



**U.S. General Services Administration**  
Office of Inspector General

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October 13, 2017

MEMORANDUM FOR TIMOTHY O. HORNE  
ACTING ADMINISTRATOR (A)

FROM: CAROL F. OCHOA *Carol F. Ochoa*  
INSPECTOR GENERAL (J)

SUBJECT: Assessment of GSA's Management and Performance  
Challenges for Fiscal Year 2018

As required by the Reports Consolidation Act of 2000, Public Law 106-531, we have prepared for inclusion in the fiscal year 2017 Agency Financial Report, the attached statement summarizing what we consider to be the most significant management and performance challenges facing GSA in fiscal year 2018.

This year we have identified significant challenges in the following areas:

1. Enhancing Government Procurement.
2. Maximizing the Performance of GSA's Real Property Inventory.
3. Sustaining Technology Transformation Services, FAS.
4. Making Agency Cybersecurity a Priority.
5. Efficiently Managing Human Capital to Accomplish GSA's Mission.
6. Safeguarding Federal Facilities and Providing a Secure Work Environment.

Please review at your earliest convenience. If you have any questions or wish to discuss our assessment further, please call me at (202) 501-0450. If your staff needs any additional information, they may also contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachment

# GSA'S MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2018

## OFFICE OF INSPECTOR GENERAL

### Challenge 1: Enhancing Government Procurement

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GSA's Federal Acquisition Service (FAS) operates to create efficiency in the federal government's acquisition of goods and services. FAS seeks to accomplish this by leveraging the buying power of the federal government to obtain necessary products and services at the best value possible. However, FAS faces challenges in fulfilling its mission to meet its customers' needs effectively, efficiently, and economically.

FAS is undertaking multiple initiatives with the goal of being recognized as the government's primary acquisition marketplace. The initiatives include a significant reliance on data from multiple sources, the realignment of its workforce, a continued shift in price analysis techniques, and the consolidation of ten procurement-related systems into one. These initiatives and changes are aimed at enhancing government procurement, but they also apply new methodologies and significantly change FAS's processes and programs, affecting both its employees and its customer agencies.

#### Support and Adoption of Category Management

In fiscal year (FY) 2014, the Office of Management and Budget, Office of Federal Procurement Policy, introduced category management to: strengthen federal acquisition practices, leverage federal agencies' buying power, eliminate duplicative contracts, and collectively manage commonly purchased goods and services.<sup>1</sup> The intent of category management is to increase government agencies' efficiency and effectiveness while reducing costs and redundancies. Thus, category management has been designed to allow the federal government to act as one buying entity.

As the leader in government procurement, FAS has implemented two significant practices in support of category management. First, FAS has championed the Acquisition Gateway; and second, it has committed its internal acquisition workforce to executing this initiative. Each presents its own unique challenges.

**Acquisition Gateway.** FAS created the Acquisition Gateway as a portal for the government contracting community to connect and find acquisition related information in an effort to improve the speed and quality of federal purchases. Ultimately, the Acquisition Gateway is intended to decrease costs and reduce duplicative contracts, which aligns with the goals of category management.<sup>2</sup>

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<sup>1</sup> Office of Management and Budget memorandum, *Transforming the Marketplace: Simplifying Federal Procurement to Improve Performance, Drive Innovation, and Increase Savings* (December 4, 2014).

<sup>2</sup> U.S. General Services Administration Annual Performance Plan and Report, Fiscal Year 2017.

The Acquisition Gateway is organized under ten government spend categories identified by the Office of Management and Budget. As of FY 2017, the Acquisition Gateway contains nearly 300 samples of acquisition documents; 1,000 acquisition-related articles, lessons learned, and templates; and over 200,000 searchable requests for quotes. In FY 2016, FAS spent \$10.8 million on the Acquisition Gateway and additional funding for further development is planned for FYs 2017 and 2018.

As the Acquisition Gateway matures and additional government funds are expended to support it, FAS is challenged with how to measure the success and effectiveness of the portal. Thus far, FAS has measured the Acquisition Gateway's success by the quantity of registered users and the number of federal agencies using it. However, FAS must also consider the number of returning, active users that are contributing accurate, useful, and accessible information to the portal and the resulting effect on government procurement. In addition, as various users are urged to contribute to the portal, it is important for FAS to ensure that the information in the portal is reliable and valid. These aspects are critical to analyze progress, measure the portal's effectiveness, and ultimately, determine if this information sharing is leading to better procurements. FAS can then use what it learns to provide valuable insight to the acquisition community on the effects of category management and be better positioned to perform as the government's procurement leader.

Absent the use of such measures, FAS will be challenged to ensure the success of the Acquisition Gateway. The success of the Acquisition Gateway should not be judged solely by the quantity of users and content, but by whether it is actually helping federal agencies acquire goods and services at fair and reasonable prices.

**Acquisition Workforce Support.** The Office of Management and Budget memorandum *Transforming the Marketplace: Simplifying Federal Procurement, Drive Innovation, and Increase Savings* requires the federal government to reshape the way it does business through category management. In reshaping its operations, FAS committed to the initiative and restructured its workforce to align with category management.

The workforce realignment primarily shifted resources among various FAS portfolios to align with the Office of Management and Budget's government spend categories. However, FAS management must be alert for unintended consequences, such as duplication of effort or reduced productivity during the transition. For FAS to benefit from the realignment of its workforce to support category management, full and open communication about shifting resources and responsibilities is necessary.

### **Emphasis on Reducing Government Price Variability**

GSA has launched several pricing initiatives that focus on reducing price variability. Principal among these initiatives are the Transactional Data Reporting rule, the Formatted Product Tool, and the Contract Awarded Labor Category Tool. However, these initiatives either have not been fully implemented as intended or do not consider factors that are essential to ensure that a valid price comparison is conducted. Additionally, these

initiatives only use comparisons between government contract pricing to reduce variability, significantly severing the link between government pricing and the commercial marketplace.

As it works to address these challenges, GSA still must ensure that it can fulfill its responsibility to achieve and maintain fair and reasonable pricing for customer agencies and drive savings for the taxpayer.

**Transactional Data Reporting.** GSA is currently implementing the Transactional Data Reporting rule, which was formalized in the Federal Register in June 2016, as a pilot program. Under this pilot, contractors can voluntarily opt to electronically report the prices GSA customers pay for contract products and services. However, using this data to make comparisons and reduce price variability will be difficult because GSA's Schedules Program includes non-standard products and services.<sup>3</sup> The transactional data GSA receives also may not provide useful pricing information for contracting officers because of how the data is reported. For example, if a contractor's transactional data submission includes bundled product and pricing information, it will not be useful for price analysis of products on the GSA contract that are priced as individual components. Furthermore, contracting officers will compare a contractor's offered price to a limited subset of prices paid by federal customers on actual GSA schedule sales, which ignores any comparable commercial activity.

**Formatted Product Tool.** In 2015, FAS launched the Competitive Pricing Initiative in an effort to address concerns over price variability in the Schedules Program. This initiative, which focuses on products sold through the program, centers around an analysis of a contractor's current contract (or proposed) pricing compared to prices offered by other contractors for an identical product in the government marketplace. The intent is to address price variabilities and ultimately improve schedule pricing.

The Competitive Pricing Initiative is built around the Formatted Product Tool, which is intended to identify outlier pricing. FAS established this tool to help schedule contractors and GSA contracting officers negotiate competitive prices for schedule products with identical manufacturer part numbers. One challenge to meeting this goal is that although the Formatted Product Tool may identify a contractor's pricing as falling outside the acceptable range for a product, no contractual obligation requires the contractor to lower its prices or remove the product from its schedule contract. Another concern is that the Formatted Product Tool's price comparisons may not be accurate. For example, as we have noted in the course of our audits, two contractors may offer identical items using different manufacturer part numbers. The Formatted Product Tool would not compare those items and thus would fail to detect any price differences between them.

Users have also experienced significant system issues with the Formatted Product Tool, such as difficulty uploading pricing data and generating pricing documents and analysis. Because of these issues, GSA has suspended the tool's full deployment. GSA initially

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<sup>3</sup> GSA's Schedule Program is also referred to as Multiple Award Schedules and Federal Supply Schedules programs.

planned to use the tool for six schedules beginning no later than the first quarter of FY 2017, but has since scaled back the deployment to a voluntary pilot on only two of the six schedules.

**Contract Awarded Labor Category Tool.** The Contract Awarded Labor Category Tool is designed to assist contracting officers in evaluating pricing for services. It is intended to allow contracting officers to conduct market research from a database of government contract prices for approximately 56,000 labor categories in over 5,000 contracts under GSA's Professional Services and Information Technology schedules. This tool allows contracting officers to search contract prices by labor category and filter by education level, experience, and worksite. However, because contractors often use unique pricing on task orders, the tool does not provide the actual government prices paid by labor category or the discounts granted to customer agencies. Furthermore, the tool does not consider factors such as geographic location or basic labor category qualification requirements, including specialized experience or skills and mandated professional licensing or certifications, which are essential to ensuring that the comparison is valid.

While none of these initiatives or tools completely eliminate price variability, they all ignore the commercial marketplace and emphasize the acceptance of pricing within an acceptable range based solely on the GSA schedule marketplace, increasing the likelihood that the government will overpay for the same products and services purchased commercially. As GSA continues to apply these tools and initiatives, it must develop means to ensure they maintain a crucial link to the commercial market. GSA must avoid circumstances in which government customers are paying significantly more for the same products and services that are purchased commercially.

## **Delivering the System for Award Management**

GSA is responsible for the System for Award Management (SAM), which is a Presidential e-Government initiative to consolidate ten existing procurement-related systems into one. These legacy systems (referred to as the Integrated Award Environment) are primarily used by those who award, administer, or are awarded federal contracts and intergovernmental transactions, such as grants or other federal assistance. Started in 2008, this initiative has historically overrun timeframes and incurred increased costs. Given the systems' nearly 4 million federal users, diligent project and fiscal management are necessary to ensure SAM's completion and system quality.

Since its inception, FAS has confronted a number of significant challenges to the SAM project. In addition to the daunting task of consolidating ten legacy systems under a complex governance structure, FAS has faced funding constraints, contractor performance issues, and high turnover of project staff. FAS also changed its system development approach. As a result of these challenges, the project – which GSA once expected to complete by 2014 – is not estimated for completion until 2021.

The project delays have also led to significant costs, as FAS must keep legacy systems functioning until the consolidation is finalized. FAS reports the total actual and projected

costs for the development of SAM and operation and maintenance for the legacy systems, from FYs 2010 through 2019, are approximately \$813 million.

GSA has updated the SAM consolidation project milestones; however, risks remain that have the potential to further delay the project's completion. For instance, although FAS is discouraging all but critical or urgent changes to the system in order to focus available resources on the consolidation effort, system changes may be necessary to ensure compliance with updates to regulations or policy or fulfill requests from governance bodies.

Additionally, GSA must act to address the need for uniquely identifying and validating recipients of federal funding in SAM. This is driven by: (1) a Federal Acquisition Regulation final rule that eliminated the use of Dun and Bradstreet's proprietary Data Universal Numbering System as the unique identifier, and (2) the 2018 expiration of Dun and Bradstreet's current GSA contract.

The success of the SAM initiative is critical to enable agencies to share acquisition data and make informed decisions, make it easier for contractors to do business with the government, and generate savings for the taxpayer. While GSA has taken steps to improve and stabilize the project, it must apply sound management practices to identify and address risks to project completion and to ensure the project is delivered in a cost effective and timely manner.

## **Challenge 2: Maximizing the Performance of GSA's Real Property Inventory**

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GSA must maximize the performance of its real property inventory in order to provide its tenant agencies with space that meets their needs at a reasonable cost to American taxpayers. To achieve this goal, GSA should plan the best approach to: reducing and consolidating space, disposing and exchanging federal property, and reducing leasing costs; meeting the operations and maintenance needs of aging buildings; and ensuring effective management of energy and utility contracts.

### **Reducing and Consolidating Space**

To meet the Office of Management and Budget's "Freeze the Footprint" and "Reduce the Footprint" mandates, GSA analyzes opportunities to improve space utilization in its real property portfolio. However, space reduction and consolidation projects should not only be focused on meeting utilization rate goals, but must also support the customer agency mission and achieve an adequate cost payback.

Since FY 2014, Congress has provided GSA with the authority to use funds for space consolidation projects. Most recently in FY 2017, Congress authorized the use of \$48 million from the Federal Buildings Fund to reconfigure and renovate space within GSA-owned and leased buildings. Congress called for preference to be given to consolidation projects that achieve a utilization rate of 130 usable square feet or less per person. GSA

plans to use the funds to improve space utilization, decrease its reliance on leases, and reduce the federal footprint. The goal of these projects is to enable agencies to consolidate within space that more efficiently meets their mission needs while, at the same time, reducing costs to the American taxpayer.

However, GSA is challenged with ensuring it selects projects that will achieve measurable benefits, rather than simply reducing the federal building portfolio. In a time of limited funding, GSA must select the reduction and consolidation projects that will allow it to best maintain its buildings, meet its customers' needs, and lower the total cost incurred by government. For example, while GSA's tenants benefit from a reduced footprint's lower lease costs, GSA risks significant losses to the Federal Buildings Fund if it cannot backfill the vacated space that remains under lease. There are also additional costs if GSA forces an agency to move as part of a consolidation project. In these situations, GSA funds all reasonable costs associated with the relocation of the vacating agency, including design, move coordination and physical relocation, and relocation and installation of telecommunications and information technology equipment.

As GSA continues to facilitate agency consolidation projects, it must ensure that the consolidation projects are cost effective and provide an adequate payback. GSA needs to avoid consolidation projects that improve space utilization, but that are not cost effective and that disrupt agency operations for minimal benefits.

## **Disposing and Exchanging Federal Property**

Over the past several years, Congress has focused on the disposal of excess federal property. The Federal Assets Sale and Transfer Act of 2016 creates the Public Buildings Reform Board to identify opportunities to reduce the federal real property inventory and make recommendations to sell vacant or underutilized properties. While this focus should reduce federal real estate expenditures and the size of the federal real estate portfolio, GSA must plan for and navigate through a complex process when disposing of its own properties and the properties of other federal agencies.

The disposal process can be lengthy. After an agency reports a property as excess, GSA must first determine if another federal agency can use the property. Next, GSA has to make the property available for public benefit uses, such as homeless shelters, educational facilities, or fire or police training centers. If the property is not fit for those uses, GSA can negotiate a sale with state and local governments, as well as nonprofit organizations and institutions. Finally, if the property remains available, GSA can conduct a competitive sale of the property to the public.

The amount of time that a disposal takes is problematic because costs are still being incurred. While a property is vacant or underutilized as well as throughout the entire disposal process, the federal government is responsible for ongoing maintenance, operations, and security costs. For example, at the vacant West Heating Plant in Washington, D.C., the government was responsible for \$3.5 million in maintenance costs over 10 years before the building was sold at public auction in March 2013.

In September 2016 testimony to the Subcommittee on Transportation and Public Assets of the U.S. House Committee on Oversight and Government Reform, the then Public Buildings Service (PBS) Deputy Commissioner stated that GSA planned to divest at least 10 million square feet of underperforming assets over the next 4 years.<sup>4</sup> To reduce the length of the disposal process and costs associated with underperforming assets, GSA must successfully plan for and efficiently progress through the required steps.

Due to tight budgets, GSA has also been pursuing exchanges. Real property exchanges allow GSA to transfer underutilized properties out of its inventory, and unlike disposals, allow GSA to use the value of the transferred property to obtain another property or finance construction needs on other projects. However, as reported in our *Audit of PBS's Planning and Funding for Exchange Projects*, exchange projects are complicated to execute.<sup>5</sup> Exchanges require GSA to invest considerable resources in planning and negotiating exchanges upfront, prior to the completion of the exchange. Because title of the property is not transferred until after construction has been completed, the exchange partner has significant upfront costs before realizing a return on investment. This lag time has caused potential developers to account for risk in the valuation of properties, often coming in well below GSA's expected value.

GSA has begun pursuing large-scale competitive exchanges, different than the smaller-scale exchanges previously completed. For example, in January 2017, GSA signed a \$750 million exchange agreement for the Volpe National Transportation Systems Center in Cambridge, Massachusetts. However, GSA has not been successful with all exchange projects. GSA cancelled or chose not to pursue four large-scale exchanges in process. GSA should ensure that a property exchange arrangement is the most appropriate method to meet its needs before exhausting the time, effort, and money associated with planning and management of exchange projects.

## **Reducing Leasing Costs**

In June 2015 testimony to the U.S. Senate Committee on Homeland Security and Governmental Affairs and the U.S. House Committee on Transportation and Infrastructure, Subcommittee on Economic Development, Public Buildings, and Emergency Management, the former PBS Commissioner noted that in addition to the focus on freezing the footprint, GSA must also focus on the cost of the footprint, in particular as it pertains to leasing. To maximize competition in leasing and control lease costs, GSA must reduce the reliance on holdovers and extensions.

A holdover is created when the tenant continues to occupy the premises beyond the expiration date of the lease term. The government has no contractual right to continue occupancy, but remains in place without a written agreement. An extension is a sole source, negotiated agreement between the lessor and the government allowing the tenant

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<sup>4</sup> In FY 2016, GSA partnered with agencies to dispose of 134 properties for \$28.84 million, resulting in a 2.3 million square foot reduction in the federal footprint.

<sup>5</sup> Report Number A160024/P/R/R17004, March 30, 2017.



agency to continue to occupy its current location, when the tenant is unable to vacate the property when the lease expires.

Short-term holdovers and extensions may provide flexibility, but it comes at a cost, as long-term leases provide incentives for owners to provide lower rental rates and concessions such as periods of free rent. GSA officials stated that their strategy is to emphasize leases of over 10 years, because longer leases typically result in lower annual costs. Further, if GSA can better manage the pipeline of expiring leases to avoid holdovers and extensions, GSA could benefit by conducting fully competitive procurements for long-term leases.

GSA has a considerable number of leases set to expire in the near future. GSA determined that 39 percent of its leases would be expiring between FY 2017 to FY 2019. Of the current lease portfolio of 8,179 leases, 68 are in holdover (0.8 percent) and 1,013 are in extension status (12.4 percent). The short-term nature of holdovers and extensions causes uncertainty for tenants and lessors, and workload management issues for GSA. Negotiating extensions and resolving holdovers requires GSA to perform additional work before finalizing the long-term lease for that tenant. Also, when these short-term extensions expire, they add to the number of leases set to expire in a given year.

GSA's strategy to reduce its dependency on lease holdovers and extensions centers on working with customer agencies to emphasize the importance of earlier planning for upcoming lease expirations. GSA issued *Leasing Alert – Continuing Need Letters and Escalation Protocol* in July 2015 to establish a policy that GSA contact tenants for requirement development at least 36 months before a lease expiration date. Further, GSA has developed the Client Project Agreement to partner with clients to identify space needs earlier and provide options. As leases expire, upfront planning is important to allow for competitive procurements to achieve better rates for the tenant and taxpayer.

## **Meeting the Operations and Maintenance Needs of Federal Buildings**

In recent years, GSA focused on minimizing maintenance costs while maintaining or improving building performance. However, GSA risks the opposite outcome. If operations and maintenance contracts include fewer services and lower performance requirements to reduce costs, building conditions might suffer.

Beginning in FY 2015, GSA focused on minimizing maintenance costs by targeting and consolidating operations and maintenance contracts whose costs exceeded industry benchmarks. In its *FY 2017 Congressional Justification*, GSA continued its efforts to reduce operating costs by holding funding levels for cleaning, maintenance, and building support consistent with the reduced level provided in the FY 2016 enacted funding.

However, GSA must weigh the costs and benefits of any change to its operations and maintenance services. For example, in some instances GSA is scaling back on running heating, ventilation, and air conditioning systems at night and on weekends to reduce maintenance and energy costs. However, this could increase the humidity in the air

causing enough moisture for mold growth. Thus GSA's efforts to minimize operations and maintenance costs may have unintended consequences that result in more costly issues in the future.

The risk that minimized building operations and maintenance services could lead to increased costs in the future is especially problematic given the identified repair needs of GSA's building portfolio. In its FY 2016 Agency Financial Report, GSA reported that approximately 19 percent of its inventory's square footage was not in good condition and that it had approximately \$1.21 billion in immediate needs to restore or maintain acceptable conditions in the building inventory. GSA also reported that it had additional building reinvestment needs of \$1.88 billion over the following 2 years.

If GSA does not meet its building repair needs, the conditions could deteriorate further, leading to increased operating costs and more costly repairs in the future. GSA must ensure that its reductions to its current operations and maintenance costs still provide a safe, reliable, and functional environment.

### **Ensuring Effective Management of Energy Savings Performance Contracts and Utility Energy Service Contracts**

Between September 2013 and May 2017, GSA awarded over \$545 million in energy savings performance contracts (ESPCs) and utility energy service contracts (UESCs). However, ESPCs and UESCs are high-risk areas for GSA, with high-dollar contract values and long-term financial commitments. Without effective management, GSA may not realize projected savings from these contracts.

Under an ESPC, the government contracts with an energy service company to install energy-saving upgrades to buildings, and pays the energy service company from the projected energy savings resulting from the upgrades. An ESPC can last for up to 25 years. A UESC is a contract between a federal agency and serving utility for energy management services, including energy and water efficiency improvements. The utility company pays most or all of the upfront costs, and the government repays the utility company through utility savings, appropriated funds, or a combination of the two. UESCs can also last up to 25 years.

However, ESPCs have presented a number of challenges for GSA. In our FY 2016 audit of ESPCs, we identified a number of issues. Specifically, we found that GSA:

- Risked paying for unrealized energy savings on 10 of the 14 ESPC task orders we audited and did not achieve energy savings on another task order;
- Did not comply with requirements for establishing fair and reasonable pricing;
- Awarded one ESPC task order for a building that may be sold, transferred, or otherwise disposed of; and

- Awarded an ESPC without an approved Measurement and Verification Plan for achieving energy savings.<sup>6</sup>

In February 2017, GSA PBS Facilities Management Service Program officials expressed their continued concern that actual ESPC savings may fall short of the expected savings calculated at the beginning of the contract. Also, they said it is a challenge to determine the correct circumstances for when operations and maintenance costs should be included in the contracts.

Likewise, UESCs also present a number of risks for GSA. The primary risks involved with UESCs include:

- Limited competition among utility companies;
- Use of sole-source contracts; and
- No mandated savings guarantees.

Due to the lack of competition and use of sole source contracts, GSA is vulnerable to paying a high cost for these projects. In addition, because UESCs are not mandated to guarantee savings upon project completion, upfront costs to execute UESC projects may not be offset by the estimates of the long-term savings.

For example, we issued an audit memorandum in September 2011 on a UESC for the Department of Homeland Security's St. Elizabeths campus in Washington, D.C. We found neither a basis for determining price reasonableness, nor justification for use of other than full and open competition.<sup>7</sup> Additionally, we found that funds were inappropriately "borrowed" from this task order to accomplish other work, understating actual obligations and resulting in a violation of appropriations law.

GSA officials should administer these unique contract vehicles appropriately to ensure that energy and cost savings are realized.

### **Challenge 3: Sustaining Technology Transformation Services, FAS**

In May 2012, the President initiated the Digital Government Strategy. This strategy included three objectives: to enable the American people and an increasingly mobile workforce to access high-quality digital government information and services anywhere, anytime, and on any device; to ensure the government procures and manages devices, applications, and data in smart, secure, and affordable ways; and to unlock the power of government data to spur innovation and improve the quality of services for the American people.

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<sup>6</sup> *PBS Energy Savings Performance Contract Awards May Not Meet Savings Goals* (Report Number A150009/P/5/R16003, September 27, 2016).

<sup>7</sup> *Analytical Procedures for Evaluating Cost Proposals Received Under a Utility Energy Services Contract at Saint Elizabeths* (Memorandum Number A090168-06, September 7, 2011).

Subsequent to the release of the Digital Government Strategy, personnel from the White House, the Office of Management and Budget, and GSA began to discuss a project designed to bring innovators drawn from the private sector to bring industry experience and innovation into the government. These officials decided to house this team in GSA and combine it with the Presidential Innovation Fellows program – a program created under the Digital Government Strategy to place private sector technologists in 12-month fellowships within federal agencies to produce solutions to government information technology problems.

In March 2014, GSA’s Administrator announced the launch of 18F, which he described as “a team of experts and innovators that will work to simplify the government’s digital services, making them more efficient and effective.” In April 2016, GSA combined 18F, the Office of Citizen Services and Innovative Technologies, and the Presidential Innovation Fellows program to form the Technology Transformation Service (TTS). This new service was established to “transform the way government builds, buys, and shares technology.”

Since its inception, GSA has faced challenges in operating this new service. In August 2016, the U.S. Government Accountability Office (GAO) found that 18F did not fully establish outcome-oriented goals, measure performance, and prioritize projects.<sup>8</sup> Then, in October 2016, we released a report that identified significant weaknesses in the financial management of 18F. Specifically, we reported that 18F did not have a viable plan to achieve full cost recovery, resulting in a cumulative net loss of over \$31 million from its launch in FY 2014 through the third quarter of FY 2016. We also reported that 18F did not properly execute inter- and intra-agency agreements and lacked reliable internal controls over billings.<sup>9</sup> Our report included seven recommendations, including the need for GSA leadership to establish a viable plan to ensure full cost recovery of 18F projects and implement controls over 18F’s reimbursable agreement process to ensure that work is not performed outside of a fully executed agreement. To date, GSA management has completed corrective actions designed to address five of our seven recommendations.

In a separate report issued in February 2017, we found that 18F routinely disregarded fundamental security requirements related to the acquisition of information technology and the operation of information systems.<sup>10</sup> Specifically, 18F did not comply with GSA information technology security requirements and circumvented the Chief Information Officer’s authority. We concluded that management failures by 18F and GSA IT leadership caused the breakdown in compliance with Agency security requirements. Our report had six recommendations including that GSA identify all 18F information systems and ensure they are properly authorized, and ensure compliance with the Federal

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<sup>8</sup> *Digital Service Programs: Assessing Results and Coordinating with Chief Information Officers Can Improve Delivery of Federal Projects* (GAO-16-602, August 2016).

<sup>9</sup> *Evaluation of 18F* (Inspection Report JE17-001, October 24, 2016).

<sup>10</sup> *Evaluation of 18F’s Information Technology Security Compliance* (Inspection Report JE17-002, February 21, 2017).

Information Technology Acquisition Reform Act. GSA management has since completed corrective actions designed to address all six of our recommendations.

During the course of our evaluations, the U.S. Office of Special Counsel (OSC) became aware of whistleblower disclosures of wrongdoing in TTS made by the FAS Commissioner. OSC referred the allegations to GSA's Acting Administrator for investigation. The Acting Administrator submitted an initial report of GSA's investigation to OSC in April 2017. In that report, the Acting Administrator concluded, based in part on the findings of our evaluations, that TTS engaged in gross mismanagement and violated the Economy Act.<sup>11</sup> In a supplemental report provided in June 2017, the Acting Administrator notified OSC of a major reorganization that transferred TTS and its component offices under FAS.<sup>12</sup> According to the Acting Administrator, the intent of the reorganization was to "address the funding and management control issues" that had been identified within TTS.

Concurrently, we released the results of our investigation into the FAS Commissioner's complaint of whistleblower retaliation regarding the 18F program and TTS.<sup>13</sup> Our investigation found that the complainant engaged in a protected activity and that he was subjected to reprisal for engaging in that activity. Specifically, we found by preponderant evidence that the former GSA Administrator took actions toward the FAS Commissioner that threatened him with transfer or other adverse personnel action, and significantly changed his responsibilities with regard to oversight and control of the Acquisition Services Fund.

In July 2017, OSC reported to the President and Congress that GSA's response to the whistleblower's confirmed disclosures was unreasonable. In its report, OSC disagreed with GSA's assertion that the reorganization would address broader concerns about mismanagement or related questions about the benefit of TTS. OSC urged GSA to follow our office's recommendations and go beyond the reorganization to mandate stringent financial controls designed to prevent future losses.

As GSA continues to address the issues identified in our reports, it faces additional management challenges surrounding the merger of TTS into FAS. For example, GSA will need to ensure that the transition does not adversely affect operations and is effective to sustain TTS's mission to "improve the public's experience with the government by helping agencies build, buy and share technology that allows them to better serve the public." Among other things, GSA will need to ensure that an effective oversight and control structure is implemented for the organization and take steps to address the challenge of frequent leadership changes and high staff turnover in TTS that make it difficult to retain organizational knowledge.<sup>14</sup>

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<sup>11</sup> 31 U.S. Code 1535.

<sup>12</sup> *Change in GSA Organization – Federal Acquisition Service and Technology Transformation Service* (GSA Order ADM 5440.712, June, 28, 2017).

<sup>13</sup> *Investigation of Whistleblower Reprisal Complaint* (June 21, 2017).

<sup>14</sup> A more detailed discussion of GSA's challenges related to hiring and retention of staff is included later in this document under *Challenge 5: Efficiently Managing Human Capital to Accomplish GSA's Mission*.

## **Challenge 4: Making Agency Cybersecurity a Priority**

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The Office of GSA IT (GSA IT) is responsible for providing stable and secure technical solutions and services to meet the business needs of its internal and external customers, while ensuring compliance with information technology security-related laws, regulations, and guidance. Meeting these responsibilities is a significant challenge in an environment of competing priorities and increasingly sophisticated cyber attacks. Ineffective selection, implementation, and observation of information system security controls can result in business disruptions, damage to Agency resources, and the disclosure of sensitive information. In FY 2018, GSA IT will be challenged with strengthening information technology security controls in high-risk areas identified in recent audits conducted by GAO, GSA's independent auditor, and our office. Specifically, GSA IT will need to ensure that building control systems and sensitive information within GSA systems are adequately protected to prevent disruption of government operations and unauthorized information disclosure.

### **Protection of GSA's Building Control Systems against Cyber Threats**

In December 2014, GAO reported that GSA had not fully assessed the risk of building control systems in a manner that is consistent with the Federal Information Security Management Act of 2002 (FISMA) or its implementation guidelines, nor had it conducted security control assessments for many of its building control systems.<sup>15</sup> GAO recommended that GSA assess the cyber risk of its building control systems to comply with FISMA and its guidelines. In 2017, GSA IT established an authorization and assessment framework to perform building assessments that will encompass more than 100 building systems. Continued efforts in this area are necessary as security weaknesses within GSA's building control systems may be used to disrupt government operations or gain unauthorized access to other systems and sensitive information under GSA's control.

### **Controlling Access to Sensitive Information in GSA Systems**

In FY 2018, GSA will continue to be challenged with maintaining the integrity, availability, and confidentiality of sensitive information within its systems. This sensitive information includes, among other things:

- Procurement sensitive information, such as information related to bidding and prices paid, that must be kept confidential to protect the integrity of the acquisition process;
- Personally identifiable information, such as resumes and personal contact information, that must be kept confidential to prevent harm to individuals; and
- Sensitive but unclassified information, such as architectural drawings, that must be protected to ensure the safety of government employees and the public.

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<sup>15</sup> *Federal Facility Cybersecurity: DHS and GSA Should Address Cyber Risk to Building and Access Control Systems* (GAO-15-6, December 12, 2014).

Our office has recently reported on threats to personally identifiable information maintained by GSA.<sup>16</sup> These threats originate from cyber security vulnerabilities, unintentional mishandling of GSA's data, and ineffective Agency responses to reported information breaches. Furthermore, we have identified instances in which GSA has not implemented comprehensive corrective actions to address recent audit recommendations in these areas.<sup>17</sup>

Additionally, the FY 2016 annual FISMA review of GSA's information system security program, GSA's FY 2016 agency financial statement audit, and an FY 2017 audit conducted by our office of the technical security controls for a GSA business application that houses procurement sensitive information, also identified weaknesses in GSA's information security controls.<sup>18</sup> Specifically, the audits and evaluation found vulnerabilities in risk, configuration, and access management that could be exploited to gain access to sensitive information. GSA management must improve its overall information technology security program to ensure that the Agency fulfills its responsibility as the custodian of sensitive information in systems operated by, or on its behalf.

## **Challenge 5: Efficiently Managing Human Capital to Accomplish GSA's Mission**

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GSA must focus on hiring and retaining staff with the necessary skills to perform critical functions, especially given the number of GSA employees in mission-critical roles who will be retirement-eligible in the near future. GSA identified seven mission-critical occupational categories – Acquisition, Financial Management, Information Technology, Program Management, Property Management, Realty, and Human Resources – that make up 43 percent of GSA's workforce. GSA faces the loss of veteran expertise through retirements as 15 percent of employees in these mission-critical occupational categories are eligible to retire now.<sup>19</sup> The importance of a skilled workforce is further highlighted by GSA's responsibility to provide value to customer agencies, comply with increased regulatory requirements, and mitigate the risk of information technology security threats.

**Federal Acquisition Service.** In 2016, we reported that GSA's FAS does not have a comprehensive human capital plan for its contract specialist workforce. This places a critical segment of the acquisition workforce at risk for inadequate staffing to fulfill its

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<sup>16</sup> See for example, *Personally Identifiable Information Unprotected in GSA's Cloud Computing Environment* (A140157/O/F/R/F15002, January 29, 2015) and *Audit of GSA's Response to the Personally Identifiable Information Breach of September 18, 2015* (A160028/O/T/F16003, September 28, 2016).

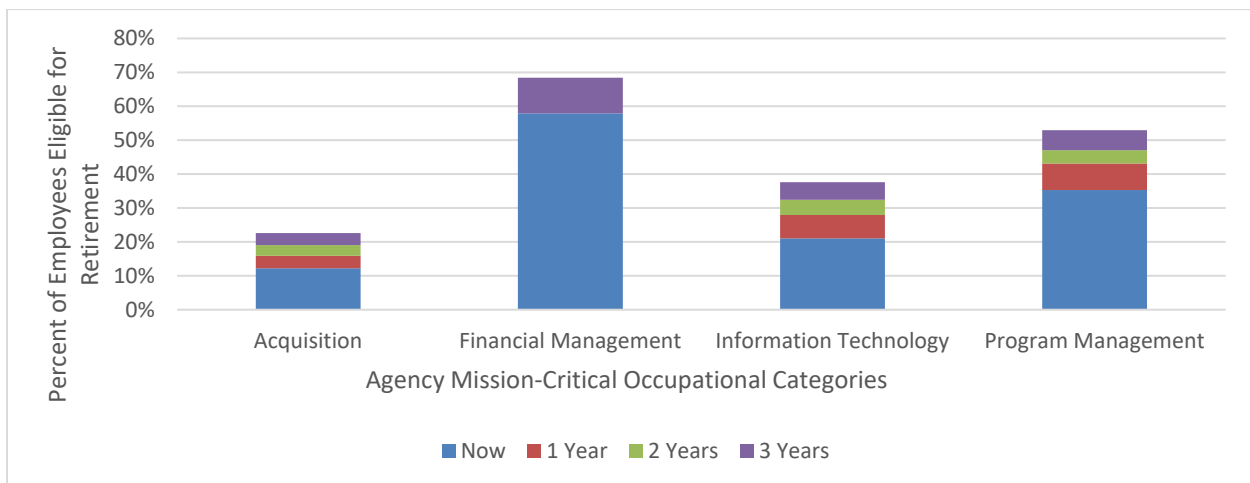
<sup>17</sup> *Implementation Review of Action Plan: Personally Identifiable Information Unprotected in GSA's Cloud Computing Environment Report Number A140157/O/R/F15002, January 29, 2015* (Assignment Number A160045, January 26, 2017).

<sup>18</sup> *Fiscal Year 2016 Independent Evaluation of the U.S. General Services Administration's Compliance with the Federal Information Security Modernization Act of 2014 Report* (KPMG, LLP, December 16, 2016) and *Independent Auditor's Report on GSA's FY 2016 Financial Statements* (KPMG, LLP, November 8, 2016).

<sup>19</sup> All data percentages contained within this management challenge are based on data from May 31, 2017, unless otherwise noted.

mission.<sup>20</sup> Absent such a plan, FAS may hire employees without assessing its needs and hiring costs, considering turnover rates, and planning for upcoming retirements. In response to our report, FAS finalized its Human Capital Strategic Plan in February 2017 and plans to work closely with the Office of Government-wide Policy and the Office of Human Resource Management on the overall GSA acquisition workforce plan. As shown in *Figure 1*, between 20 and 70 percent of the staff in each FAS mission-critical occupation is eligible for retirement in the next 3 years. FAS must prepare to adapt to this loss of expertise.

**Figure 1 - FAS 3-Year Retirement Eligibility by Mission-Critical Occupational Category**



Prior to its June 2017 reorganization into FAS, TTS experienced frequent leadership changes and high staff turnover. Many of TTS's component offices were led by individuals serving in acting capacities. Further, 65 percent of TTS employees are in excepted appointments that generally last 2 years with possible 2-year extensions.<sup>21</sup> While this arrangement allows TTS to capitalize on emerging innovation from the private sector, it also contributes to high staff turnover, which hinders building institutional knowledge. FAS management must consider whether to continue this staffing model and, if so, how to develop institutional knowledge in this part of the organization.

**GSA IT (Office of the Chief Information Officer).** GSA IT aims to deliver high-quality information technology systems and services to its business partners across GSA. To do this, GSA IT must have a highly skilled cybersecurity staff to, among other responsibilities, respond to and recover from unintentional or intentional cyber-attacks, including those related to personally identifiable information. As illustrated by *Figure 2*, GSA IT faces the immediate retirement of 23 to 33 percent of its staff in three of its four mission-critical occupations. Given the competitive employment market in the Washington, D.C., area,

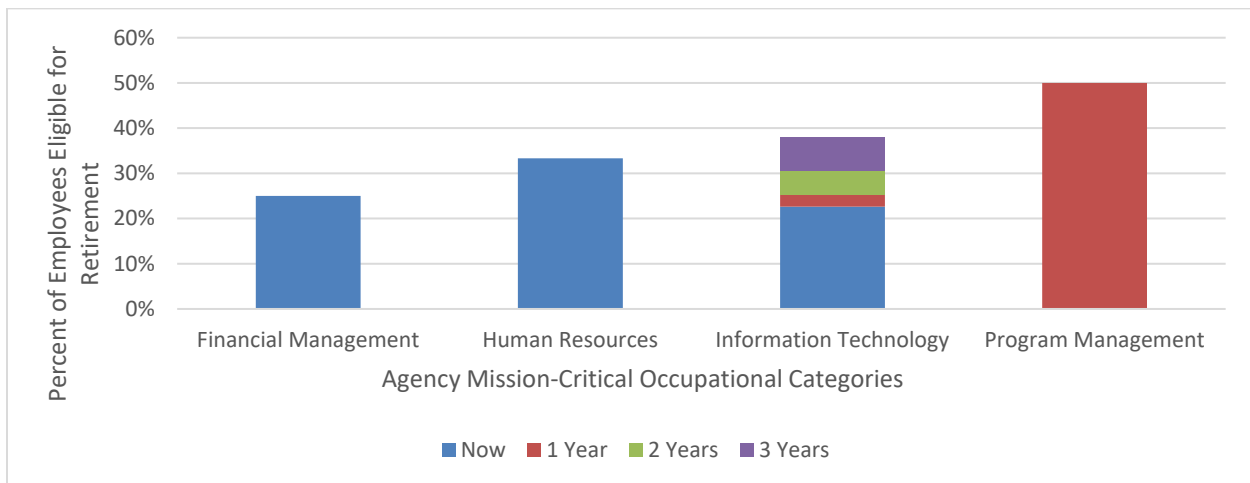
<sup>20</sup> *The Federal Acquisition Service Needs a Comprehensive Human Capital Plan for its Contract Specialist Workforce* (Report Number A150033/Q/9/P16002, July 22, 2016).

<sup>21</sup> Excepted appointments are not competitive and enable agencies to fill jobs with special or unique circumstances using streamlined procedures.



GSA IT has been expanding its hiring of information technology security specialists in other locations, such as the cities of Kansas City, Denver, and Dallas. GSA must prioritize the availability of qualified cybersecurity staff to operate, maintain, and protect the Agency’s information technology systems and data.

**Figure 2 - GSA IT 3-Year Retirement Eligibility by Mission-Critical Occupational Category**



**Office of the Chief Financial Officer.** GSA’s Office of the Chief Financial Officer (OCFO) is subject to several laws that result in significant workload, such as the Digital Accountability and Transparency Act of 2014 (DATA Act) and the Improper Payments Elimination and Recovery Improvement Act of 2012. Our work on GSA’s DATA Act implementation noted challenges with competing priorities and the availability of dedicated GSA resources to ensure continued progress.<sup>22</sup> For example, employees working on the DATA Act also have to perform their primary roles in GSA, and GSA received no additional funding for its required work under the Act. Similarly, in our FY 2015 improper payments report, we observed that the OCFO has constant turnover and may be understaffed, likely contributing to the audit findings.<sup>23</sup>

The OCFO, like other offices, also has to manage the loss of veteran expertise. *Figure 3* illustrates this concern by comparing the number of new hires to separations (executive level to Grade GS-13) within the OCFO during the last 12 months. The Chief Financial Officer is focused on more efficiently executing the OCFO’s mission. While improved efficiency is a positive goal, we caution that too much streamlining could compromise internal controls.

<sup>22</sup> *The Office of Inspector General’s Readiness Review of GSA’s Implementation of the Digital Accountability and Transparency Act* (Audit Memorandum Number A150150-2, November 30, 2016).

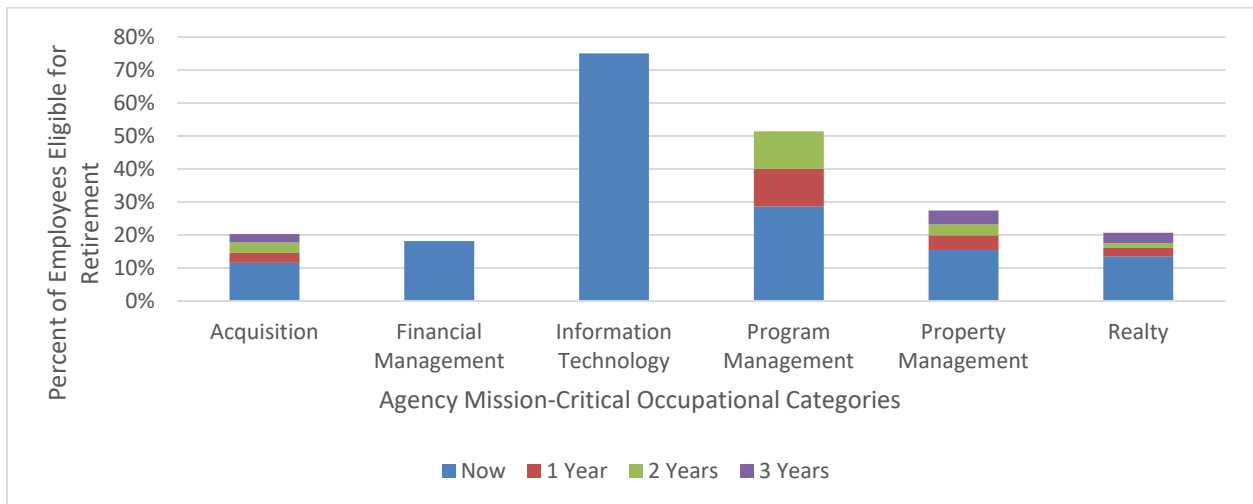
<sup>23</sup> *GSA Did not Fully Comply with the Improper Payments Acts in FY 2015* (Report Number A160018/B/5/F16002, May 11, 2016).

**Figure 3 - OCFO New Hires and Separations in Prior 12 Months**



**Public Buildings Service.** As *Figure 4* illustrates, GSA’s PBS will face upcoming retirements of mission-critical staff within the next 3 years. For example, PBS already relies heavily on external construction managers to support its construction program. PBS contracts with these consultants to provide technical expertise in contract administration activities that are vital to project success, such as cost estimating, source selection and evaluation, negotiating, project management, and acceptance of work. The potential retirement of more than 50 percent of its own internal Project Management staff within 3 years would create experience and technical voids in PBS’s workforce, and force PBS to rely on consultants for administration of its over \$1 billion dollar capital construction program.

**Figure 4 - PBS 3-Year Retirement Eligibility by Mission-Critical Occupational Category**



With a significant portion of its mission-critical workforce eligible to retire over the next few years, GSA officials must strive to maintain technical expertise as the Agency works to meet regulatory requirements and customer demands.

## **Challenge 6: Safeguarding Federal Facilities and Providing a Secure Work Environment**

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GSA plays a significant role in providing a safe, healthy, and secure environment for employees and visitors at over 9,000 owned and leased federal facilities nationwide. Under Presidential Policy Directive 21 on *Critical Infrastructure Security and Resilience*, government facilities were designated as a critical infrastructure sector and GSA and the Department of Homeland Security were named as responsible agencies. In accordance with the directive, the Department of Homeland Security's Federal Protective Service is the primary agency responsible for providing law enforcement, physical security, and emergency response services to GSA tenant agencies, buildings, and facilities. Meanwhile, GSA is responsible for continuity of operations, providing governmentwide contracts for critical infrastructure systems, and coordination with the Federal Protective Service to ensure building occupant security.

Our reports have repeatedly pointed out that GSA's security clearance process for contractors needs improvement. We have repeatedly recommended corrective actions be taken to ensure all contractor employees accessing GSA facilities have the proper security clearances prior to having site access. We have also recommended that background check information be shared with, and retained by, contract and project management staff.<sup>24</sup> During one audit of PBS procurements, we found limited evidence of coordination among the GSA Chief Security Office and PBS officials to ensure only suitable individuals could access federal buildings.<sup>25</sup> In another audit, we found that contractor employees who had not received security clearances were allowed to work on a construction project at a federal building and that subsequently, PBS had not taken all of the corrective actions to resolve the issues.<sup>26</sup>

Additionally, two evaluation reports we issued concluded that GSA-managed facilities are at an increased risk of unauthorized access. Unauthorized access to federal facilities increases the risk of a security event such as an active shooter, terrorist attack, theft of government property, or exposure of sensitive information. Specifically, we identified significant deficiencies in GSA's process for managing GSA issued Homeland Security Presidential Directive 12 Personal Identity Verification (HSPD-12 PIV) cards to

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<sup>24</sup> *Implementation Review of Corrective Action Plan Contract Administration for Group 10 Recovery Act Limited Scope and Small Construction Projects Report Number A090184/P/R/R12008* (Assignment Number A130130, March 28, 2014) and *PBS NCR Potomac Service Center Violated Federal Regulations When Awarding and Administering Contracts* (Report Number A130112/P/R/R15004, March 27, 2015).

<sup>25</sup> *PBS NCR Potomac Service Center Violated Federal Regulations When Awarding and Administering Contracts* (Report Number A130112/P/R/R15004, March 27, 2015).

<sup>26</sup> *PBS is not Enforcing Contract Security Clearance Requirements on a Project at the Keating Federal Building* (Report Number A150120/P/2/R16002, March 17, 2016).

contractors and for ensuring the completion of contractor employee background investigations. We also found deficiencies in GSA's tracking and maintenance of contractor employee background investigation data stored within GSA's Credential and Identity Management System.<sup>27</sup> In addition, we found widespread use of unsecured, unregulated facility-specific building badges at GSA-managed facilities. GSA does not have adequate controls over these badges and cannot determine the extent of their associated security risks because it does not centrally monitor the management of the badges.<sup>28</sup> In response to these reports, GSA has agreed to address vulnerabilities associated with building-specific facility access cards and PIV cards.

GSA management maintains that it is working to improve its building security operations. In particular, it has been emphasizing the performance and implementation of facility security assessments. The facility security assessments evaluate a building's security risk and recommend countermeasures to mitigate the risk. We currently have an ongoing audit that is examining security risk assessments of GSA's buildings.

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<sup>27</sup> *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Management of Contractor HSPD-12 PIV Cards* (Report Number JE16-002, March 30, 2016).

<sup>28</sup> *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Use of Facility Specific Building Badges* (Report Number JE16-003, March 30, 2016).