-	1,368	1,351	-	-	-	-	17	18	1,351	7.7	1,333	8.4
Personnel Salaries and Benefits	586	520	226	232	148	142	235	223	-	-	1,195	6.8	1,117	7.1
Rent	3,182	3,004	32	71	15	15	26	24	75	109	3,180	18.1	3,005	19.0
Information Technology	-	-	-	-	6,869	6,051	-	-	114	116	6,755	38.5	5,935	37.6
Motor Vehicles	-	-	399	340	-	-	-	-	8	8	391	2.2	332	2.1
Contracted Services	1,894	1,553	145	111	-	-	230	211	225	206	2,044	11.7	1,669	10.6
Depreciation and Amortization	908	864	332	291	22	17	5	4	-	-	1,267	7.2	1,176	7.4
Utilities	277	298	-	-	-	-	-	-	-	-	277	1.6	298	1.9
Operating Supplies	54	58	160	174	1	2	2	2	-	-	217	1.2	236	1.5
Interest	187	193	-	-	-	-	-	-	-	-	187	1.1	193	1.2
Travel and Transportation	27	25	7	6	5	7	7	7	-	-	46	0.3	45	0.3
Shipping Expenses	-	-	50	43	-	-	-	-	-	-	50	0.3	43	0.3
Workers' Compensation Actuarial Expense	(5)	14	(1)	3	-	1	-	2	-	-	(6)	-	20	0.1
Other Expenses	69	40	60	86	9	5	(5)	(17)	18	14	115	0.6	100	0.6
Total Operating Expenses	7,179	6,569	2,778	2,708	7,069	6,240	500	456	457	471	17,069	97.3	15,502	98.1
Net Income From (Cost of) Operations	454	440	156	94	22	(69)	(191)	(188)	(26)	(23)	467	2.7	300	1.9
OTHER RESULTS OF OPERATIONS:														
Appropriations Used	385	484	-	-	-	-	185	184	-	-	570	3.2	668	4.2
Non-Exchange Revenue	-	-	-	-	-	-	29	46	-	-	29	0.2	46	0.3
Imputed Financing Provided By Others	52	79	22	21	12	10	26	15	26	23	86	0.5	102	0.6
Transfers of Assets and Liabilities, Net	(2)	(5)	9	22	-	1	4	11	-	-	11	-	29	0.2
Transfers and Reclassifications of Earnings	-	-	-	-	-	-	65	(32)	-	-	65	0.4	(32)	(0.2)
Other	(1)	-	-	-	-	-	-	-	-	-	(1)	-	-	-
Net Results of Operations	$ 888	$ 998	$ 187	$ 137	$ 34	$ (58)	$ 118	$ 36	$ -	$ -	$ 1,227	7.0%	$ 1,113	7.0 %

For the Fiscal Years Ended September 30, 2002 and 2001

SUPPLEMENTAL CONSOLIDATING STATEMENTS OF CASH FLOWS

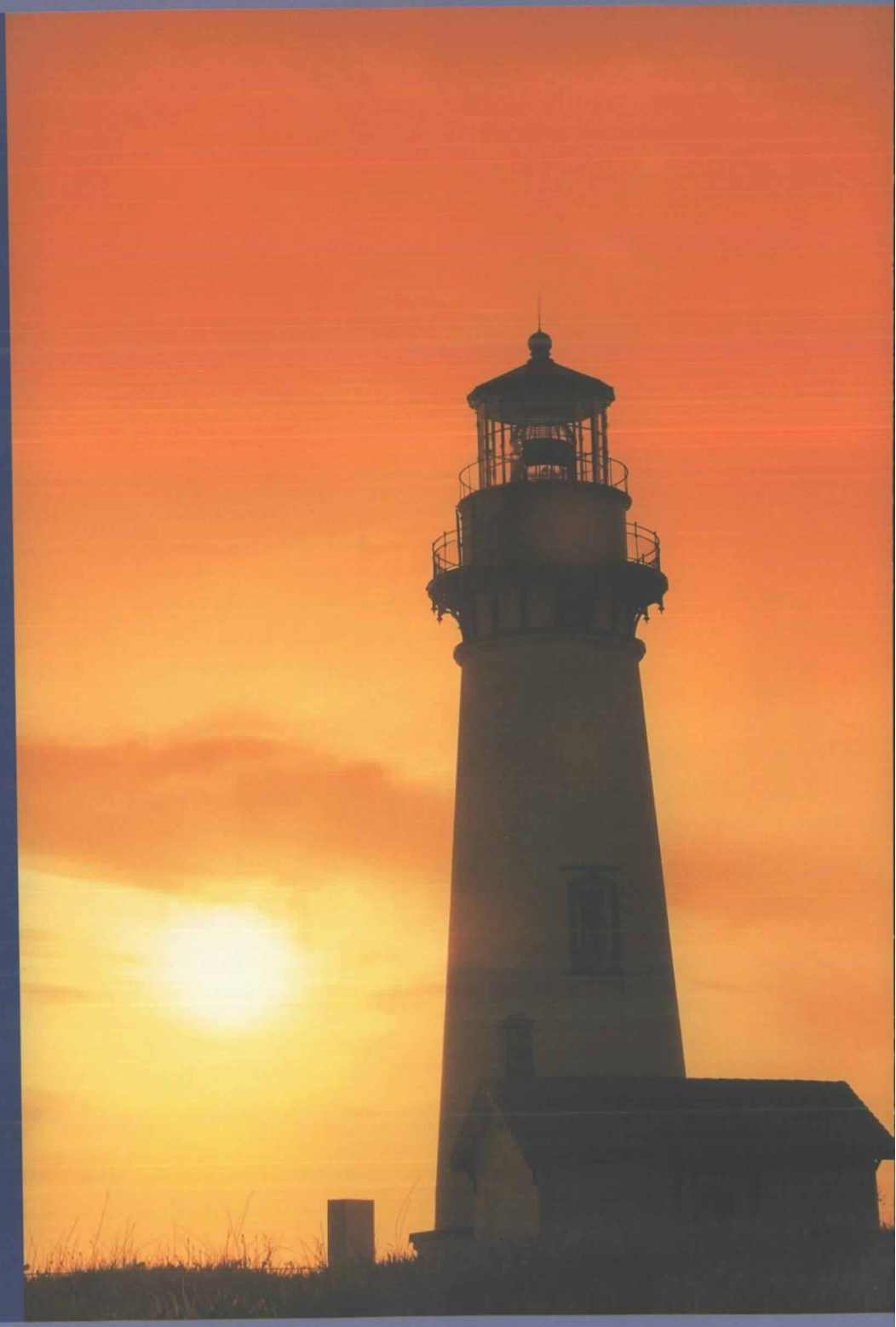
(Dollars in Millions) (Unaudited)

	FEDERAL BUILDINGS FUND		GENERAL SUPPLY FUND		INFORMATION TECHNOLOGY FUND		GSA OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		CONSOLIDATED TOTALS	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:												
Net Income From (Cost of) Operations	$ 454	$ 440	$ 156	$ 94	$ 22	$(69)	$(191)	$(188)	$(26)	$(23)	$ 467	$ 300
Adjustments to Net Income From (Cost of) Operations -												
Depreciation and Amortization	908	864	332	291	22	17	5	4	-	-	1,267	1,176
Non-Exchange Revenues	-	-	-	-	-	-	29	46	-	-	29	46
Other Adjustments and Write-offs	55	(3)	32	3	-	1	-	-	-	-	87	1
(Gain) Loss on Disposal of Equipment	-	(3)	79	42	-	-	-	-	-	-	79	39
Changes in Current Assets and Liabilities -												
(Increase)/Decrease												
Accounts Receivable, Net	42	21	11	(37)	268	(92)	17	1	3	10	335	(117)
Inventories	(1)	1	(11)	28	-	-	-	-	-	-	(12)	29
Prepaid Expenses and Advances to Others	(1)	(9)	-	(12)	-	(5)	(12)	2	(2)	(16)	(11)	(8)
Increase/(Decrease)												
Accounts Payable and Accrued Expenses	23	48	-	19	14	163	11	(7)	(3)	(10)	51	233
Deposit Fund Liability	-	-	-	-	-	-	(1)	(6)	-	-	(1)	(6)
Deferred Revenue and Advances From Others	(15)	6	4	7	(118)	12	15	16	17	16	(131)	25
Other Liabilities	10	(40)	(24)	30	(40)	5	(33)	(21)	-	-	(87)	(26)
Total Adjustments	1,021	885	423	371	146	101	31	35	15	-	1,606	1,392
Net Cash Provided by (Used in) Operating Activities	1,475	1,325	579	465	168	32	(160)	(153)	(11)	(23)	2,073	1,692
CASH FLOWS FROM INVESTING ACTIVITIES:												
Proceeds from Sales of Property and Equipment	-	21	184	153	-	-	-	-	-	-	184	174
Payments Received from Notes Receivable, Net	-	-	-	-	-	-	12	(5)	-	-	12	(5)
Capital Expenditures	(1,240)	(1,152)	(717)	(664)	(26)	(27)	(28)	(25)	-	-	(2,011)	(1,868)
Other	(5)	(5)	(4)	(1)	(4)	1	1	(1)	(15)	-	3	(6)
Net Cash (Used in) Provided by Investing Activities	(1,245)	(1,136)	(537)	(512)	(30)	(26)	(15)	(31)	(15)	-	(1,812)	(1,705)
CASH FLOWS FROM FINANCING ACTIVITIES:												
Principal Payments Under Capital Lease Obligations	(10)	(9)	-	-	-	-	-	-	-	-	(10)	(9)
Additional Appropriated Capital, Net	430	484	-	-	-	-	206	217	-	-	636	701
Principal Payments on Long-Term Debt	(92)	(90)	-	-	-	-	(7)	(1)	-	-	(99)	(91)
Financing Sources Provided By Others	52	79	22	21	12	10	26	15	26	23	86	102
Receipts Transferred Out, Net	(1)	(1)	-	-	-	-	(35)	(23)	-	-	(36)	(24)
Net Cash Provided by (Used in) Financing Activities	379	463	22	21	12	10	190	208	26	23	577	679
Net Increase (Decrease) in Funds with U.S. Treasury	609	652	64	(26)	150	16	15	24	-	-	838	666
Funds with U.S. Treasury at Beginning of Year	4,030	3,378	364	390	76	60	421	397	-	-	4,891	4,225
Funds with U.S. Treasury at End of Year	$ 4,639	$ 4,030	$ 428	$ 364	$ 226	$ 76	$ 436	$ 421	$ -	$ -	$ 5,729	$ 4,891
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:												
Total Interest Paid	$ 171	$ 175	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 171	$ 175
SUPPLEMENTAL SCHEDULE OF FINANCING AND INVESTING ACTIVITIES:												
Property and Equipment Acquired Under Capital Lease Obligations	$ 26	$ 3	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 26	$ 3
Property Acquired Under Long-Term Financing Arrangements	$ 8	$ 24	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8	$ 24

milestone 5

Supplemental Information

GSA's Inspector General provides independent and objective assessments of GSA that alert us of dangers.



INSPECTOR GENERAL'S REPORT ON MANAGEMENT CHALLENGES

U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

MEMORANDUM FOR STEPHEN A. PERRY
ADMINISTRATOR (A)

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

SUBJECT: **GSA's Major Challenges**

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

We are hereby providing you with our assessment to afford you the opportunity to review and prepare any comments you wish to append.

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

Attachment

Protection of Federal Facilities and Personnel

Issue

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

In June 2002, President Bush proposed the creation of a Department of Homeland Security (DHS) and proposed transferring the Federal Protective Service to DHS. In anticipation of this transfer, we prepared a report summarizing critical operational issues identified in numerous past OIG reports, as well as forward looking issues impacting GSA and the proposed DHS.

OIG Work Completed

Since 1996, the OIG has issued more than 25 audit reports and special alert reports addressing various aspects of the physical security program. The results, especially in our earlier efforts, frequently reported systemic operating shortcomings. Some of the areas covered by these reviews were contract security guards, countermeasures, childcare center security, access to Government facilities, intelligence sharing, facility risk assessments, and clearance processes for contract personnel. At the same time, we performed more than 170 related investigations. GSA management has been responsive to our findings and has implemented many corrective actions and enhancements. Our office and GSA management, however, are aware that the safety and security programs still face many challenges—challenges that have been greatly expanded in nature and dimension by the terrorist attacks of September 11, 2001. In 2002, at the request of the Administrator and senior PBS managers, we conducted a major reevaluation of the measures FPS has taken over the past several years to strengthen and upgrade building security systems. We reported that GSA had materially improved the operational status of security equipment countermeasures installed at Federal facilities nationwide. Our follow-up review of the Contract Guard Program found a marked increase in the numbers of security personnel, however management and administrative issues still hamper program effectiveness. We also tested the Federal Security Risk Manager Program, concluding that the program is on the right course, but it needs refinement and individuals need to be trained better in its use. Finally, as noted above, we prepared a transition paper to discuss operational issues facing GSA and the proposed Department of Homeland Security with the transfer of FPS to the new department.

Agency Actions

In FY 2002, FPS continued to implement FSRM, a risk assessment methodology to address potential threats to Federal facilities. This methodology was designed to link threats, risk levels and countermeasure recommendations; and address vulnerabilities and impact of loss should an incident occur. The desired goal is to reduce threats at each facility through specific countermeasures to address the risks. GSA has also expanded the size of the contract security workforce to over 7,000 and has taken steps to improve the qualifications and training of security personnel.

OIG Work Planned

We plan to examine GSA's emergency response plan that will protect GSA employees and ensure continuity of Agency operations in time of crisis, and we will expand our review of controls to ensure that background suitability checks are implemented for contractor employees before they are allowed to work in GSA controlled

facilities. We also stand ready to assist, as appropriate, when the transfer of FPS to DHS takes place.

Management Controls

Issue

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

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

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

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

Contract Administration: Contract administration deficiencies are more frequently being raised in our audits. While such conditions may not be new, there exists a trend that, if allowed to continue, could lead to significant problems. With GSA's rapidly increasing reliance on contractors to perform many more functions, the importance of contract administration will grow considerably. Understandably, if the weaknesses exist now, GSA needs to undertake corrective measures before the workload increases to ensure that GSA pays only for the services it receives.

OIG Work Completed

We have conducted several recent reviews specifically designed to test management controls. In addition, controls evaluations were part of broader examinations of Agency programs and functions, many of which utilize the charge cards for purchases, travel or fleet services. From these reviews, we concluded that, although there has been improvement, management is not consistently applying controls that will help deter fraud and misuse. We continue to find charge card use to circumvent procurement regulations and acquire unauthorized goods and services.

Our review of the GSA Awards Program found that existing controls did not prevent award overuse, inappropriate salary augmentation associated with repetitive awards to the same individuals, and disregard for existing approval authorities. At the start of our review, we saw that too many people had been granted the sole authority to make high dollar awards without seeking additional approval of a higher-level manager since GSA had removed the approval layers previously needed to issue an award except for those of $5,000 or more. Managers also inappropriately delegated approval authority to non-supervisory clerical staff by providing passwords for approval-level access in FEDdesk, the Agency's automated platform for various administrative functions. During our fieldwork, GSA management took action to address many of our concerns. The agency has required the re-certification of all approving officials by senior management and has begun a study of the Awards Program to assess the nature of awards and the monetary impact of the program.

Agency Actions

GSA's Chief Financial Officer is aware of the importance of adequate controls for charge card transactions and has worked with our office to strengthen those controls.

New processes are in place that force reviewing officials to examine purchase transactions monthly. Cards are withdrawn from those who do not comply. As a result, we have seen a substantial reduction of fraud stemming from card use.

Further steps have been taken in the Heartland Region, where officials have responded to our audit reports in various ways.

- The Assistant Regional Administrator for the FTS issued a memo to all regional associates detailing our concerns and asked the associates to take immediate corrective action, including requesting that approving officials carefully review travel vouchers and monthly statements for purchases to ensure prudent usage of charge cards.
- One Customer Service Center (CSC) official plans to adopt the Team Budget form, which we identified as a best practice in another CSC. This form contains key information about the purchase and, if adopted, should facilitate substantial improvement of controls.
- Another regional Acquisition office will perform quality control reviews beginning in fiscal year 2003. These will include reviews of procurements paid for by purchase card to ensure that documentation shows compliance with applicable procurement regulations, policies, and procedures.
- The Heartland Finance office (which processes all purchase card payments for GSA) will soon begin monthly sampling of purchase card transactions that will include requesting purchase documentation from the cardholders.

OIG Work in Process

We are currently reviewing the purchase and travel card controls in several regions to assess the practices of approving officials and the cardholders whose transactions they are to review, and we are evaluating the controls over refunds by the banks awarded contracts under the *SmartPay* Program. We also have in place a monitoring system that screens for unusual transactions that are then further evaluated.

Another review underway, ***PBS Use of Brokerage Contracts for Lease Acquisition Services***, is looking at control issues regarding financial accountability, procurement integrity and the perception of fair and open competition, as well as contract administration issues.

OIG Work Planned

In fiscal year 2003, we plan to determine whether financial controls over the FEDSIM Program are effective and operating efficiently to meet objectives.

We also plan to review the accuracy and completeness of data in the Inventory Reporting Information System used to manage the Repair and Alteration Program, as well as the integrity of the data in the Asset Business Plans used to make key decisions regarding GSA's owned and leased space.

In addition, we will look at GSA's lease administration practices to ensure that leasing actions are in the best interests of the government and responsive to tenant needs. Also scheduled is a review of the Construction Program that will include an assessment of controls over PBS construction projects. Over the past several years, the numbers and dollar values of construction claims have risen and we need to determine the cause.

Information Technology

Issue

With the increased development and implementation of new Information Technology systems within GSA to perform its mission and manage its operations, challenges in this area continue to increase. Many of GSA's systems store and process sensitive information, including personal employee data, financial data, and contractors' proprietary information. Management challenges related to systems' requirements and

performance are faced at all phases of development, implementation, and operation. It is critical that the IT Security Program adequately manages all of these risks. GSA is the lead agency for five E-Government initiatives; two of the initiatives address Government to Business or Government to Citizen services and three initiatives are to provide services to other government departments and agencies. These IT applications, developed to better manage operations and interface with the public, also give rise to complex integration and security issues that must be addressed. Success is dependent upon breaking development into short-term manageable segments with performance-based deliverables consistent with initiative objectives.

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

Many GSA IT projects attempt to minimize development cost and deployment schedules by developing systems based on existing Commercial-Off-The-Shelf (COTS) software packages. COTS solutions offer agencies the ability to forgo lengthy development of core system functionality and the ability to adhere to industry information processing standards. However, the majority of COTS solutions do require modifications to meet unique Federal requirements. Moreover, new systems require interfaces with existing systems that are difficult to implement. Reviews by our office have shown this to be the case with GSA's new accounting system, *Pegasys*, the foundation of which is a COTS financial management product. *Pegasys* is to replace the National Electronic Accounting and Reporting system as GSA's financial system of record. During FY 2001, the Office of the Chief Financial Officer rescoped *Pegasys* to focus on providing elements of the core financial functionality. As planned, on October 1, 2002, *Pegasys* became the Agency's official system for accounting records. While this is a key accomplishment, everyone fully recognizes numerous challenges remain before full implementation of an integrated financial management system.

FEDdesk, developed by GSA's Office of Finance in 1994, provides various online capabilities, including electronic time and attendance and travel and miscellaneous reimbursement to GSA as well as to 17 other organizations. To ensure continued success with FEDdesk, our review recommended: a risk assessment as a basis for a FEDdesk security plan; an assessment of whether FEDdesk is meeting user expectations for such things as reporting, data integrity, application controls, security, and functionality; changes to FEDdesk support contracts; improved contingency planning; verification and training for all FEDdesk administrators; and coordination on specific controls provided for the Awards application within FEDdesk.

Information Technology Security: The Government Information Security Reform Act (GISRA) focuses on the program management, implementation, and evaluation aspects of Federal information systems security. With the OIG's second annual GISRA Information Security program evaluation, we found that GSA has made progress with the establishment of a new Security Division within the Office of the Chief Information Office, which has (1) issued security guidelines, (2) drafted revisions to the Agency-wide policy on IT security, and (3) taken steps to correct security weaknesses identified in GSA's Program Level Plan of Action and Milestones. However, an Agency-

wide plan for implementing GSA's IT Security Program has not been provided to system owners to ensure that systems continue to operate as intended, Agency assets are protected, and privacy is assured. In addition, revisions to GSA's Agency-wide IT Security Policy are needed to provide a basis for effective management and implementation of an Agency-wide IT security program. To achieve the intent of GISRA, the Office of the CIO must effect a national cybersecurity strategy, including measures to identify and document an enterprise architecture; continuous assessments of threats and vulnerabilities; implementation of security controls and remediation efforts; identification and authentication of users; and system configuration management.

OIG Work Completed

Since FY 1998, our office has performed a number of IT-related reviews. We have evaluated the Agency's Year 2000 conversion efforts; security of Local Area Networks and select electronic commerce systems; the PBS Electronic Acquisition System; STAR; contract administration, development, and implementation of *Pegasys*; the Integrated Task Order Management System; Smart Card and Seat Management initiatives; the FTS Millennia Program; GSA's Critical Infrastructure Protection Plan; the Agency's activities related to "cookies"; on-line Services provided with FEDdesk; and GSA's Electronic Mail System. We also performed two separate annual reviews of GSA's Agency-wide information security program, as required by GISRA.

Agency Actions

The CIO has released for Agency comments a draft handbook on IT Security Policy to document and set forth GSA's IT Security Policy, an element required for meeting the goals of GSA's IT Security Program. In addition, Milestone and Action Plans for improving security for 23 of GSA's major applications have recently been provided to the Office of Management and Budget as required by GISRA.

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

OIG Work-in-Process

- PBS's Systems Development Center—draft report out for Agency comment--the review focused on how the PBS is managing and monitoring the SDC and identified lessons learned with this alternative approach for IT project management.
- Design and Development of the FTS' 3GS financial system—survey began in October 2002
- Modernization of the FSS-19 acquisition and inventory system—survey began in October 2002
- FedBizOpps—a FSS managed system that provides public access to Federal business opportunities–survey began in September 2002
- Testing of Controls for Privacy Act Data—began September 2002

OIG Work Planned

- GSA's Implementation of the Clinger-Cohen Act;
- Government Information Security Reform Act;
- GSA's redesigned and simplified Web page--GSA.gov.

Procurement Activities

Issue

GSA provides Federal agencies with products and services valued in the billions through various types of contracts, two of the most prevalent types being the Multiple Award Schedule Program and Multiple Award Contracts (MACs). Each program raises unique concerns as described below.

The MAS Program provides Federal agencies with a simplified procurement process for the purchase of a diverse range of commercial supplies and services from multiple vendors at prices associated with volume buying. GSA administers over 110 schedules that produced sales of $17 billion in FY 2002; and the volume is expected to continue to grow.

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

MACs are appropriate when the Government cannot predetermine, above a specified minimum, the precise quantities of supplies or specific services that will be required during the contract period. Using source selection procedures, GSA competitively awards multiple contracts covering the same scope of work and then, as needs are identified for specific tasks and products, agencies compete for the task/delivery orders among the contract holders. At times the opportunity to be considered for task orders has been unnecessarily limited thus reducing the possibilities for lower prices, better quality, reduced delivery time, and improved customer service.

OIG Work Completed

Previously, our office completed a review of the FSS's contracting for services under MAS contracts, which showed that the FSS is supporting Federal Acquisition Regulation changes that will require agencies using the services schedules to attempt to obtain better-than-negotiated pricing on large procurements. We also completed a review of the operations of the FSS's Hardware SuperStore. We found that the FSS's efforts to improve contracting have yet to alleviate MAS pricing concerns. In 2001, we issued an OIG white paper, reporting that the FSS is not consistently negotiating most favored customer prices, many MAS contract extensions are accomplished without adequate price analysis, and available tools are not being used effectively to negotiate better MAS prices.

In FY 2002, our office completed a review of FSS's assessments of contractor responsibility for its MAS contracts. We found that while the FSS strives to assure that prospective MAS contractors qualify under the Federal Acquisition Regulation responsibility standards, improvements are needed in its core analysis of relevant offeror information, contract file documentation, and utilization of available resources.

Agency Actions

We are participating with the FSS on a working group to review current MAS procurement practices, and look at any needed enhancements to program pricing activities. The group is comprised of representatives from the Offices of Acquisition Policy, General Counsel, FSS acquisition, and the Office of Inspector General.

GSA continues to work with an interagency committee to develop a best practices guide, *7 Steps to Performance-Based Services Acquisition*. Additionally, a Center of Expertise has been established to gather sample statements of work and develop a template for performance-based service contracting solicitations.

This year, the Agency conducted a study of the FSS and FTS operations related to information technology offerings in order to enhance GSA's ability to provide best value to customer agencies. Three teams were established to develop business plans to combine and realign functional areas related to IT that are currently carried out separately in the FSS and the FTS, and expand expert assistance services, both technical and procurement, into other GSA products and services.

OIG Work in Process or Planned

We have begun a review focusing on whether Federal customers are following FSS's guidance for obtaining best value competitive solutions in awarding task

orders for MAS professional services. To better understand what other Federal agencies are following in the award of MAS task orders, we are sending a survey questionnaire to contracting officers in three Federal agencies regarding specific task orders they awarded. We will also conduct an electronic review of task order data available on MAS professional services transactions awarded by GSA contracting officers.

We have initiated a review of the City Pairs Program contracts focusing on whether it is the most economical approach to obtaining airline services for federal travelers and whether the evaluation and award process for city pairs can be streamlined. To assess the program, we will benchmark with state governments, major corporations, travel management providers, and the airline industry.

We are currently conducting a review of GSA's implementation of the requirements of Section 508 of the Rehabilitation Act. Section 508 requires federal agencies to purchase electronic and information technology that enables people with disabilities to have comparable access to data and information as those without disabilities.

Human Capital

Issue

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

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

OIG Work Completed

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

We also reviewed GSA's process for classifying activities required under the Federal Activities Inventory Reform Act. Since GSA's competitive sourcing initiatives were still underway during our fieldwork and the initial phase was not expected to be completed until after our report was released in final, we primarily focused our effort on assessing GSA's efforts to inventory the commercial activities performed by its Federal workforce. We also met with representatives from other Federal agencies to determine if GSA could benefit from their practices. In our *Audit of GSA's Inventorying Process for the Federal Activities Inventory Reform Act* we encouraged GSA to be more accurate and consistent than it had been in the 2001

reporting cycle, where Regional, Service and Staff Office subjectivity created inconsistencies that impacted the final reporting to the Office of Management and Budget. From our best practices effort, we also identified an organizational realignment as well as other tools that could assist GSA with not only its FAIR Act activities, but also with the President's Management Agenda initiatives.

Agency Actions

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

GSA has moved on several fronts to more accurately and consistently inventory its activities. For example, it has issued general and specific guidance on a number of points identified in the audit. It also has established a competitive sourcing team to oversee each Service's inventory and report on any discrepancies or variances, and it established the Office of Performance Improvement that will oversee the competitive sourcing initiatives for GSA.

OIG Work in Process or Planned

We recently started an audit of *Procurement Personnel Development*. We will be evaluating GSA's program to enhance the professionalism of procurement personnel to determine if it is meeting the training requirements of the Clinger-Cohen Act.

Our FY 2003 Audit Plan includes an audit of *Acquisition Workforce Qualifications* to determine if GSA is effectively implementing the qualification provisions required by the Federal Acquisition Reform Act.

Aging Federal Buildings

Issue

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

It is estimated that it would take several billion dollars to bring the building inventory up to standard. Since the Federal Buildings Fund generates annual revenue $7.5 billion, most of which is committed to leased space costs, operating expenditures, and construction of new courthouses, finding funds for needed repairs is a major problem.

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

OIG Work Completed

Prior reviews showed a need for the PBS to improve the administrative aspects of asbestos management; develop a more comprehensive fire safety management system that focuses on a national fire safety strategy, and to evaluate the formula used to measure a building's net income, and improve profit and loss information to facilitate better property management decisions.

Agency Actions

In response to our observations in *Audit of the Public Buildings Service's Asset Business Plans*, the PBS provided a strategy for restructuring the owned building inventory. The strategy envisions a combination of actions including disposals, exchanges, public/private partnerships, outleases, and new construction. The PBS has proposed a three-tiered approach in prioritizing the inventory, using a series of asset diagnostic tests or measures, each with a performance target or threshold that will assist in categorizing individual buildings. The first test simply seeks to determine whether the property produces sufficient income to meet both operating

expenses and a reserve for replacement. The second test measures an asset's financial performance in terms of return on investment. Other tests address operating efficiency, customer satisfaction, rental rate and vacancy levels, and current repair and replacement needs. After this performance review, each asset will be categorized as either performing, under-performing, or non-performing. GSA will consult with affected agencies on appropriate resolution strategies for each troubled asset. GSA has briefed congressional subcommittees with jurisdiction over GSA, and they are very supportive of this effort, as are the OMB and the GAO.

In response to other audit reviews, management has developed a PBS-wide Environmental System to address our recommendations that it become more proactive in how it views and acts on environmental issues and to address issues such as property contamination, compliance with Federal and state environmental laws and regulations, and liability for tenant activities. The PBS also developed a more comprehensive fire safety strategy, which endeavors to provide a functional, safe, and healthful work environment, protect property, and promote client agency mission continuity.

OIG Work Planned

Based on an overview of the Repair and Alteration Program recently completed, we will be focusing on whether GSA has adequate criteria in place to make decisions on which buildings are to be given priority for Repair and Alteration projects. The PBS implemented the Portfolio Restructuring Initiative to assess, re-classify, and restructure its inventory of buildings based on criteria which includes whether the buildings are income producing or not. Our review will focus on how effective the PBS is in implementing the initiative and if it is investing its resources in strong income producing assets.

As noted elsewhere, we will be reviewing the integrity of the data in the Inventory Reporting Information System and in Asset Business Plans to ensure that management bases its decisions regarding space on accurate and complete building inventory data.

MANAGEMENT'S RESPONSE TO THE INSPECTOR GENERAL'S REPORT ON MANAGEMENT CHALLENGES

Protection of Federal Facilities and Personnel*

OIG Issue

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

In June 2002, President Bush proposed the creation of a Department of Homeland Security (DHS) and proposed transferring the Federal Protective Service to DHS. [In November 2002, this proposal was enacted by Congress and enacted into

**GSA's response to this management challenge mirrors the discussion of Federal Building Security contained in the Management Issues section of the Management Discussion and Analysis.*

law]. In anticipation of this transfer, the IG prepared a report summarizing critical operational issues identified in numerous past OIG reports, as well as forward looking issues impacting GSA and the proposed DHS.

Management's Response

GSA has long provided security for the safety of Federal tenants and visitors to GSA-controlled space. Since September 11, 2001, our security needs and response to threats have dramatically changed and increased. We are now working with the Federal Bureau of Investigation, the Central Intelligence Agency, and State and local law enforcement agencies in the sharing of intelligence information that helps us to better assess the credibility of threats. GSA has expanded our training in physical security, ensuring that our security professionals are trained and kept current in the latest technologies. In addition, GSA ensures that security professionals have access to intelligence information so that they can develop specific countermeasures tailored to each facility. We have also increased our ability to assess the effectiveness of a number of countermeasures including building design modifications, site modifications, increased guard service, and new technologies. Our customers and associates have become vital and vocal members of each Building Security Committee. There is no permanent resolution of the security issue. As old threats are resolved, new ones will very likely arise. Ensuring that the necessary level of security is provided will continue to be an area of emphasis for GSA management.

Creation of the DHS and the transfer of the FPS will require an orderly transition and continued coordination to assure that the safety and security of Federal facilities and their occupants will remain a high priority. GSA looks forward to working with DHS on these issues.

Management Controls

OIG Issue

Multiple management controls have been replaced, through reinvention initiatives, by fewer and broader controls, making it essential that the remaining controls be emphasized and consistently followed. The IG also discussed specific concerns with respect to procurement through charge cards, data integrity, and contract administration.

Management's Response

GSA management shares the concerns of the IG that the agency possess and exercise a strong set of management controls. Such action will only come about through a strong Management Control and Oversight Council. We are taking steps to ensure that the Council contains the senior leadership of the agency including the Service Commissioners so that management control will be fully integrated with the overall direction of the agency.

Procurement: During FY 2002, we implemented a credit card management program that has significantly improved our management controls to prevent and detect improper purchase and travel card usage. Changes under this program include:

- Restricting the issuance of purchase cards to 26 percent of the GSA associates and mandatory purchase card training for cardholders and approving officials;
- Issuance of monthly questionable charges report to all GSA executive and managers requiring their review and concurrence along with an automated checklist for approving officials requiring managers to review and approve questionable purchases/charges of their associates.

Data Integrity: GSA is continuing to conduct verification and validation reviews of program measurement data. The need for a process to enable management to assert that performance measurement data

was valid had been identified as a reportable condition in past annual accountability reports. GSA intends to further emphasize data integrity in the context of the overall performance reporting system, the Performance Measurement Tool.

Contract Administration: GSA management recognizes that contract management, particularly of services and IT development are areas that require greater emphasis. Additional guidance and other appropriate actions will be pursued during FY 2003.

Information Technology

OIG Issue

With the increased development and implementation of new Information Technology systems within GSA to perform its mission and manage its operations, challenges in this area continue to increase. Many of GSA's systems store and process sensitive information, including personal employee data, financial data, and contractors' proprietary information. Management challenges related to systems' requirements and performance are faced at all phases of development, implementation, and operation. It is critical that the IT Security Program adequately manages all of these risks. GSA is the lead agency for five E-Government initiatives; two of the initiatives address Government to Business or Government to Citizen services and three initiatives are to provide services to other government departments and agencies. These IT applications, developed to better manage operations and interface with the public, also give rise to complex integration and security issues that must be addressed. Success is dependent upon breaking development into short-term manageable segments with performance-based deliverables consistent with initiative objectives.

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

Management's Response

During FY 2002, the CIO, assisted by the Services and Staff Offices, maintained 84 percent of GSA's major IT investments within 10 percent of planned cost and schedule. The CIO's management and monitoring efforts include:

- Publishing the *IT Capital Planning and Control Guide;*
- Conducting IT investment and capital planning reviews;
- Analyzing Service and Staff Office IT capital spending plans;
- Submitting IT Business Cases to OMB and resolving their comments;
- Working with the CFO to integrate capital planning and budget processes;
- Participating on the Community of Best Practices subcommittee for Capital Planning and IT Management;
- Conducting meetings of Information Technology Planning Committee;
- Supporting the Information Technology Investment Portfolio System within GSA.

OIG Issue

Information Technology Security: The Government Information Security Reform Act focuses on the program management, implementation, and evaluation

aspects of Federal information systems security. With the OIG's second annual GISRA Information Security program evaluation, we found that GSA has made progress with the establishment of a new Security Division within the Office of the Chief Information Office, which has (1) issued security guidelines, (2) drafted revisions to the Agency-wide policy on IT security, and (3) taken steps to correct security weaknesses identified in GSA's Program Level Plan of Action and Milestones. However, an Agency-wide plan for implementing GSA's IT Security Program has not been provided to system owners to ensure that systems continue to operate as intended, Agency assets are protected, and privacy is assured. In addition, revisions to GSA's Agency-wide IT Security Policy are needed to provide a basis for effective management and implementation of an Agency-wide IT security program. To achieve the intent of GISRA, the Office of the CIO must effect a national cybersecurity strategy, including measures to identify and document an enterprise architecture; continuous assessments of threats and vulnerabilities; implementation of security controls and remediation efforts; identification and authentication of users; and system configuration management.

Management's Response

Significant progress was made during FY 2002 to address issues raised in prior years. Specifically, the CIO has taken action to: identify and document an enterprise architecture in close coordination with OMB; issue additional IT security policy guidelines; enhance systems monitoring and Federal Computer Incident Response Capability reporting; provide security awareness training; develop and implement an IT security policy compliance database; and provide quarterly compliance reports for management review. The CIO plans to develop and issue additional policy guidance regarding technical standards for specific platforms, monitoring access attempts, and security violations. In addition, the CIO plans to complete ongoing efforts to develop and implement more effective enforcement and reporting guidelines to promote policy compliance.

The FY 2002 Electronic Data Processing Management Letter further recommended that Services and Staff Offices take additional actions to strengthen network and application security controls. Appropriate action plans to address these recommendations are currently being developed.

During FY 2002, the CIO was able to resolve 83 percent of the high-risk vulnerabilities within 30 days. The remaining vulnerabilities take longer than 30 days due to the complexities involved in the resolution of the particular vulnerability. Frequently, patches may need to be applied to GSA's over 1,000 servers and/or 17,000 workstations. The CIO is making every effort to improve coordination with the services, staff offices, and regions to ensure that remedial actions are timely and effective. GSA's move to the Windows 2000 server operating system throughout the Agency will simplify the remediation process by having a single consistent server platform.

Procurement Activities

OIG Issue

GSA provides Federal agencies with products and services valued in the billions through various types of contracts, two of the most prevalent types being the Multiple Award Schedule Program and Multiple Award Contracts. Each program raises unique concerns as described below.

***The MAS Program** provides Federal agencies with a simplified procurement process for the purchase of a diverse range of commercial supplies and services from multiple vendors at prices associated with volume buying. GSA administers over 110 schedules that produced sales of $17 billion in FY 2002; and the volume is expected to continue to grow.*

Our Office is concerned that, as the MAS program has grown, the importance of certain program fundamentals—including pricing objectives

and other pricing tools—has diminished. These fundamentals, which are set out by regulation, include the mandate for most-favored customer pricing, the requirement to perform meaningful price analysis when awarding or extending contracts, and the use of pre-award audits to assist in negotiating contracts.

Management's Response

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

The FSS and the Offices of Acquisition Policy and General Counsel are participating with the IG to review current MAS procurement practices and look at needed enhancements to pricing activities. The group is focusing on the determination of fair and reasonable prices and its recommendations will likely lead to an expansion of the use of pre-award audits. The use of such preaward audits will also be extended to contract modifications, which have received more emphasis in recent years as the MAS program has sought continuous coverage for schedules through "evergreen" contracts. Evergreen contracts are renewed on a regular basis provided that the contractor continues to offer fair and reasonable prices.

Human Capital

OIG Issue

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

Management's Response

The importance of human capital planning has been not only recognized by the IG and the Comptroller General, but also forms an integral part of the President's Management Agenda. GSA's progress on this initiative has been recognized by OMB with a score of "green"—the highest available. GSA has, among other actions:

- Developed a human capital strategy aligned with mission, goals, and organizational objectives;
- Implemented a leadership development program to improve the management of people and help ensure continuity of leadership;
- Identified mission-critical occupations and skills.

In FY 2003 GSA will continue to implement a number of initiatives related to Human Capital including developing succession plans to ensure continual executive leadership, implementing a new SES performance management system, and developing recommendations to improve oversight of the awards system.

Aging Federal Buildings

OIG Issue

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

It is estimated that it would take several billion dollars to bring the inventory up to standard. Since the Federal Buildings Fund generates annual revenue $7.5 billion, most of which is committed to leased space costs, operating expenditures, and construction of new courthouses, finding funds for needed repairs is a major problem.

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

Management's Response

More than half of GSA's Government-owned buildings are over fifty years old and nearly a quarter bear historic designation. GSA's first capital priority is repairs and alterations to our aging buildings. GSA's annual repair and alteration budget falls in the range of private sector practice, which is 2-4 percent of replacement value. GSA is reinvesting in its inventory at the low end of the industry standard yet GSA's inventory is significantly older than the industry average.

The PBS has developed a dynamic portfolio strategy to restructure the Government-owned inventory so that it consists primarily of properties that generate sufficient funds to meet capital reinvestment needs. In spite of substantial expenditures for reinvestment in recent years, the need for additional capital continues to be very large—$6 billion by one calculation. Reinvestment capital should go to properties that perform well financially and meet long-term Federal space needs.

The PBS will slim down by disposing of assets that are expensive to operate and maintain, produce little or no net income to contribute to operations and reinvestment needs, require significant capital repairs, and do not serve customer agencies. The portfolio strategy aligns the portfolio with GSA's Strategic Goals to deliver best value for customer agencies and taxpayers.

Office of Inspector General: Semiannual Report to the Congress October 1, 2001 – March 31, 2002

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

Management Challenges

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

Protection of Federal Facilities and Personnel

GSA is responsible for developing and managing a physical security program aimed at protecting Federal buildings and the people who work in and visit them. We have issued over 25 audit and special alert reports recommending corrective actions and improvements in all aspects of the program. In October 2001, the Inspector General and GSA management agreed that the best way the OIG could assist GSA in the near term was to assess whether building electronic security systems were in place and operational nationwide. In addition, the OIG completed its review of the new Federal Security Risk Manager Program, an assessment protocol designed to enhance the quality of building security surveys.

In order to provide real-time information on the functioning of security equipment at Federal facilities nationwide, more than 50 OIG professional staff members assessed 173 major buildings located in 46 states and the District of Columbia. With only minor exceptions, we found that security countermeasures were installed and operating as intended. However, the review found two issues that impact the overall security program. First, we noted that some of the electronic surveillance equipment was aging and in some cases not as effective as when new. The second issue raised was the need for more guidance on measures that should be added to building security plans to deter bioterrorism threats.

Although not a specific objective of the above review, one of our many field teams took steps to spot test alarm systems in several buildings. An alert report was issued after tests revealed that a significant number of alarms, when triggered, failed to transmit a signal to the control center. Also, the alarm account information indicating where the problem exists contained inaccuracies and would not always direct authorities to the point of intrusion. Management immediately was made aware of these deficiencies and has initiated responsive action.

The Federal Protective Service introduced the Federal Security Risk Manager Program in early 2000 as an enhanced method to identify buildings' vulnerabilities and assess the adequacy of measures taken to lower the risks. FPS's goal is to reduce threats at each facility through specific countermeasures to address risks. Our review of the first cycle of assessments noted shortcomings in the implementation procedures and guidance for security officials. Risk assessments produced inconsistent results and corrective actions

were at times misclassified if the needed corrective action was thought too difficult to address. Overall, the evaluation program is a positive step, but better guidance will produce more meaningful assessments.

Management Controls

As addressed in prior semiannual reports, non-adherence to management control over the use of travel and purchase cards still continues to be a major challenge facing GSA and across the Government. In reducing administrative barriers and promptly responding to customer needs, management eliminated many of the checks and balances previously part of the control system. Reviews performed in four separate locations indicated that approving officials do not always review activities to assure cardholders comply with card usage and procurement guidelines.

Recently disclosed cases of widespread credit card abuse by employees at several other Federal agencies underscores the significant financial risk and loss of public confidence faced by all agencies who lack proper oversight of their employees' use of charge cards to transact Government business. In FY 2000, Federal employees used purchase cards provided under GSA contracts for more than $12 billion of transactions. Over 670,000 employees held cards for travel, purchase, and fleet needs. Our concern with GSA management oversight of its own cardholders' compliance with credit card policies continues.

The Public Buildings Service developed the Occupancy Agreement as a method to provide a complete, concise statement of the financial aspects of its customer space agreements as well as the responsibilities of both PBS and the customer agency. It is expected that by the end of FY 2006, all tenancies in Government-owned space will be covered by OAs. At the time of the review, only 62 percent of the 1,700 rent billing records sampled had OAs. In addition, existing agreements were not routinely updated to reflect changes in space assignment. Currently, there is no incentive or immediate repercussion for not completing OAs. This has delayed improvement in PBS's overall billing and space management information processes.

In 2000, the Federal Supply Service (FSS) awarded contracts to five vendors for office products and services and new products technology under the desktop program. The contracts require that when products made by the Federal Prison Industries, the National Industries for the Blind (NIB) and National Industries for the Severely Handicapped (NISH) are available, vendors must sell these items rather than the commercially equivalent ones.

In a previous review, we found that improvements needed to be made to the desktop program because the contracts included too few commercial items but too many NIB/NISH products. This reporting period, we did a follow-up review to determine the current status of the program. We concluded that FSS needs to consider the concerns of NIB/NISH, who believe vendors are not blocking sales of commercial equivalent products as required, and therefore harm these organizations by lost sales. We recommended that FSS contracting officials obtain, analyze, and determine whether Government sales data for FY 2001 would help improve the desktop program. This will allow FSS to identify Government customers; determine the extent of sales of NIB, NISH, and Federal Prison Industries items versus comparable commercial items; and analyze the types and prices of items being purchased by Government customers.

Leasing activities are an important part of PBS's operations ($3.5 billion annually). This period we reviewed a sample of leases in one region and found that leasing personnel had not consistently followed appropriate procedures or had used faulty data when awarding some leases. In one case, this resulted in lease award to other than the lowest price offeror. In addition, we found that the physical security of prospective commercial properties was inadequately evaluated.

Information Technology

In 1998, a contract was awarded to purchase a commercial-off-the-shelf product to replace GSA's aging National Electronic Accounting and Reporting system. The commercial product was to be used as the basis for the new Agency-wide accounting and financial management system known as "Pegasys," but required extensive modification to meet specific GSA needs. The Agency, however, underestimated the magnitude and complexity of the changes, which have significantly impacted the completion schedule and resulted in substantial cost increases. In FY 2001, management rescoped the work to bring it under a manageable schedule and cost control plan. Management no longer expects to completely replace NEAR in the foreseeable future. As part of the OIG's most recent oversight report, we offered our view that additional work steps were needed to ensure successful implementation of Pegasys. Especially important was the need to develop an enterprise-wide financial system architecture and establish a plan to integrate Pegasys with the Agency's many existing financially-related systems. The development approach is heading in the right direction; however, long-term plans for NEAR and Pegasys need to be better defined in order to fully support mission-based operations.

Promoting and Protecting Integrity

A construction contractor was convicted of major fraud against the United States, and paid a $694,322 fine. The contractor was also proposed for debarment, effectively suspending it from receiving new Federal contracts. A library furniture supplier agreed to pay $575,000 to resolve potential civil liabilities under the False Claims Act. The company misrepresented itself when it granted a 16 percent discount to Federal agencies while state and local Governments and other customers were given discounts of up to 61 percent.

As a result of a joint investigation, we were able to obtain restitution of $6 million for fraudulent activities from two Government contractors. Three executives of the two contractors were sentenced after being convicted of conspiracy to defraud the Government, wire fraud, conspiracy to obstruct justice, and theft of Government property: one of the three was sentenced to 60 months incarceration, another 20 months incarceration, and the third 3 years probation. Also, a Forest Service radio technician pled guilty to converting Government property that he obtained for his own benefit. He was sentenced to 18 months incarceration, 3 years probation, and ordered to pay $4,000 in restitution.

The OIG is a participant in the New York Electronic Crimes Task Force that investigates telecommunications fraud primarily involving facilities within the New York metropolitan area. As a result of our involvement with this task force, we completed investigations that resulted in four convictions this period. In addition, we completed an investigation that resulted in an owner of an automobile shop pleading guilty to submitting false claims to GSA in excess of $150,000 over a 4-year period.

Two separate investigations resulted in the convictions of two Government employees for converting public funds to personal use by making charges on GSA credit cards. Another investigation determined that the president of a janitorial company submitted a false certification of insurance to GSA. The company and its president entered into a pretrial diversion agreement to perform 12 months probation and reimburse GSA contract costs totaling $7,200. Also, we completed an investigation that resulted in the conviction of a former GSA employee and a private accountant for bribery and conspiracy to defraud the Government. The employee conspired with several Government contractors and the private accountant to submit false claims on repair and maintenance contracts in exchange for kickbacks to the employee.

Summary of Results

The OIG made over $82 million in financial recommendations to better use Government funds; made 211 referrals for criminal prosecution, civil litigation, and administrative actions; reviewed 226 legislative and regulatory actions; and received 913 Hotline calls and letters. This period, we achieved savings from management decisions on financial recommendations, civil settlements, and investigative recoveries totaling over $107 million.

Office of Inspector General: Semiannual Report to the Congress April 1, 2002 – September 30, 2002

During this period, the OIG continued to direct its audit, investigative, and evaluative resources to activities that address what we believe to be the major management challenges facing the Agency. We provided a variety of services designed to help the Agency address these challenges and to improve operations. These services included program evaluations, contract and financial auditing, and management control reviews; investigative coverage and litigation support in contract claims, civil fraud and enforcement actions, and criminal prosecutions; and reviews of proposed legislation and regulations.

In light of recent changes to the Government Auditing Standards, we ceased accepting consulting assignments, however, we did provide best practices reviews and ex officio participation on Agency improvement task forces, committees, and working groups.

Management Challenges

We have highlighted a number of reviews that address major management issues facing GSA. Some of these challenges are in the areas of Federal facilities and personnel protection, management controls, procurement activities, information technology, and human capital. Our efforts during this period focused on the following:

Protection of Federal Facilities and Personnel

We are continuing our assessment of the physical security program managed by GSA's Federal Protective Service. We completed a review of the Contract Guard Program to update the status of management's ongoing implementation of recommendations contained in a previous audit report. While management has made some improvements, the program continues to experience weaknesses that must be overcome.

The President announced his intent to transfer the FPS to a new Department of Homeland Security. To assist, we prepared a report identifying critical operational issues we believe need to be addressed as part of the proposed transfer. These issues include:

- Determining responsibility for government building security;
- Assigning responsibility for the administration of the Contract Guard Program;
- Ensuring GSA is promptly notified of threats to its buildings; and
- Establishing means for recovering security costs.

In another security-related review, we reported our concerns that GSA managers are not ensuring that certain types of contractor employees—security guards, employees of janitorial and maintenance contractors, and contractors working on the Agency's computer information systems—have appropriate security background checks.

Management Controls

GSA adopted an employee award system that recognizes specific acts at the time of their occurrence rather than tying rewards to the annual rating process. Also, in order to streamline operations and empower employees, GSA removed multiple approval layers needed to issue cash and time-off awards. We examined the policies, procedures, and operations of the

GSA Awards Program and found instances of award overuse, inappropriate salary augmentation associated with repetitive awards to the same individuals, and disregard for existing approval authorities. During our fieldwork, the GSA Administrator requested management to fully assess the program.

In previous semiannual reports, we have addressed many of the challenges facing GSA when processing financially-related transactions for its varied programs. This period, our review of the Internet-based FTS2001 billing system showed that the Federal Technology Service could improve billing processes and customer relationships by maintaining accurate and complete client information. Also, we completed three other reviews that addressed management controls.

Recently, we have noticed that contract administration issues are more frequently being raised in our audits. While such conditions may not be new, there exists a trend that, if allowed to continue, could lead to significant problems. With GSA's rapidly increasing reliance on contractors to perform many of the functions now provided by government employees, the importance of contract administration will grow considerably. Understandably, if the weaknesses exist now, GSA needs to undertake corrective measures before the workload increases.

In a series of other reviews, we found that:

- Management officials in one region certified payments for guard services without adequate assurance that services required by the contract had been provided. Almost half of the billings, valued at $617,167 were not supported by sufficient documentation.
- In another region, contractors were not being timely paid because the contracting officials were too overworked/understaffed to review all documentation and were late in certifying invoices for payment. Seven contractors reported that GSA's overdue payments totaled about $1.9 million. One contractor claimed to be in danger of fiscal collapse because GSA owed it $1.5 million as of February 2001.
- Other regional reports discussed control weaknesses within local operations.

Procurement Activities

The Federal Acquisition Regulation requires that contracting officials provide file documentation that each step of the acquisition process is complete. However, in one review we conducted, we found pricing was not adequately substantiated in the majority of contract files sampled. This was due to an unusually high staff turnover rate and a large number of inexperienced contracting officers. We also identified three procurement actions that require ratification by a contracting officer because the awards were made by officials who were not authorized to do so.

Although the FAR specifies that contracts may be awarded to responsible contractors only, the determination of responsibility is a judgment made by the contracting officer based on general guidelines. Our review found that GSA needs to improve the process for analyzing relevant information; contracting officers need to better document their rationale and specific information considered in making responsibility determinations.

Information Technology

We performed an evaluation of GSA's Agency-wide information security program and controls as required by the Government Information Security Reform Act. Our assessment on security aspects of six major IT systems that support the operations of the GSA Services and Staff Offices found higher levels of security control in place than in the prior year's review. Six of the previously cited 14 weaknesses were reported as having been corrected. Actions to correct the remaining eight weaknesses depend upon the completion of the revisions to GSA's IT Security Policy. We also determined that the GISRA required Plan of Actions and Milestones at the system level have not

been completed and are not being used to prioritize, track, and manage GSA's efforts to close security performance gaps.

GSA's Finance Center provides accounting and financial services to GSA as well as 17 other Federal agencies. In 1994, the Finance Center developed the FEDdesk platform to provide easy online access for various administrative functions. While FEDdesk has been in operation for over 6 years, GSA has not completed a full-risk assessment, which would assess the security requirements, customer needs, and operations. It would also help to ensure the integrity, reliability, and accuracy of the transactions that are processed through the interface.

Our review of GSA's e-mail system showed that the Agency has implemented effective firewall procedures to prevent viruses and block unwanted mail. However, we did note opportunities to improve e-mail security and controls. In addition, GSA's contingency plan did not adequately address the actions the Chief Information Officer would need to take to restore operability in the event of major disruptions.

Human Capital

The Federal Activities Inventory Reform Act requires Federal agencies to annually identify any commercial activities they perform and consider these for competition with the private sector. We found inconsistencies in how activities were being classified, particularly with respect to whether an activity should be classified as inherently governmental or commercial. We provided GSA with examples used by other Federal agencies to successfully fulfill not only the FAIR Act requirements but also the President's Management Agenda initiatives. We also recommended that the Chief Financial Officer formalize the way guidance is issued and that guidance be Agency-specific. In addition, we recommended that the CFO develop an oversight process to review inventory data at all levels.

Promoting and Protecting Integrity

- In our ongoing efforts to promote and protect the integrity of GSA's programs and operations, we conducted criminal and civil fraud investigations that resulted in a number of enforcement actions. Highlights follow:
- Two Federal Protective Service supervisory officers were convicted of altering/falsifying police incident reports in order to support nationwide pay grade increases for FPS officers.
- A $1,690,000 judgment was entered against Pi Construction Corporation in a qui tam False Claims Act lawsuit for misrepresenting its eligibility to participate as an 8(a) contractor.
- AMEC Construction Management, Inc., and AMEC, plc., its British parent company, were debarred for 1 year by GSA's Office of Acquisition Policy based on multiple convictions for making false claims in connection with the submission of falsified invoices for bond premiums on two major GSA construction projects.
- Three GSA temporary employees were convicted of theft of government funds after falsifying their time cards and forging the signature of a GSA building management official in order to receive payments for overtime hours not worked. Their claims totaled in excess of $64,000.
- A moving company fraudulently billed the government for contract moves. Two company officials pled guilty to mail fraud and were sentenced to probation and ordered to pay restitution.
- An individual who represented himself as a GSA employee pled guilty to mail fraud, interstate transportation of fraudulently obtained property, and aiding and abetting.
- A GSA employee resigned his position as a transportation operations specialist and subsequently pled guilty to theft of government funds.
- Two individuals pled guilty to defrauding other persons through the use of stolen credit cards, including GSA charge cards.

- An individual was convicted of identity theft after a GSA employee reported that her personal identifiers, such as date of birth, social security number, and address, were used to commit a crime.

Summary of Results

The OIG made over $142 million in financial recommendations to better use government funds; made 215 referrals for criminal prosecution, civil litigation, and administrative actions; reviewed 301 legislative and regulatory actions; and received 1,008 Hotline calls and letters. For FY 2002 as a whole, we achieved savings from management decisions on financial recommendations and investigative recoveries totaling over $242 million.

ADMINISTRATOR'S SEMIANNUAL MANAGEMENT REPORTS TO THE CONGRESS

Executive Summary Combining the Semiannual Reports for Fiscal Year 2002

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

The Administrator's reports are statutorily required on a semiannual schedule for periods ending March 31 and September 30 of each fiscal year. The information below represents a compilation of summary statistics from the two reports issued for fiscal year 2002. Where appropriate to be consistent with this Annual Report presentation, six months totals have been combined to reflect full fiscal year performance.

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

During the fiscal year ending September 30, 2002, management decisions were issued on 149 audit reports. Of this total, 68 audit reports represented $1,441,104 in disallowed costs and $221,054,509 in funds to be put to better use. The latter category is comprised of estimated and actual cost avoidance determined to have no impact on the agency's budget.

By the fiscal year's end, final action was achieved for 53 audits with management decisions identifying disallowed costs or funds to be put to better use. These audits represent the recovery of $3,150,117 and the implementation of $ 604,016 of actual cost avoidance determined to have no impact on the agency's budget.

As of March 31, 2002, 145 audit reports remained open without final action a year after management decision, with 49 of this total under formal administrative or judicial appeal. As of September 30, 2002, 152 audits remained open without final action a year after management decision, with 50 under appeal. The full reports for each semiannual period cite the reasons final actions were not yet taken on the open audits that were not under appeal.

Copies of the semiannual reports may be obtained directly from GSA's Office of the Chief Financial Officer.

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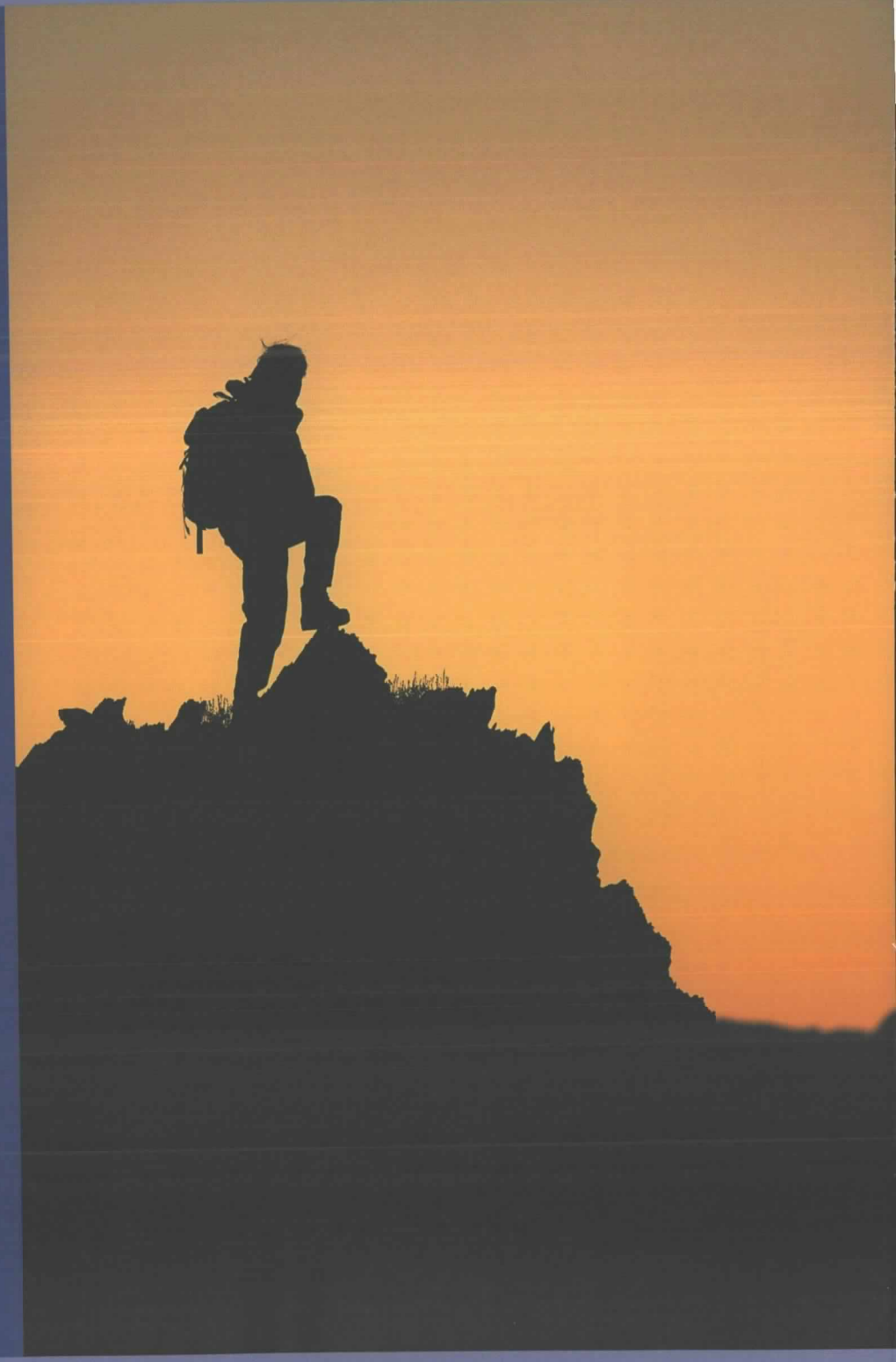
Appendices

As this year's journey comes to an end, we look forward to next year's journey in creating a successful future at GSA



APPENDIX 1: GSA DATA SOURCES

In order to track and assess performance, GSA uses data from a limited number of internal and external sources. Certain data sources support multiple performance goals. Instead of repeating data quality information throughout this report, the information below discusses the verification and validation segments for various performance measures. If a particular data source supplies data to only a single measure, it will be discussed with that measure.

NEAR is GSA's corporate accounting system and is the foundation for all PBS financial data. The system data is reliable and accurate and is subject to audit by the Inspector General. GSA's independent auditor, PricewaterhouseCoopers, performs an annual audit. This audit has produced a clean opinion for 15 consecutive years. Financial data is subject to extensive in-house staff reviews, analysis, and system edits. As a result of these verification methods, GSA's financial data used in the performance measures is valid within a very high degree of certainty.

To measure energy cost and consumption the Energy Usage and Analysis System (EUAS) pulls data from NEAR, verifies and tracks data from hard copy utility bills and samples a subset of the building inventory to ensure accuracy and correct billing rates. Regional energy coordinators review monthly billing data and building managers certify data. Utility usages that fall outside the profile are reviewed and certified for payment. Discrepancies are reported back to the EUAS center for correction with utility companies. Through these processes, the PBS is confident that the data in the EUAS system is extremely accurate.

To benchmark PBS operating costs with the private sector, the Building Owners and Managers Association Experience Exchange Report (BOMA EER) is used. The BOMA is an advocacy group for the real estate industry, a federation of 94 local associations whose members own or manage more than 6 billion square feet of downtown or commercial properties and facilities across America. The BOMA is recognized for its expertise in real estate, frequently testifying before Congress and working with property holding agencies. The EER is a database that contains building operations statistics on more than 4,000 buildings throughout the United States. It is used extensively in the private sector and it is considered an accurate source for industry operating data that is comparable to PBS data.

The System for Tracking and Administering Real Property (STAR) is the primary source of real property data. The accuracy of STAR data has improved significantly over the past year, and will continue to improve. Two data accuracy measures were implemented as part of internal monthly performance reporting which has been quite effective in reducing errors and missing data. The first measure crosschecks data within STAR for logic and consistency errors. The second measure, based on a random sampling of STAR data, ensures that critical fields in STAR accurately reflect information in source documents. A single point-of-entry process has been implemented or is planned to be implemented in all regions to reduce the number of errors in STAR. Also, the PBS is currently remeasuring buildings to compile a database of graphical spatial data and to validate the accuracy of assignment and inventory data.

The Society of Industrial and Office Real Estate Markets (SIOR) is used by the PBS to benchmark current real estate trends and market rates. Member professionals who work in each reported market develop the market information used by SIOR.

Logistics Management Institute (LMI) is a private non-profit organization that provides management consulting, research, and analysis to Governments and other non-profit organizations. The participation of LMI as a data provider for the cost of leased space measure expands the PBS' effort to validate STAR data. LMI employs several filters and data verification measures after preliminary results are collected from STAR prior to regional review.

The Gallup Organization provides data for the PBS customer satisfaction (including the satisfaction of ordering officials) and overall GSA workforce engagement measures. The Gallup Organization, one of the world's largest management consulting firms,

brings its core expertise in the areas of measurement and analysis of people's attitudes, opinions, and behavior to satisfaction measures. Gallup employs several types of data verification methods including a parallel processing method for its automated reports. This process uses both electronic matching and manual proofing of the data, randomly verifying that a certain proportion of scanned and manually keypunched surveys are 100 percent accurate. Gallup's analysis indicates that the PBS can expect a 95 percent statistical confidence level in this data.

To measure customer satisfaction among tenants, Gallup uses a survey tool developed in conjunction with the International Facility Management Association. The customer satisfaction survey is performed annually. The following buildings are not included in the survey; delegated buildings, buildings with no occupants, and postal space leases.

There are two PBS enterprise applications for tracking progress of major new construction and R&A projects. For capital budgeting, the PBS uses Pro Forma Investment Analysis, a financial application, to analyze projects on planned expenditures of fixed assets, with future cash flows estimated for 25 years. Project information, such as rent start date and project cost, is used to capture the impact of changes on the original project financials.

For tracking construction, and repairs and alterations project information, the PBS uses Project Information Portal (PIP), a Web-based application. This system is intended to link project managers, executives, and the PBS in an integrated, Web-enabled framework to track enterprise-wide information on the current capital construction program. In addition to the schedule, PIP application also captures the updated project budget information from Capital Projects Web site, a supplement to the PBS accounting system, and obligations from *Pegasys* on a daily basis. PIP application is used in conjunction with Inventory Reporting Information System (IRIS), the enterprise application for tracking new construction and R&A inventory. PIP replaces Project Manager's Toolbox (PMT), which was burdensome to use and did not have the Web features.

In addition, the PBS National Headquarters staff works with regional project and program managers to track major projects from initial planning through final occupancy. The Real Estate Activity Locator System (REAL) is an integrated real property information and analysis system that contains appraisal, sales tracking and survey information and is used to measure timeliness and rate of return of property disposal.

For tracking sales data FSS utilizes the Commercial Acquisition and Supply Operating and Management Information System (FSS-19) and the Federal Supply Schedule Cost Recovery Systems. Both systems are password protected and conform to the GSA Information Security Policies and Procedures. Schedule data is reported quarterly and is verified by site visits to the contractors.

For the cost per mile data GSA Fleet utilizes the TIRES Monthly Operating Costs and Statistical Report, which is generated monthly by the GSA Office of Finance. Performance data for measures aimed at cost recoveries resulting from audits of transportation billings and monitoring the number of electronic audit transactions are obtained from the Transportation Accounts Receivable and Payable Systems (TARPS). Contract pricing for vehicles is captured by FSS's Requisitioning, Ordering, and Documentation System (ROADS). Security for this system is maintained by limited access and password protection.

Data for transferred and donated property is obtained from the Federal Disposal System (FEDS) and data for sales proceeds is obtained from the FSS Sales Automation System.

The periodic comparisons of commercial rates and those charged customers under the FTS2001 telecommunications programs are performed by Mitretek Systems. Mitretek has developed specialized computer models to analyze telecommunications costs and provides information on differences between commercial offerings and FTS2001 prices.

APPENDIX 2: ACRONYMS AND ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
BOMA	Building Owners and Managers Association
BSCS	Building Security Countermeasure System
CBD	Central Business District
CDC	Center for Disease Control
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIP	Construction in Process
COOP	Continuity of Operations Plan
COTS	Commercial Off-The-Shelf
CPO	Chief People Officer
CRM	Customer Relationship Management
CSBR	Combining Statements of Budgetary Resources
CSC	Customer Service Centers
CSRS	Civil Service Retirement System
DHS	Department of Homeland Security
DOD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor
E-Clearance	Electronic Clearance
EDC	Eastern Distribution Center
EDP	Electronic Data Processing
egov	Electronic Government
E-Grants	Electronic Grants
ERA	Electronic Authentication Risk Assessment
E-Travel	Electronic Travel
EUAS	Energy Usage and Analysis System
FAI	Federal Acquisition Institute
FAIRS	Federal Aviation Interactive Reporting System
FAR	Federal Acquisition Regulations
FASAB	Financial Accounting Standards Advisory Board
FBF	Federal Buildings Fund
FCIC	Federal Citizen Information Center
FCICF	Federal Citizen Information Center Fund
FDACS	Federal Domestic Assistance Catalog System
FECA	Federal Employees' Compensation Act
FEDCIRC	Federal Critical Incident Response Center
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Manager's Financial Integrity Act
FMS	Financial Management Specialist
FPDS	Federal Procurement Data Base
FPLP	Federal Premier Lodging Program
FPS	Federal Protective Service
FRV	Functional Replacement Value
FSRM	Federal Security Risk Manager
FSS	Federal Supply Service
FSS-19	Commercial Acquisition and Supply Operating and Management Information System
FTE	Full-Time Equivalency
FTS	Federal Technology Service
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GSA	U. S. General Services Administration
GSF	General Supply Fund
IG	Inspector General
IRIS	Inventory Reporting Information System
ISC	Interagency Security Committee

IT	Information Technology
ITF	Information Technology Fund
ITOMS	Integrated Track Order Management System
LMI	Logistics Management Institute
MAA	Metropolitan Area Acquisition
MAC	Multiple Award Contract
MAS	Multiple Award Schedule
MCO	Mission Critical Occupation
MCOC	Management Control and Oversight Council
NEAR	National Electronic Accounting and Reporting System
NIB	National Industries for the Blind
NISH	National Industries for the Severely Handicapped
NRPS	Non-Revenue Producing Space
NSC	National Security Council
OA	Occupancy Agreement
OCSC	Office of Citizen Services and Communications
OED	Office of Enterprise Development
OGP	Office of Governmentwide Policy
OIACIP	Office of Information Assurance and Critical Infrastructure Protection
OIG	Office of the Inspector General
OLU	On-line University
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PADC	Pennsylvania Avenue Development Corporation
PBS	Public Buildings Service
PIP	Project Information Portal
PMC	President's Management Council
PMT	Performance Management Tool
PwC	PricewaterhouseCoopers LLP
R&A	Repair and Alteration
REAL	Real Estate Activity Locator System
RPADS	Real Property Accounting Depreciation System
RRB	Ronald Reagan Building
SDLC	Systems Development Life Cycle
SERT	Senior Emergency Response Team
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SIOR	Society of Industrial and Office Real Estate Markets
SSA	Social Security Administration
STAR	System for Tracking and Administering Real Property
TSP	Thrift Savings Plan
WCF	Working Capital Fund
WCW	World-Class Workforce
WDC	Western Distribution Center
WWI	World Wide Inventory
XML	Extensible Markup Language

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GSA Smarter Solutions

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