VA ENTERPRISE CENTERS
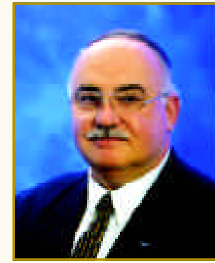
2002

ANNUAL REPORT

Table of Contents

Message From the Chief Financial Officer

In my short tenure at VA, I have observed, first-hand, the VA Franchise Fund's commitment to sound business practices and customer service. The lines of business (VA Enterprise Centers) within the Franchise Fund are meeting the challenges set forth in the President's Management Agenda by leveraging technology and the expertise of their staffs to deliver best value services to VA and a wide range of other federal agencies. Within VA, program offices rely on the quality of the Enterprise Centers' products and services to be responsive to the needs of the Nation's veterans and their families.

VA's Enterprise Centers include an ultra-modern computer center with state-of-the-art equipment (**Austin Automation Center**), a debt collection center that employs every collection tool available to federal agencies (**Debt Management Center**), a federal financial solutions and service provider of a complete suite of financial management services (**Financial Services Center**), a sole provider of a unique federal law enforcement training program that emphasizes customer/patient safety in all our interactions, and uses aggressive action only as a last resort (**Law Enforcement Training Center**), a center that performs background investigations/adjudications and processes fingerprint and ID cards (**Security and Investigations Center**), and a cavern that serves as a highly secure records storage center (**VA Records Center and Vault**). We provide "one stop shopping" for comprehensive business solutions for today's government.

The Enterprise Centers do not have "captive" customers. All of their customers have the option of going elsewhere to obtain common administrative services. As such, we take great pride in the ability of the Enterprise Centers to retain and expand service offerings to their customers. Custom-tailored agreements that include performance measures make the Enterprise Centers truly accountable to their customers. Our centers consider themselves to be a business partner with every customer and strive to sustain superior relationships. Our success in sustaining these relationships is the result of focusing our technologies and business improvements on the customer, and our diligent pursuit to provide customers with the highest standards of excellence. Furthermore, independent auditors have attested to the sound financial condition of the VA Franchise Fund by issuing unqualified (clean) opinions in each of the past 5 years.

I am proud to be associated with such a dedicated group of professionals. Please take the time to review this report to see how the VA Enterprise Centers are working together to achieve the extraordinary in government and how the Department, other federal agencies, and the American taxpayer have benefited from their comprehensive business solutions.

William H. Campbell
Chief Financial Officer

*On behalf of the Department of Veterans Affairs (VA), I am pleased to present the VA Franchise Fund Fiscal Year 2002 Annual Report. This report highlights how we are **Working Together to Achieve Extraordinary Performance in Government**. The diverse products we offer directly support the Department's goal of delivering world-class service to veterans and their families through effective communication and management of people, technology, business processes and financial resources.*

FY 2002 was another successful year for the VA Franchise Fund. The total revenue generated by the VA Enterprise Centers, $136.8 million, is comprised of three major segments (information technology, financial management, and security and law enforcement). The information technology segment generated 69 percent of the revenue, while the financial management and security and law enforcement segments generated 27 percent and 4 percent, respectively.

Steve Swanson
Director, Enterprise Fund Office

Made up of six self-supporting organizations and one administrative office, the VA Enterprise Centers employ over 740 employees. VA is one of six federal agencies participating in the Franchise Fund Pilot Program authorized under the Government Management Reform Act (GMRA) of 1994. Established in 1997, the common administrative services provided by the VA Enterprise Centers were to be financed on a fee-for-service basis rather than through an appropriation.

Today, with the growing number of fee-for-service government activities, federal customers can exercise choice about what services to buy and where to buy them at competitive prices. Because services are no longer "free," the federal community is becoming more fiscally aware and is demanding quality services. This has placed competitive pressure on us to increase efficiency, improve performance, and enhance value to maintain our existing customers and attract future ones.

As a full-service provider, we embrace the challenges of creating a customer-oriented environment where business plans, performance measures, financial stewardship, and competition are motivators of our performance.

At-A-Glance

Supporting VA's Mission

The Enterprise Centers support VA's mission by supplying common administrative services at competitive prices. We are able to do this by adopting more efficient business processes and increasing sales to new and existing customers. This conserves scarce VA resources by spreading fixed costs over a larger unit base. By doing so, VA can then devote more resources to its primary mission. As we successfully market our services to other federal agencies, we enable the programs in those agencies to derive similar benefits.

TO CARE FOR HIM WHO SHALL HAVE BORNE THE BATTLE AND FOR HIS WIDOW AND HIS ORPHAN

Abraham Lincoln
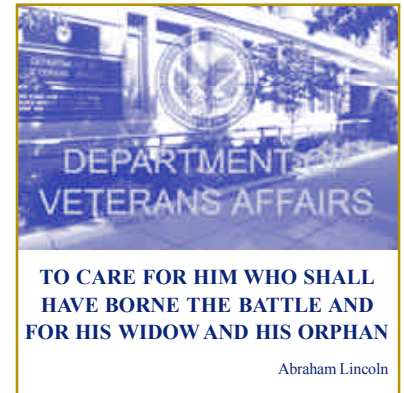
Stakeholders

External stakeholders include: Veterans and their families, private sector vendors, the National Archives and Records Administration (NARA), Department of Agriculture (Agriculture), National Aeronautics and Space Administration (NASA), General Services Administration (GSA), Office of Management and Budget (OMB), Department of Defense (DOD), Department of Energy (DOE), Department of Labor (Labor), Department of Transportation (DOT), Department of the Treasury (Treasury), Securities and Exchange Commission (SEC), and other organizations within federal agencies.
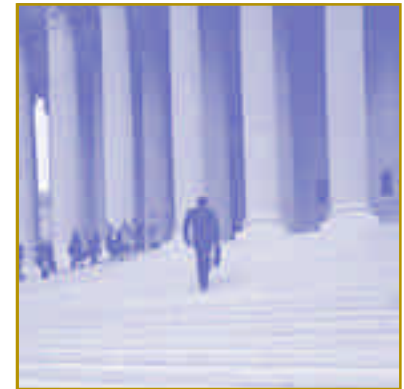
Internal stakeholders include: Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA), and staff offices within VA.

Comprehensive Business Solutions for Today's Government

Centers	Brief Descriptions	Products/Services	Locations
Austin Automation Center (AAC)	Recognized award-winning data center, providing cost-efficient e-government solutions and enterprise "best practices." In addition, the AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits, and supply functions.	• Platform Hosting • Acquisition Services • Application Management • Total Information Assurance • Customer Business Continuity • Configuration Management • Data Conversion and Data Interfacing	Austin, TX
Debt Management Center (DMC)	Leader in the federal debt community that oversees the entire collection process: making initial cold calls to debtors, negotiating repayment plans and administering automated recovery programs. It employs every collection tool available to federal agencies, including referrals to locator services, private collection agencies, and computer matching.	• Account Maintenance • Administrative Offset • Administrative Services • Predictive Dialer (Telephone Solicitation)	St. Paul, MN
Financial Services Center (FSC)	Customer-focused provider of federal financial solutions and a complete suite of financial management services.	• Invoice and Payment Processing • Payroll Services • Financial Accounting/Reporting • Audit Recovery Services • Financial Consulting Services • Credit Card Processing • Travel Services • Document Management • Electronic Commerce/Electronic Data Interchange • Training	Austin, TX
Law Enforcement Training Center (LETC)	Sole provider of a unique federal law enforcement training program that provides an alternative approach emphasizing nonviolent techniques to ensure the safety of patients, customers, and staff and maintains order in federal institutions. Its program is geared toward how to resolve incidents in a humane, respectful manner and to utilize law enforcement as a last resort.	• Basic Police Officer Training • Baton Instructor Training • Detective Training • Semi-Automatic Pistol Training • Administrative Investigations Training • Supervisory Officer Training • Self-Protection Training • Violence in the Workplace Training • Armorer Training	Little Rock, AR
Security and Investigations Center (SIC)	Performs background investigations/adjudications, fingerprint processing, and identification badge and access card design and production.	• Investigations/Adjudications • Fingerprint Processing • Identification Badge & Access Card Design and Production	Washington, DC
VA Records Center and Vault (VA RC&V)	Highly secure, climate-controlled certified storage facility that houses short-term and long-term records and files.	• Records Storage • Retrieval Services	Midwest

At-A-Glance

VA Enterprise Centers Organization Chart

```
                          ┌─────────────────┐
                          │   OFFICE         │
                          │   OF THE         │
                          │   SECRETARY      │
                          └─────────────────┘

┌──────────────┐   ┌──────────────┐   ┌──────────────┐   ┌──────────────┐
│   OFFICE     │   │  OFFICE OF   │   │  OFFICE OF   │   │ FRANCHISE FUND│
│   OF         │   │  POLICY AND  │   │ INFORMATION  │   │  BOARD OF     │
│  MANAGEMENT  │   │  PLANNING    │   │ AND          │   │  DIRECTORS    │
│              │   │              │   │ TECHNOLOGY   │   │               │
└──────────────┘   └──────────────┘   └──────────────┘   └──────────────┘

┌──────────────┐   ┌──────────────┐
│   OFFICE     │   │  OFFICE OF   │
│   OF         │   │ SECURITY AND │
│  FINANCE     │   │ LAW          │
│              │   │ ENFORCEMENT  │
└──────────────┘   └──────────────┘

┌──────────────┐
│  OFFICE OF   │
│  FINANCIAL   │
│  OPERATIONS  │
└──────────────┘
```

ENTERPRISE FUND OFFICE

FINANCIAL SERVICES CENTER

DEBT MANAGEMENT CENTER

LAW ENFORCEMENT TRAINING CENTER

SECURITY AND INVESTIGATIONS CENTER

AUSTIN AUTOMATION CENTER

VA RECORDS CENTER AND VAULT

Revenue and Customer Trends

VA Franchise Fund Customer Trend
As of September 30

1998	1999	2000	2001	2002
58	72	81	84	73
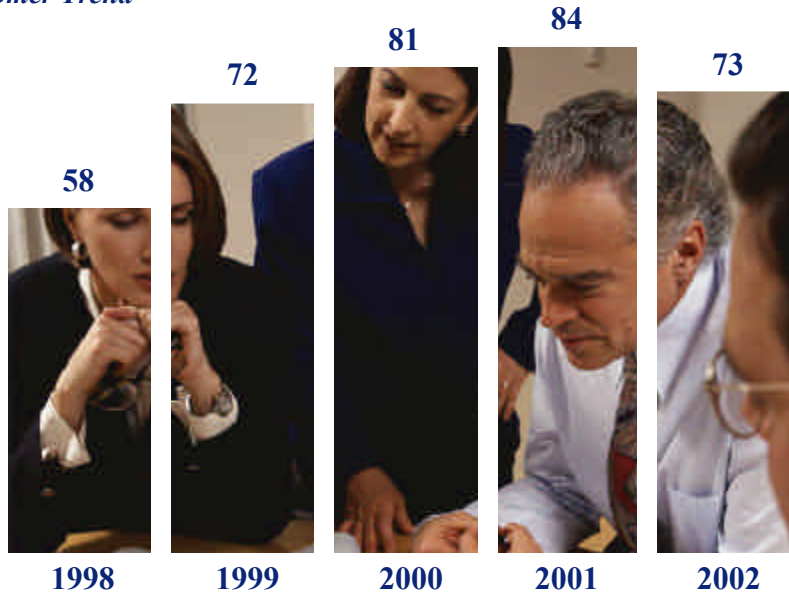
VA Franchise Fund Revenue Trend
As of September 30,
(Dollars in Thousands)

1998	1999	2000	2001	2002
$87,970	$95,284	$137,743	$140,985	$136,856

At-A-Glance

FY 2002 Accomplishments

- Accomplished the live test of the AAC's business continuity planning disaster recovery procedures within defined timeframes. Testing was done remotely to ensure successful fail over of network connectivity, as well as the ability to reestablish systems and applications at the recovery site.

- Recognized by VA InfoSec2002 Conference as the Cyber Security Practitioner of the Year. This award recognized efforts over the past year to strengthen both physical and information security programs. These improvements, independently reviewed and verified by VA's Office of Inspector General audit teams, acknowledged the AAC's solid information security program, as well as ongoing efforts for improvement.

- Entered into a partnership agreement with VA's Office of Acquisition and Materiel Management to jointly provide acquisition services to VA and other government agency customers. As partners, the AAC is well positioned to help VA and other federal agencies acquire products and services for their programs on a project-by-project basis.

- Improved rate of return by 15 percent, from $51.72 to $59.56 at the DMC. Collections/offsets for FY 2002 totaled $353 million compared to $312 million for FY 2001, a 13 percent increase.

- Netted VA $49.7 million in offsets as a result of referrals to the Treasury Offset Program and collected $10.8 million on VA debts through the Department of the Treasury's cross-servicing program.

- Implemented a firearms training program in 45 VA medical centers.

- Completed an extensive construction project to make room for a new indoor firing range to enhance VA's law enforcement training program. The new facility houses a state-of-the-art 15-position firing range, an armory, weapons cleaning areas and classrooms.

- Reduced closure time of investigations—from 87 to 62 days—despite the dramatic increase in the volume of background investigations.

- Began transfer of VHA records from 14 NARA records centers throughout the United States to the VA RC&V. This initiative offers VHA the long-term benefit of millions of dollars in savings, as well as the benefit of having records stored at a centralized location.

- Served as the focal point for all VA external audit engagements, which led VA to their fourth unqualified "clean" audit opinion and the VA Franchise Fund to their fifth consecutive unqualified "clean" audit opinion.

- Realized a reduction in interest penalty payments—over 60 percent in VISN 22 (Southern California Healthcare System) and 77 percent in VA Central Office (Washington, DC) through expanded use of the Online Certification System.

- Collected over $2.3 million—a 44 percent increase over FY 2001. Over $1.4 million relates to unapplied credits and $0.9 million relates to duplicate payments.

- Saved VA $1.8 million by canceling duplicate payments before the Department of the Treasury actually made payment.

- Acquired a technological solution (FASMatch) which easily automates manual matching of deposits and disbursements; produces, manages, and reconciles the Statement of Transactions Report (SF-224); obtains data for customer billings; and provides a complete audit trail.

- Processed payroll for approximately 225,000 VA employees per pay period, resulting in gross salary payments of over $3.85 billion.

- Processed 2.6 million transactions for purchase card holders, resulting in $15.9 million in rebates.

- Processed 5.1 million vendor payments, totaling $9.7 billion. Over 3.3 million payments were processed by electronic funds transfer, equating to $6.5 billion.

- Processed 13,791 Permanent Change of Station (PCS) transactions, facilitated over 668 PCS moves, audited a statistical sample of 2,366 temporary duty travel vouchers for compliance with Federal Travel Regulations and Comptroller General and General Services Administration decisions, and issued prompt reimbursements to travelers.

Helping Our Customers Achieve Success

Sharing Information Through Business Applications

Implementing Web-enabled technology is a major driver of e-government. The development of business applications that can share knowledge bases across parent agencies and between other federal agencies can dramatically improve both operations and overall service delivery to the American citizen.

Sharing Healthcare Data

The Austin Automation Center (AAC) supports VHA in the coordination of improved healthcare information with DOD programs and systems with its network connectivity and security scanning for the **Federal Health Information Exchange (FHIE)** system, a data repository for health information (laboratory results, radiology reports, outpatient prescription data, and selected demographic information) from DOD. A **Virtual Private Network (VPN)** between VA and DOD provides an interface for the VHA Consolidated Mail Outpatient Pharmacy (CMOP) at Leavenworth, Kansas, to accept prescription data from three medical treatment facilities (MTF) to process and mail prescriptions and return release data to DOD. In addition, the VPN allows DOD medical personnel to order laboratory tests and results from 128 VA medical centers.

To protect data, firewall protection was enhanced to isolate important network segments and provide more control over data access.

Accessing e-Military Records

The AAC Web-enabled the mainframe **Military Personnel Records (MPR)** application for NARA. This application provides NARA customers Internet access to their military personnel records. In addition, a **Medical Records Registry System (MRS)** was developed which indexes military medical treatment records that are retired to the National Personnel Records Center (NPRC) in St. Louis, Missouri. Authorized personnel can also use the Internet to request medical records of military personnel, their spouses, children and other military dependents.

Sharing Health Eligibility Information

The AAC is actively participating in a project that will result in the sharing of information between VBA and VHA databases. The AAC will serve as the data broker and delivery coordinator of the shared information. This sharing of military service history, benefits claims information, and disability claims information is extremely important to the **Health Eligibility Center (HEC)**, the organization that establishes patient eligibility for VA health benefits, and the **Health Administration Center (HAC)**, the organization that administers VA's healthcare benefits to veterans' survivors and/or dependents.

Accessing e-Medical Registries

In 2001, the General Accounting Office (GAO) and Congressional subcommittees became interested in the number of veterans with specific clinical cases, the care they receive, as well as any other available information regarding veterans with specific illnesses. The **Clinical Case Registry (CCR)** is one of many registries developed to aid in reporting on these clinical cases. The first registry included in the CCR was the **Hepatitis C (Hep C) Registry**. The Hep C Registry contains all pertinent medical information on veterans who have tested positive for the Hep C virus. The Hep C Registry was created in partnership with the AAC, VHA, and Oracle Consulting. This registry provides a database of information spanning the past 6 years and is used to store and report information from the VHA medical system. As a result of customer satisfaction with the Hep C project, the interface will be expanded to include the **Immunological Case Registry (ICR)**. In FY 2003, the ICR will be added to the CCR. The ICR contains all pertinent medical information, spanning the past 12 years, on veterans who have been tested for the HIV virus. The interface will be expanded to accept records from 128 VA medical centers, the National Patient Care Database, and the Patient Treatment File System for storage and reporting through Oracle Enterprise System Tools.

Numerous other medical registries, such as Agent Orange (AO), Persian Gulf War (PGW), and Ionizing/Radiation (I/R), are being converted from batch to Web-enabled processes. AO became the pilot project and has been deployed to all VA medical centers. PGW is under development and I/R will follow in FY 2003. There are several advantages of Web-enabled processing including online editing, elimination of user coding errors with on-screen edits, overnight processing submissions, Intranet firewall protection, and next-day access to reports. These advantages provide medical facilities with more control over processes.

Redesigning WC/OSH MIS

The **Workers' Compensation/Occupational Safety Health Management Information System (WC/OSH MIS)** is used by VA, GSA, NASA, the Department of Justice, Department of State, and Army Medical Command (Medcom) to manage workers' compensation and safety programs. A major redesign was completed to reduce individual agency customization previously required. This system can now be installed for new customers without the delays associated with program processing changes and COBOL batch creation. The system redesign eliminated 95 percent of COBOL batch processing with Oracle scripts. This virtually eliminated the mainframe processing time associated with COBOL batch processing. The number of files held in the direct access storage device (DASD) is being reduced by three-fourths for all WC/OSH MIS customers.

Automating Orders

The AAC continues to work with the Veterans Canteen Service (VCS) to enhance their **Purchase Order Management System (POMS)**, a nationwide Web-based system developed by the AAC to automate the ordering, receiving, and inventory tracking system for 172 canteens at VA medical centers across the country and VA Central Office in Washington, DC. The most recent major improvement was the implementation of the hand-held scanner that provides canteens with the capability to perform onsite verification of quantities on hand. POMS can now read the scanner data, calculate order points using sales history, and generate purchase orders automatically. An Intranet online shopping catalog was also created so customers can browse the catalog prior to making their purchase. An upgrade is planned to allow purchases online by credit card for employees, patients, and patients' families.

Helping Our Customers Achieve Success

Responding to Heightened Building and Network Security

The events of September 11, 2001, caused us to rethink our existing strategies for increasing building security, conducting background investigations, training law enforcement personnel, and securing networks.

Increasing Building Security

The Security and Investigations Center (SIC) identification (ID) card services, in combination with background investigations, provide VA with the maximum possible security and safety. The upgrade in the **Homeland Security Advisory System Alert** level required federal agencies to carefully screen the ID badges of employees and contractors entering government buildings. This screening revealed that several employee badges were outdated and required renewal. The SIC's state-of-the-art technology met the increased demand. In FY 2002, the SIC processed 3,027 ID badges.

Conducting Background Investigations

The critical elements of ensuring a secure work environment has led to an increased number of government employees and contractors subject to background investigations and clearances. The SIC worked closely with VA staff and regional offices, as well as the Law Enforcement Training Center (LETC), to ensure all individuals subject to a background investigation received expeditious processing. As a result, 853 investigations were conducted, as compared to 700 and 750 that were processed for FY 2000 and FY 2001, respectively.

In addition, due to the **Export/Import (EXIM) Bank's** expedited background investigation requirements after September 11th, we designated a special day exclusively for processing EXIM Bank employees' fingerprints, which allowed them to meet their weekly Office of Personnel Management (OPM) submission requirements.

Training Law Enforcement Personnel

The LETC puts a premium on teaching the federal law enforcement community an alternative to the traditional law enforcement approach. It places emphasis on customer/patient safety in all interactions and uses aggressive action only as a last resort. Our curriculum can be customized to meet the unique needs of any agency; therefore, it is well-suited for parks, museums, and other healthcare facilities. As the federal government's sole provider of law enforcement training, with an emphasis on assaultive-patient situations, we train for today's problems with the latest in tactics and cutting-edge technology.

The LETC played a vital role in helping VHA, the Indian Health Service, DOD Tripler Army Medical Center, Walter Reed Army Medical Center, National Guard, National Museum of Art and Washington Navy Yard meet their specific training needs. In FY 2002, 98 percent of the enrolled students graduated from the training program. Enrollment dramatically increased from 421 students in FY 1999 to 924 in FY 2002, and 1,367 are expected to enroll in 2003.

**Law Enforcement Training Center
Number of Enrolled Students
As of September 30,**
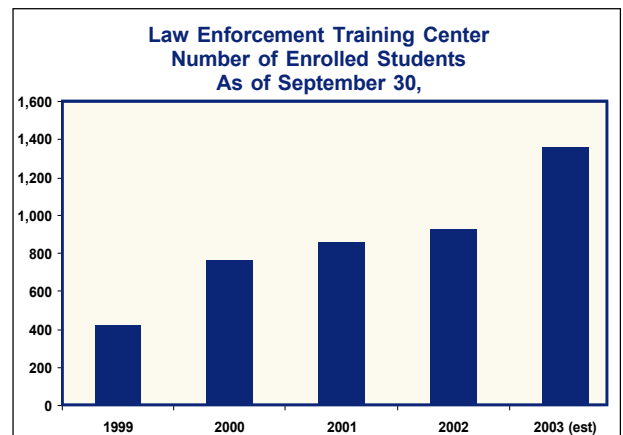
In light of the heightened security, material was incorporated in the training curriculum to increase the ability of police officers to react in emergency situations; the firearms training program was accelerated and the law enforcement community at 45 VA facilities was successfully trained; additional police officers were added to VA facilities to enhance safety and security; and our training facility was expanded to include a state-of-the-art indoor firing range.

Ensuring Network Security and Availability

The AAC, like other organizations, is quickly shifting to underscore the importance of security. To ensure the security and availability of networks and systems, additional measures were taken in FY 2002 to enhance both data and physical security.

Full access to the computer operating system at the system startup level was restricted to very specific support personnel to improve the integrity level of critical data.

During our annual live test of the Business Continuity Plan (BCP) disaster recovery procedures, the AAC invited employees from the VBA information technology centers in Philadelphia, Pennsylvania, and Hines, Illinois, to participate. Using the AAC's recovery procedures, staff from the three centers successfully restored all applications identified for testing within required timeframes. Live testing validates our ability to successfully reestablish systems and applications at a remote location should a disruption of service or catastrophic event occur.

The AAC obtained a new circuit rerouting service to enhance disaster recovery services. The circuit rerouting plan is designed to handle catastrophic events or customer-specific events such as power outages, system failures, or fires.

In addition, investments were made in additional intrusion detection sensors and other IT security tools and automated security checks to ensure servers are securely configured, and in the career development of our certified security staff. Two of the AAC's security specialists achieved the Certified Information System Security Professional (CISSP) certification, and another successfully completed the LETC training program.

The FSC has completed its Continuity of Operations (COOP) plan focusing on the people and processes necessary for sustained operations during natural or man-made disasters that may disrupt normal business activity. This new, comprehensive plan provides for activating alternative locations should the main facility in Austin, TX, be compromised. The COOP plan will be kept current through updates and regular testing. Hence, services and operations will be restored with minimal impact to our customers.

The FSC operates under a constant state of readiness in dealing with data network threats. With new intrusion detection systems and monitoring software in place, we are prepared to identify and successfully respond to incidents. As a direct result of this information security posture, downtime due to viruses, intrusions, or attacks was avoided during this past year.

Helping Our Customers Achieve Success

Keeping Federal Records Safe and Secure

With nearly one million square feet of undeveloped space available for future expansion, our facility will be able to accommodate new customer business.

Expanding Record Holdings

The VA Records Center and Vault (VA RC&V) has been providing records management and storage services to VA for many years in its secure, climate-controlled facility staffed by experienced archive technicians. The VA RC&V has successfully expanded its customer base to the Defense Finance and Accounting Service, Defense Technical Information Center, Department of Energy, and Postal Rate Commission.

Transfer of VHA Medical Records

With the successful expansion of our facility in November 2001, VHA now has the opportunity to store their long-term records (primarily medical records) in one centralized location. These records were formerly stored at 14 NARA regional records centers across the Nation. This initiative not only offers VHA the benefits of long-term dollar savings, it simplifies the process of recalling records for VHA facilities.

In addition to tranfering VHA's records from NARA, the VA RC&V also began accepting new VHA accessions in FY 2002. With the new accessions, VHA record holdings totaled 243,180 cubic feet at the end of FY 2002. The VA RC&V is able to handle this continued expansion with no impact to the services provided to other customers.

"Staff at the Records Center has provided excellent service during this transition, coordinating transfer activities with Directors of NARA facilities and ensuring that the records received are in good physical condition before they are inventoried, labeled, and shelved. There has been no disruption in service provided to VHA facilities; records recalled that are in transit are quickly processed and returned to the requesting VHA facility. The Records Management staff in VHA is impressed with the staff and facility at the Records Center and anticipates successful completion of the transfer project and continued excellent service."

Louise Papile
Veterans Health Administration
VA Central Office

Certified Federal Storage Facility

Our facility is the **first** among its public and private sector competitors to be **compliant with the stringent new NARA regulations governing records storage facilities**. The VA RC&V records center is protected by a sophisticated security system, and access to the storage area is strictly controlled. A redundant power generator system serves all access control systems, fire systems, communication systems, and alarm systems.

There is no restriction on the type of records stored, the length of time they can be stored, or shipping volume limitations. Currently, records storage, protection and retrieval services are provided for vital records, records frozen in litigation, unscheduled records, financial systems backups, cyclic backups and contingency plan backups and tests.

The expansion of the VA RC&V records storage facility was completed in November 2001. Following NARA certification, the transfer of approximately 900,000 records from NARA facilities to the VA RC&V began in May 2002. At the close of FY 2002, a total of 243,180 VHA records were stored at the VA RC&V. Of those, 205,774 were moved from NARA facilities; the remaining 37,406 were new VHA accessions received from VA medical centers across the country. By the close of FY 2003, the total VHA holdings are anticipated to exceed one million cubic feet of records. Growth in FY 2004 will primarily result from new accessions directly from VHA facilities, estimated at 50,000 cubic feet per year.

Records Storage Growth (# Cubic Feet)
VA Customers
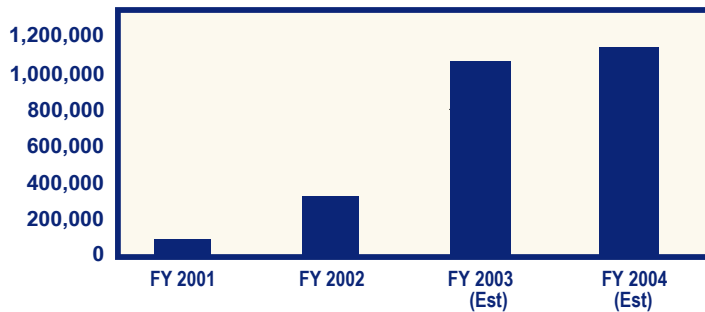
The volume of records stored for other government agency (OGA) customers fluctuate based on their records retention requirements. During FY 2002, there was a decrease in total OGA holdings due to the recall of older records in order to destroy them as required by defined retention requirements. Estimated holdings for FY 2003 and FY 2004 are based upon anticipated OGA record shipments.

Records Storage Growth (# Cubic Feet)
OGA Customers
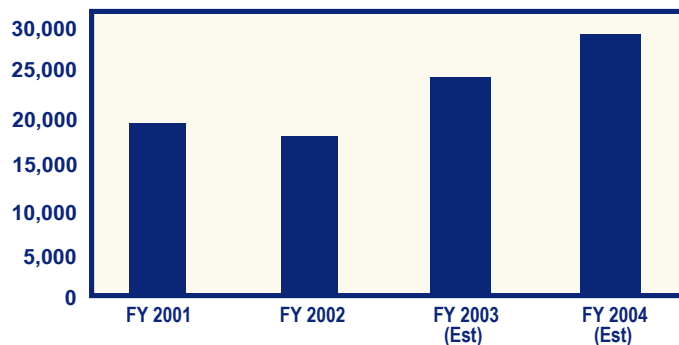
In addition, we have been contacted by several OGAs as potential customers. With over a million square feet of undeveloped space available for future expansion, the VA RC&V will continue to build out additional space to accommodate our customers' storage requirements.

Helping Our Customers Achieve Success

> ## Moving to Automated Payments
>
> *The Government is moving to increase access to benefits and information electronically in an effort to eliminate paper. Both initiatives impact how we make payment to vendors and employees, as well as perform payment-processing functions. Our vision is to eliminate paperwork and manual tasks by moving into the electronic transmission of information, forms and documents.*

Centralizing Payments

Centralizing all vendor payments at the FSC will provide significant benefits and cost reductions for VA, while strengthening internal controls and standardizing processes. Our highly automated systems include the Online Certification System (OLCS), the Document Management System (DMS), and Computer Assisted Payments Processing System (CAPPS).

As a result of implementing OLCS in FY 2002, VISN 22 (Southern California Healthcare System) and VA Central Office in Washington, DC, experienced impressive results in the area of interest penalty payments—reductions in interest penalties of 60 percent and 77 percent, respectively.

> *"We at VISN 22 believe the [vendor payment] team concept has been a resounding success and has been instrumental in expeditiously solving our problems. The value of calling that one number and speaking to a friend who knows our sometime unique situation and using them as our liaison through FSC cannot be overstated."*
>
> George Cude
> VISN 22 Network Business Center

Automating Loan Processing

The National Finance Center (NFC) tracks and reports on Thrift Savings Plan (TSP) activity for each participating federal employee (active and retired). The NFC depends on data from the FSC to update TSP information, including loan activity, for all VA employees. Based on a new process implemented by the FSC, loan processing information can now flow electronically between VA and the NFC without human intervention. The FSC estimates that this new process saves almost half of a full-time equivalent employee.

Migrating Online Transaction Processing

The AAC completed the migration of the VBA online transaction processing (OLTP) environments to a Sun Microsystems E10000 environment. OLTP is a system in which the computer responds immediately to user requests interactively. This is the opposite of the older batch processing systems where requests are stored and then executed all at one time without user intervention. The platform rehosting was successfully accomplished without any disruption in business operations to VBA or impact on their current applications. The new platform provides a scalable platform (both in terms of performance and online storage), provides significant software licensing savings, and operates on a less expensive hardware environment. This migration enabled VBA to use the AAC's facilities and support capabilities to leverage their current investment in mirrored Redundant Array of Independent Disks (RAID) technology.

Partnering with Treasury Using COMBO II

The FSC assisted Treasury in driving their labor costs down by partnering with them on COMBO II. This initiative enables Treasury to electronically associate the check and the Explanation of Benefits (EOB), ensuring that the computer system alerts their employees when errors occur. Treasury has been able to eliminate a significant portion of their manual envelope-stuffing effort and associated labor costs, dramatically decreasing costs by over $70,000 per year.

Managing Documents and Records

The **Division of Immigration Health Services (DIHS)** signed a franchise agreement with the FSC to establish a fully integrated, end-to-end medical claims processing application. This application will process medical claims from receipt of the claims documents through disbursement by Treasury to the healthcare provider. By leveraging our enhanced imaging capabilities, a robust healthcare claims adjudication and payment processing system, and a specialized accounting and financial reporting tool, the DIHS will streamline their existing processes and achieve significant economies of scale by reducing costs.

Electronic Data Interchange (EDI)

A variety of VA programs have been streamlined by moving operations from a paper-based system to EDI/electronic funds transfer (EFT). Of the 5.1 million total payments made to vendors in FY 2002, 3.3 million were processed by EFT. Payments totaled $9.7 billion, of which $6.5 billion were made by EFT.

By using the FSC's EDI capabilities, VA's Denver Distribution Center (DDC) processes electronic invoices without manual intervention. By doing so, the DDC was able to achieve timesavings and labor hour savings, and ensure greater accuracy for these transactions. VBA also took advantage of the FSC's EDI resources to implement an e-Loan Guaranty Certificate which gives loan providers the capability of processing applications in 2 days instead of the 30 days involved with the manual process.

The FSC continues to assist VHA in their efforts to comply with the **Health Insurance Portability and Accountability Act (HIPAA).** It requires the use of EDI formats when transmitting specific healthcare billing and payment data between medical centers, vendors, and insurance companies. New EDI projects are also underway. The estimated number of annual electronic claims, once VA reaches full production in 2004, is listed below:

EDI Projects	Estimated Number of Electronic Claims
Third Party Claims	10,000,000
Medical Remittance Advice	7,000,000
Lockbox	18,000,000
Insurance ID & Verification	4,000,000
Pharmacy	10,000,000

Helping Our Customers Achieve Success

Moving to Automated Payments

The Government is moving to increase access to benefits and information electronically in an effort to eliminate paper. Both initiatives impact how we make payment to vendors and employees, as well as perform payment-processing functions. Our vision is to eliminate paperwork and manual tasks by moving into the electronic transmission of information, forms and documents.

Highlighting Audit Recovery Efforts

The FSC is recognized as a **leader in audit recovery in the federal government**. Proactive in identifying overpayments and initiating collection actions, our successful audit recovery program consolidates the identification of overpayments made by VA field stations. This effort reduces the administrative costs of collection for all VA facilities and fulfills the requirements of the **National Defense Authorization Act (NDAA) of FY 2002**, which states that agencies with $500 million in annual procurements must conduct recovery audits focused on overpayments. We monitor payments on a daily basis; this includes a review of all potential duplicate payments, vendor statements, and high dollar payments, thus allowing the cancellation of duplicate payments for VA field stations prior to payment by Treasury. This avoids sending collection bills to vendors and saves additional administrative time and effort for personnel at all VA facilities while ensuring money remains in VA accounts.

The FSC identified over $1.4 million in unapplied credits and $0.9 million in duplicate payments. This resulted in $2.3 million in collections.

> *"Thank you for the good work and the fair treatment. Seriously, the successful collection of the old accounts prior to year-end is meritorious and we do appreciate your effort. All of VA, rather than just the Supply Fund, should appreciate your efforts. You are identifying potential and real overpayments earlier and earlier and, as you have identified the cause of such, VA program offices are appropriately correcting what were previously bad practices."*
>
> C. Dale Duvall, Chief Financial Officer
> Office of Acquisition and Materiel Management

Our audit recovery work was highlighted in a Financial Management Best Practices article featured in the **Government Executive May 2002, Special Issue: Grading Government,** which states, "Consider hiring a recovery-auditing firm, or establishing an in-house recovery auditing team, to review disbursements for accuracy. The Veterans Affairs Financial Services Center in Austin, Texas, uses recovery auditing to identify duplicate payments and overpayments. The center used to contract out the recovery auditing work, but it now has a small finance staff dedicated to performing the audit."

Processing Permanent Change of Station (PCS) Travel

The FSC has in-depth knowledge of Federal Travel Regulations and Comptroller General and GSA decisions which allows us to solve many of our customers' unique travel problems. We processed PCS travel authorities for the U.S. Naval Home, Office of Federal Housing Enterprise Oversight, Department of the Interior, and VA Office of the Inspector General, in addition to serving as VA's Household Goods Field Representative. In FY 2002, we processed over 13,791 PCS transactions and facilitated over 668 PCS moves.

Processing Temporary Duty (TDY) Travel

We have experience with two commercial off-the-shelf (COTS) software packages (Gelco Travel Manager and Per Diemazing) for TDY travel. Both systems reduce the paper and labor-intensive processing required in a manual environment. In addition, we audited a statistical sample of 2,366 TDY travel vouchers for compliance with travel regulations and GSA decisions, and audited the issuance of prompt reimbursements to travelers to ensure the quality and timeliness of service.

The FSC has been heavily involved with OMB's e-Travel pilot project. This pilot is testing the ability of a COTS-based product to provide electronic tickets, electronic authorizations and vouchers, and direct reimbursements to both the traveler and the credit card vendor. Ultimately, the processing of TDY travel documents for all VA customers will migrate to a COTS application and be centralized at the FSC.

Processing VA's Payroll

FY 2002 marked another successful year of processing VA's nationwide payroll without missing a payroll cycle. Approximately 225,000 employees were paid gross salary payments of over $3.85 billion. Payroll processing typically includes receiving time and attendance data, processing payroll runs, and producing W-2 statements and other required reports. The FSC also coordinates with taxing authorities at the federal, state and local levels to pay, report, and reconcile payroll taxes.

Using the primary measures of employees paid on time, paid correctly, and the availability of timely and accurate payroll data, our system has been virtually perfect.

> *"Payroll processing service provided to VHA by the FSC is exemplary. In 37 years of processing VHA payroll using the Electronic Time and Attendance (ETA) and Personnel and Accounting Integrated Data (PAID) Systems, the FSC and the PAID system have maintained a perfect record without a single incident of non-compliance. The VA payroll system remains current with the necessary programming changes needed to implement all new legislative requirements and procedures as they become effective. In addition to making the necessary changes to the payroll system, the FSC has always communicated all changes and new procedures to the Department's payroll staff and VA employees immediately. The FSC's ability to make timely system upgrades and provide effective communication has consistently resulted in a transparent but efficient evolutionary process for the system."*
>
> David Rutledge
> Assistant Chief Financial Officer for Financial Management and Budget
> Veterans Health Administration

Placing Micropurchases on the Credit Card

VA placed over 98.4 percent of its micropurchases (purchases under $2,500) on credit cards in FY 2002. The success of VA's Purchase Card Program is due primarily to the FSC's Credit Card System (CCS). The CCS offers electronic reconciliation and frees up customer resources by reducing interactions to merely verifying items ordered and prices paid.

Utilizing the same-day electronic business cycle for pharmaceutical purchases, we ensure VA, the DIHS, and Indian Health Service receive the best price through VA's multi-billion dollar Prime Vendor Procurement Program. This program also provides an efficient way to purchase pharmaceuticals at low, negotiated contract prices. These vendors guarantee delivery of their products within 24 hours, 90 percent of the time, eliminating the need for warehousing large volumes of supplies. Our daily payment process of 2.6 million transactions in FY 2002 resulted in rebates totaling $15.9 million (an increase of $7 million over last year).

Helping Our Customers Achieve Success

Maximizing Our Collection Activities

As a leader in the federal debt management community and a complete accounts receivable resource, we negotiate repayment plans, administer automated recovery programs, make cold calls to debtors, oversee the entire collection process and employ every collection tool (referrals to locator services, private collection agencies, and computer matching) available to federal agencies.

Effectively Collecting Debts

The DMC's toll-free telephone service helps improve collection rates, as well as simplifies the collection process for debtors. This year alone we responded to over 268,000 calls, with a lost call rate of 2.1 percent.

We collected $1,788,714 in FY 2002 through acceptance of major credit cards (MasterCard, VISA, American Express, and Discover) over the telephone. This is the most we collected since the inception of the credit card acceptance program in 1993. This collection activity represents a 38 percent increase over FY 2001. Credit card acceptance has proven to be convenient for many debtors who owe smaller amounts, especially for education allowance overpayments.

Cross-Servicing Referrals and Treasury Offset Program (TOP)

Treasury continues to push for compliance on collection initiatives authorized by the Debt Collection Improvement Act of 1996. The two largest initiatives involve referral of delinquent debts to TOP for offset against federal payments and the referral of debts over 180 days delinquent for cross-servicing. We automated our referral processes and are over 95 percent compliant for referrals to both programs. In FY 2002, TOP netted VA $49.7 million in offsets, and Treasury's cross-servicing program collected $10.8 million on VA debts.

Computer-Matching

DOD provides matching services under the Federal Salary Offset program. Their matching file includes all civilian employees of DOD, active and retired military members and the majority of all other active civilian employees in the federal government with the exception of United States Postal Service (USPS) employees. OPM provides its enrollment file to DOD for matching purposes. The matching program identifies debtors who receive federal salaries, and we notify them of their hearing rights prior to offset of their salaries. In FY 2002, $3.5 million in collections was attributed to this matching program. The USPS program is conducted similarly, but is restricted to active USPS employees. Collections attributable to this matching program ($230,000 in FY 2002) have not been significant in recent years, but the low cost of administering the program justifies continued matching.

Taxpayer addresses are acquired from the IRS on a monthly basis under the Taxpayer Address Request (TAR) program. Each year we collect appropriately $1 million from debtors whose address of record was obtained under the TAR program.

Increasing Administrative Offsets on First Party Medical Debts

We compare delinquent first party medical debts against VBA's compensation/pension payment file on a monthly basis to determine if benefits exist that can be offset to liquidate a debt. In FY 2002, we increased the number of offsets by 38 percent and the dollars offset by 61 percent over FY 2001. The number of offsets increased from 77,358 in FY 2001 to 106,924 in FY 2002.

Increasing Administrative Offsets on First Party Medical Debts

The dollars offset also increased from $4.3 million in FY 2001 to $6.9 million in FY 2002. The increase in offsets is due to a higher number of delinquent debts being matched against active benefits. Figure 1 shows a comparison of offsets for the last 3 fiscal years.

Increasing Collections/Offset and Rate of Return

We increased collections/offsets by $41 million or 13 percent over FY 2001 totals. Collections/offsets for FY 2002 totaled $353 million versus $312 million for FY 2001. One of the factors we use to measure our success is our rate of return (determined by dividing collections/offsets by operating expenses). In Figure 2, we estimated our rate of return in FY 2002 was $59.56 for every dollar spent. This represents a 15 percent increase over the FY 2001 rate of return ($51.72).

Administrative Offsets on First Party Medical Debts (Dollars in Millions)

	FY 00	FY 01	FY 02
	$4.8	$4.3	$6.9

Figure 1.

Rate of Return

	FY 99	FY 00	FY 01	FY 02
	$50.21	$49.09	$51.72	$59.56
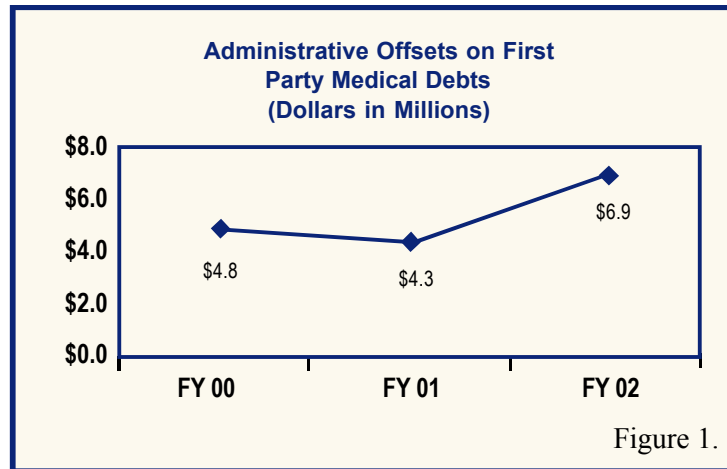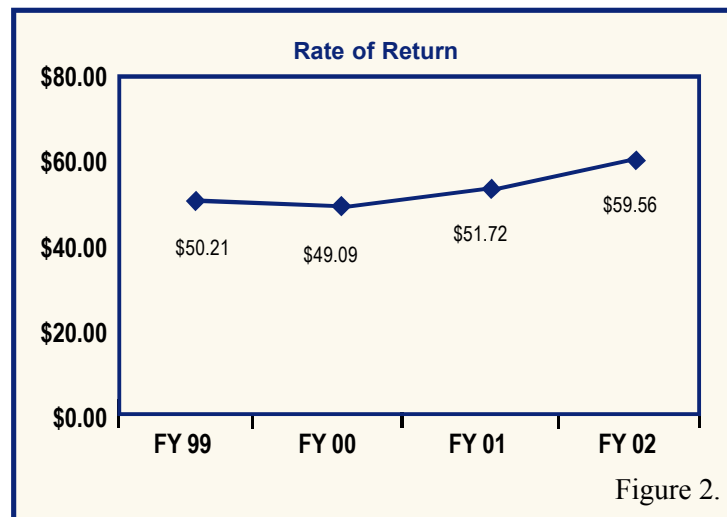
Figure 2.

Helping Our Customers Achieve Success

Maximizing Our Collection Activities

As a leader in the federal debt management community and a complete accounts receivable resource, we negotiate repayment plans, administer automated recovery programs, make cold calls to debtors, oversee the entire collection process and employ every collection tool (referrals to locator services, private collection agencies, and computer matching) available to federal agencies.

Increasing TOP Offsets

The DMC continued to experience increases in TOP offsets during FY 2002. This trend follows a significant increase in offsets in FY 2001 when we began making weekly rather than annual referrals to Treasury. We automated the referral process to ensure that accounts are referred when eligible.

Offsets	FY 98	FY 99	FY 00	FY 01	FY 02
Medical Billings	$4,394,516	$6,333,622	$5,844,221	$23,346,003	$31,206,254
Benefit Debts	$7,826,005	$9,470,250	$10,959,761	$14,205,419	$18,528,350
Totals	$12,220,521	$15,803,872	$16,803,982	$37,551,422	$49,734,604

Top Offset Program
Dollars Collected
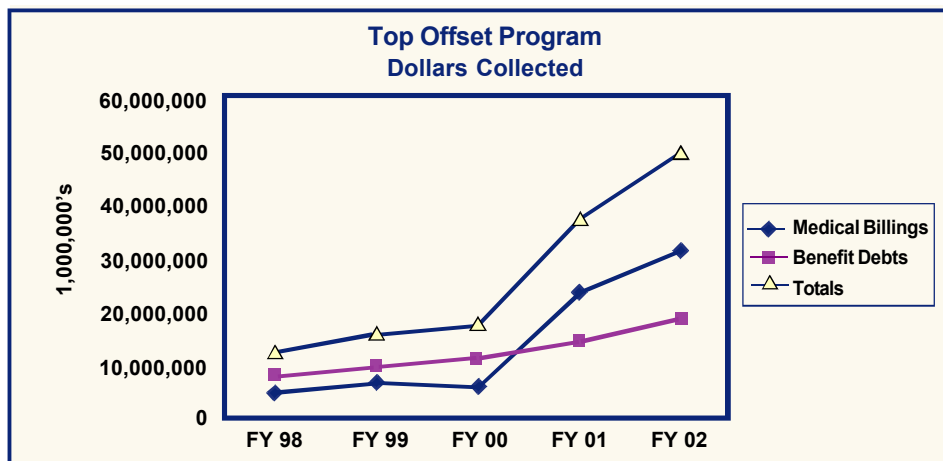
Spearheading a Pilot to Collect First Party Medical Debts

In June 2002, we initiated a pilot test for collecting first party medical debts. The test involved generating collection notices on debts that remained unpaid after three billing notices were issued over a 90-day timeframe. We issued collection letters on 42,897 accounts valued at $11,173,040 from three Veterans Integrated Service Networks (VISNs). At the end of the pilot in September 2002, the number of delinquent accounts had been reduced from 42,897 to 34,669. The dollar value of the accounts was reduced from $11,173,040 to $9,322,706. Reductions were attributable to cash collections through the DMC, cash paid directly to VA medical centers, TOP offsets ($266,186), actions taken by VA medical centers to delete or reduce erroneous billings, and insurance companies paying on claims. Additional collection efforts could prove to be a valuable tool for VHA since they have no follow-up collection action on these accounts other than referral to TOP.

Referring Diagnosis-related Group Recovery Debts

The DMC worked closely with the HAC to refer debts found in the Diagnosis-related Group Recovery Audit to the TOP. They made their first referral of such debts to TOP in April 2002. Since that time, the HAC has decided to refer other eligible accounts to TOP using our referral process. Collections for April through September 2002 totaled $516,196.

Achieving a Clean Opinion

Through the expertise of a quality workforce, attention to financial requirements, and system capabilities, the FSC worked closely with auditors of both the Department's financial statements (Deloitte and Touche) and VA Franchise Fund's financial statements (Brown & Company, CPAs). VA attained its fourth consecutive unqualified "clean" audit opinion, and the VA Franchise Fund its fifth consecutive unqualified "clean" audit opinion.

Supporting the Core Financial and Logistics System (CoreFLS)

The AAC is the national platform site for CoreFLS, the planned replacement of VA's financial management and logistics systems. In support of this development effort, the AAC provides access to the open systems processing platforms, DASD, adhoc and professional services, and systems and database administration for the platforms.

The FSC provides accounting experts as consultants in support of the CoreFLS project development and deployment initiatives. Subject matter experts serve on CoreFLS functional configuration groups and participate in the configuration, tests and conversions of proposed vendorizing files, agency financial reports, closing functions, standard general ledger balances, appropriations and funds, budget/accounting code structure, accounts payable and receivable processes, interfaces, travel processes, purchasing, conversion strategies, and deployment.

Additionally, the FSC provides common administrative support services such as financial reports and accounting; certified invoices and matched payments processing; payroll operations, systems operations, and maintenance; PCS travel processing; and financial systems oversight to the CoreFLS Project Office.

Financial Consulting

The FSC provided the Internal Revenue Service (IRS) with expert consulting services on the general ledger, accounts receivable/accounts payable, and Statement of Transactions Report (SF-224) process in support of the IRS' accounting system replacement project.

Training

VA looks to the FSC for training on how to fully utilize the Financial Management System (FMS) —VA's current core accounting system—and to perform financial reconciliations. While the FSC primarily trains VA customers, course offerings are also available to other federal agencies. Courses include the entire Microsoft suite of applications, Making FMS Work for You, Agent Cashier, Construction Accounting, Keys to Standard General Ledger, and Fixed Assets. Customized courses are also provided upon request.

Management's Discussion and Analysis

Overview

Created by Congress in 1996 as one of six Franchise Fund pilots operating within the Executive Branch of Government, VA's Franchise Fund (Fund) supports the Department's mission by supplying common administrative services at competitive prices. By law, the business lines within the Fund can only sell to federal entities. The organization accounted for its funds in six lines of business (VA Enterprise Centers) and in one administrative organization (Enterprise Fund Office). From an ultra-modern computer center with state-of-the-art equipment (Austin Automation Center), a debt collection center that employs every collection tool available to federal agencies (Debt Management Center), a federal financial solutions and service provider of a complete suite of financial management services (Financial Services Center), a sole provider of a unique federal law enforcement training program that emphasizes customer/patient safety in all our interactions using aggressive action only as a last resort (Law Enforcement Training Center), a center that performs background investigations/adjudications and processes fingerprint and ID cards (Security and Investigations Center), to a cave that serves as a highly secure records storage center (VA Records Center and Vault), we are a "one stop shop" for comprehensive business solutions for today's government. In FY 2002, the Fund generated $136.8 million in revenue.
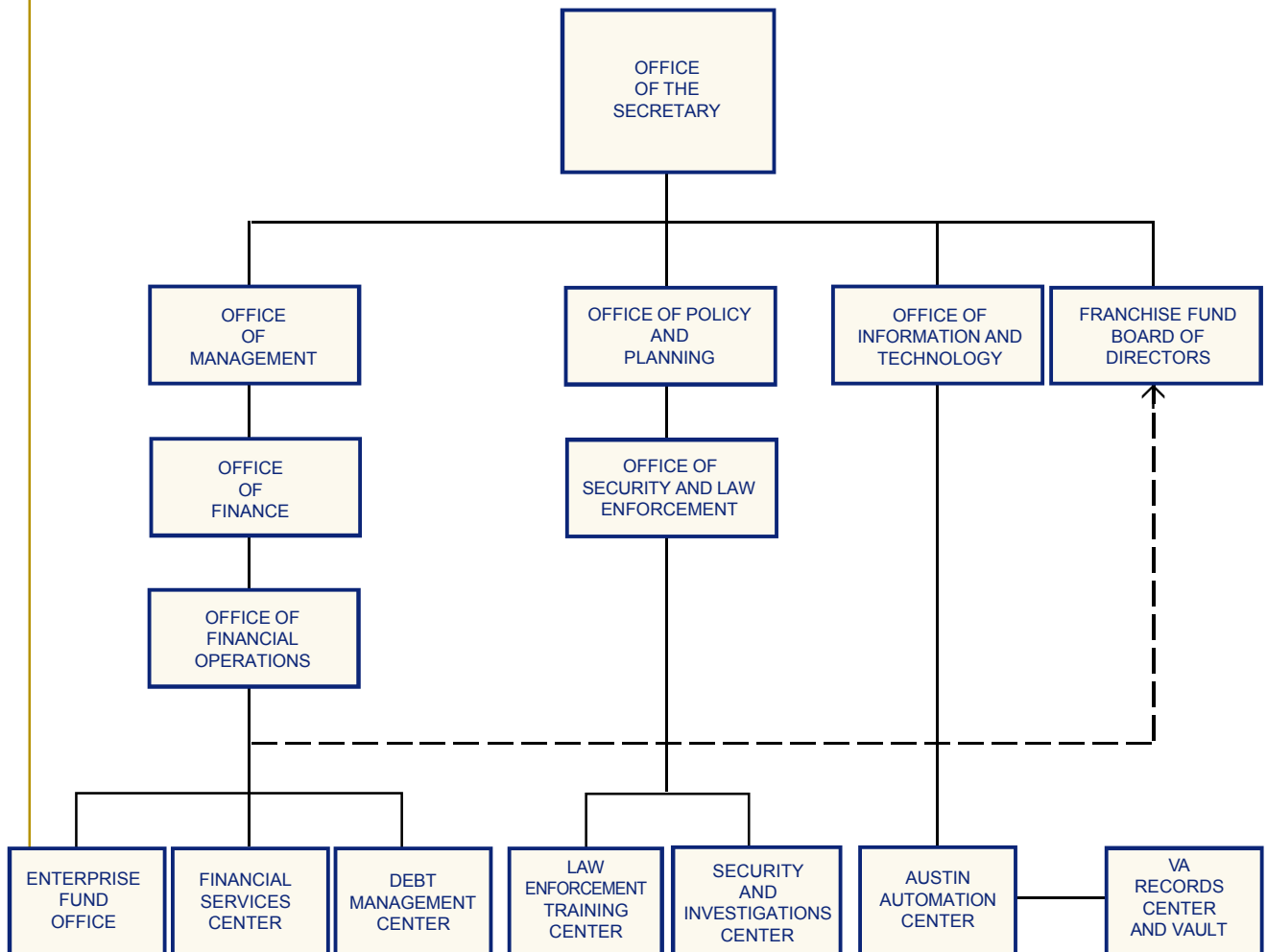
Management's Discussion and Analysis

Director's Corner

**Linda Voges,
Director
Austin Automation
Center and the VA
Records Center
and Vault**

As an experienced provider of information technology (IT) services for over 35 years, we understand the importance of creating new and more efficient IT solutions, the critical need for heightening data and physical security, and the necessity for maximizing the knowledge, skills and abilities of our workforce. During FY 2002, the Austin Automation Center (AAC) focused on several initiatives that will significantly enhance our overall service delivery to customers.

We are analyzing the option of remote electronic vaulting—an electronic backup and recovery technology—as an alternative to the traditional tape-based process. Electronic vaulting will provide a secure and reliable transmission of data to an offsite facility for backup and recovery. This direct access storage device technology increases data security and reduces the time required for data recovery in the event of a computer outage. This technology will reduce the recovery time for mission-critical data while also providing for near-current data.

The AAC, like other government organizations, continues to underscore the importance of physical and data security. We have made investments in additional intrusion detection sensors and other IT security tools, automated security checks to ensure our servers are securely configured, and made improvements in our physical security. These efforts continue to ensure the security of our customers' data and applications, as well as the security of our employees.

In addition to addressing high priority security issues, we are focusing on the workforce management crisis facing the federal technology workplace. Realizing the importance of strengthening and efficiently using the knowledge, skills, and abilities of our workforce, we have implemented a career development program that improves our ability to train and develop employees in specific skill sets and competencies. This program has enabled our staff to best support immediate and future requirements of our customers. We are optimistic that these career development initiatives will better position the AAC as an employer of choice.

In January 2002, management of the VA Records Center and Vault (VA RC&V) transferred to the AAC. The AAC and VA RC&V staff met the challenge of this realignment with a positive "can-do" attitude that resulted in the achievement of a number of significant milestones during FY 2002. Our new state-of-the-art records facility, completed in November 2001, is the first records facility to meet stringent new National Archives and Records Administration (NARA) requirements. The enormous task of transporting nearly one million veteran and records from NARA facilities across the country to the VA RC&V began in May 2002. Completion of this Veterans Health Administration relocation project is expected during the November 2003 to May 2004 timeframe. Despite the complexity of this project, the VA RC&V staff continues to provide top-level service to both VA and other government agency customers. Their commitment to the success of this project is reflected in a 98.6 percent overall accuracy rate for record recalls.

We are dedicated to meeting the needs of our customers. Our overriding goal is to earn their loyalty and succeed in providing the highest level of service possible.

Management's Discussion and Analysis ───────

Director's Corner

Dan Osendorf,
Director
Debt Management
Center

Since our inception as a VA Enterprise Center in 1999, the Debt Management Center (DMC) has concentrated efforts on reducing operating costs and improving customer service. Our focus is the collection of delinquent debts resulting from participation in VA benefit programs. We offer a complete array of collection services directed toward the disposition of accounts receivable in a timely and cost-effective manner. With new debt establishments averaging $450 million annually and a debt portfolio of approximately $900 million, we have worked aggressively to centralize and automate collection functions.

In the past 2 years, we have upgraded the majority of our capital equipment. Although we have reduced our workforce by 10 percent, we have maintained a cumulative lost call rate of 2.1 percent (well below our target goal of 3 percent) and met our performance goal of 10 business days for responding to correspondence.

As we strive to streamline operations and reduce costs, one of the factors we use to measure success is our rate of return (dividing operating expenses into collections/offsets). For FY 2002, we improved our rate of return by 15 percent—from $51.72 to $59.56. Collections/offsets for FY 2002 totaled $353 million compared to $312 million for FY 2001, a 13 percent increase.

The Department of the Treasury continues to push for compliance on collection initiatives authorized by the Debt Collection Improvement Act of 1996. The two largest initiatives involve referral of delinquent debts to the Treasury Offset Program (TOP) for offset against federal payments and the referral of debts over 180 days delinquent for cross-servicing. We automated our referral processes and are over 95 percent compliant for referrals to both programs. In FY 2002, TOP netted VA $49.7 million in offsets, and the Department of the Treasury's cross-servicing program collected $10.8 million on VA debts.

We initiated and completed a pilot test for collecting first party medical debts for the Veterans Health Administration (VHA). The test involved generating collection notices on debts that remained unpaid after three billing notices were issued over a 90-day timeframe. We are in the process of analyzing the test results and plan to present our findings to VHA. This could be a valuable collection tool for VHA as they would have no follow-up collection action on these accounts other than referral to TOP.

We look forward to FY 2003 as a year to improve and expand our programs and refine our internal operations and processes. We will continue to look for new business opportunities and improve customer service.

Director's Corner

As the Director of the Financial Services Center (FSC), I take this opportunity to thank you for your valued business and offer assurance of my commitment to you—our customers.

Rodney Wood,
Director
Financial Services
Center

Government is moving to increase access to its benefits and information electronically. These initiatives impact how we do our jobs. The vision is to eliminate paperwork by moving to electronic transmission of payments, forms, and documents used by vendors and employees. In addition, we ensure financial accuracy, accountability, standardization, strong internal controls, and economies of scale in both systems and processes.

We use three indicators to measure our operational effectiveness: decreases in interest penalty payments, increases in the amount of discounts earned, and increases in the amount collected by audit recovery. Our Online Certification System realized over a 60 percent reduction in interest penalty payments in VISN 22— Southern California Healthcare System and a 77 percent reduction in VA Central Office—Washington, DC. During FY 2002, VA earned $1.8 million in discounts, 25 percent less than FY 2001 levels. However, the number of discounts available (by count) also decreased by 28 percent from FY 2001. We believe the decrease is attributable in part to increased use of the government purchase card. For the recovery of assets, we made collections this year totaling over $2.3 million—a 44 percent increase over FY 2001. Over $1.4 million relates to unapplied credits and $0.9 million relates to duplicate payments. The identification of duplicate payments has decreased since the prior fiscal year due to increased internal controls on payments and personnel training efforts. In addition to the collection of credits and duplicate payments, we also saved the Department $1.8 million by canceling duplicate payments before the Department of the Treasury actually made payment.

Expanding capabilities is equally vital in today's fast-paced financial environment. To ensure an unqualified "clean" audit opinion, we acquired a technological solution that revolutionizes data matching and reconciliations associated with automating the Department of the Treasury's major functions of reconciling customer accounting records. FASMatch easily automates manual matching of deposits and disbursements. It produces, manages, and reconciles the Statement of Transactions Report (SF-224), obtains data for customer billings, and provides a complete audit trail. In addition, FASMatch can process any file or data-matching requirement, such as audit recovery, duplicate payments, or patient records.

As the focal point for VA external audit engagements and a recognized, high-performing financial solutions provider, the FSC has in-house experts who are very attentive to financial requirements and extremely knowledgeable in financial systems' capabilities. This combination ultimately led VA to its fourth unqualified "clean" audit opinion and the VA Franchise Fund to its fifth consecutive unqualified "clean" audit opinion. Hence, I am confident the FSC suite of products and services can meet your financial needs.

Management's Discussion and Analysis

Director's Corner

Ronald Angel,
Director
Law Enforcement
Training Center

At the Law Enforcement Training Center (LETC), we place a premium on training the federal law enforcement communities at healthcare facilities, parks, and museums, and other federal special mission or limited jurisdiction settings nationwide in an approach that focuses specifically on assaultive patient situations. We employ the finest law enforcement professionals, who equip others with the knowledge, skills and abilities to resolve incidents in a humane and respectable manner by affording them with practical and classroom instruction on the importance of ensuring the safety of all patients, customers, and staff, and maintaining order in a federal institution.

At our center, seasoned professionals teach students an alternative law enforcement approach that emphasizes customer/patient safety in all our interactions, and use of aggressive action only as a last resort. Our comprehensive curriculum of instructor-led courses includes the basics of criminal law, search and seizure training, patrolling techniques, federal arrest authority and healthcare facility law enforcement. Several specialized and advance courses (baton instructor, detective, semi-automatic pistol, firearms instructor, administrative investigation and armorer) complement our core training courses. Individuals other than law enforcement personnel are also attracted to our seminars on self-protection and violence in the workplace. Additionally, we customize our curriculum to meet our customers' unique classroom requirements.

In light of the recent heightened security, we have incorporated material in our training curriculum to increase the police officer's ability to react in emergency situations; accelerated VA's firearms training program to have all VA police officers fully trained by the end of FY 2003; provided additional police officers to VA facilities to enhance safety and security; and completed a large construction project to facilitate new training demands.

Graduates of our program leave with a more focused, detailed understanding of how to diffuse a potentially volatile situation. In FY 2002, 98 percent of the enrolled students graduated from our training program. Our enrollment dramatically increased from 421 students in FY 1999 to 964 in FY 2002, and we project 1,367 in FY 2003. VA business accounted for over 99 percent of our FY 2002 revenue stream. While our VA customers are requesting additional training, we must expand our customer base to include more outside business.

Since our inception, we have remained committed to our customers and the quality of our training program. We are fortunate to have a cadre of dedicated instructors who foster innovation and are willing to go "beyond the call of duty" to provide quality training. In addition, feedback from our customers indicates that they are very satisfied with the quality of our training.

The law enforcement arena has changed significantly during the last 10 years. Police officers are faced with a more complex and hostile environment than ever before. We have been able to anticipate and respond to these needs by adopting new instructional technologies, improving instructor training, and ensuring that instructors have sufficient recent field experience. Because we place a premium on training the law enforcement community, we must be vigilant. Our goal is to provide leadership to the law enforcement community and equip them with the necessary knowledge, skills, and abilities to protect patients, visitors, and staff.

Director's Corner

**Sherrl Jennings,
Chief
Security and
Investigations Center**

At the Security and Investigations Center (SIC), we focus our goals on safety, security, and customer service. Building security and employee background investigations have become critical elements in ensuring a safe work environment. Today, with heightened security awareness in the federal workplace, the ability to properly screen personnel prior to employment and entry into federal agencies has become paramount.

With over 30 years of experience in adjudicating and granting eligibility/clearances for three levels of public trust and four levels of national security, we afford the highest levels of confidence at a competitive value. We help VA achieve success by ensuring that government and contractor employees in sensitive and public trust positions meet the investigative requirements of Executive Orders and OPM regulations.

This is reflective in survey reports from OPM, the Central Intelligence Agency (CIA), Federal Emergency Management Agency (FEMA), and Information Security Oversight Office, which state the SIC has met the mandatory standards for processing national security clearances, properly safeguarding and storing national security documents and processing employees who require access to special national security programs managed by the CIA and FEMA. Our ID card services, in combination with our background investigations, provide the Department with the maximum possible security and safety.

The critical elements of ensuring a secure work environment have increased the number of government employees and contractors subject to background investigations and clearances. The SIC worked closely with VA staff and regional offices, as well as the LETC, to ensure all individuals subject to a background investigation received expeditious processing. As a result, 853 investigations were conducted, as compared to 700 and 750 processed for FY 2000 and FY 2001, respectively.

A secure and stable workplace continues to be an ever-growing concern. While the number of federal employees is not anticipated to increase in the near future, turnover in the workplace is great. Today, with this heightened security awareness in government, increased demand for our services is at an all time high and we are fortunate to have a cadre of dedicated security specialists who foster innovation and are willing to go "beyond the call of duty" to provide quality service.

Management's Discussion and Analysis

Outlook for FY 2003

We anticipate the new year will be filled with challenges and opportunities. As we strive to provide excellent customer service and maintain our current customers, we are working to strengthen our recognition as a preferred provider of choice within the federal government and become increasingly competitive in the federal marketplace.

Expanding Our Customer Base

While our customers are staying and buying more, we must expand our customer base beyond VA. Most of our customers come from within VA—accounting for 94.2 percent of our FY 2002 revenue. Acquiring a greater share of the federal market continues to be a challenge for us. Our Enterprise Centers have encountered varied success in their ability to attract other federal business. Of the six, the VA RC&V (14.5 percent of revenue) and the AAC (6.54 percent of revenue) have been the most successful.

REVENUE SOURCES - VA VS OGA
As of September 30, 2002

5.8%

■ **Veterans Affairs (VA)**

■ **Other Government Agencies (OGA)**

94.2%

Accelerating Firearms Training Program

Initially, firearms training was to be conducted for police officers at 30 VA sites per year through FY 2004 until all duly authorized VA police officers were armed; however, upon direction of VA's Deputy Secretary, the LETC's firearms training program was accelerated in FY 2002 and is expected to be completed by the end of FY 2003. Police officers at 45 VA sites were successfully trained in FY 2002, and plans are underway to train police officers at 46 VA sites in FY 2003.

Continuing Law Enforcement Education

The LETC plays a vital role in helping VA's law enforcement community meet the training needs of the Department. During the first half of FY 2002, the Deputy Assistant Secretary for Security and Law Enforcement directed us to develop and implement an 80-hour refresher-training course for all VA police officers trained prior to 1996. The goal of this initiative is to bring all VA police officers up to the same training standard. In an effort to achieve this goal, we began developing the curriculum and allocating the necessary resources in FY 2002. We anticipate that the curriculum will be completed during FY 2003, and ready for implementation in FY 2004.

Grand Opening of Training Facility

In September 2002, the LETC completed an extensive construction project that houses state-of-the-art computer-operated and controlled firing range positions, an armory, weapons cleaning area, administrative offices and classrooms. This facility will better accommodate growing demand. FY 2003 enrollment is already estimated to be 1,367.

Veterans' Affairs Police System (VAPS)

In an effort to better serve VA, the LETC is working with the AAC to develop a centralized database to house law enforcement-related information (offense reports, daily police journals, physical security assessments, police training data, and weapons qualifications information). The proposed program will replace the antiquated Uniform Crime Reporting system. By centralizing the VAPS database, all VA police officers will be able to access and enter their routine journals and offense reports directly. This database will also include a centralized personnel and training module which can be managed and tracked for better control. The centralized data will enable management to receive incident information as soon as it is entered. Reporting on critical incidents will be much faster and easier. This system will standardize the VA police officers' reporting requirements and redirect the efforts of all stations to a *OneVA* solution.

Online Security Eligibility

In an effort to avoid delays in the return of investigative forms, the SIC is in the process of establishing approval with OPM to replace the manual processing of a paper form with an online security eligibility form which will be electronically routed to employees who require national security clearances or public trust eligibility. Our customers will appreciate a tremendous cost savings on postage, and we will reduce the man-hours required to send follow-up notices. Further, the system will be designed to prompt employees who have not completed the forms by the suspense deadline. The use of online forms is estimated to decrease OPM processing and completion time by 30 days.
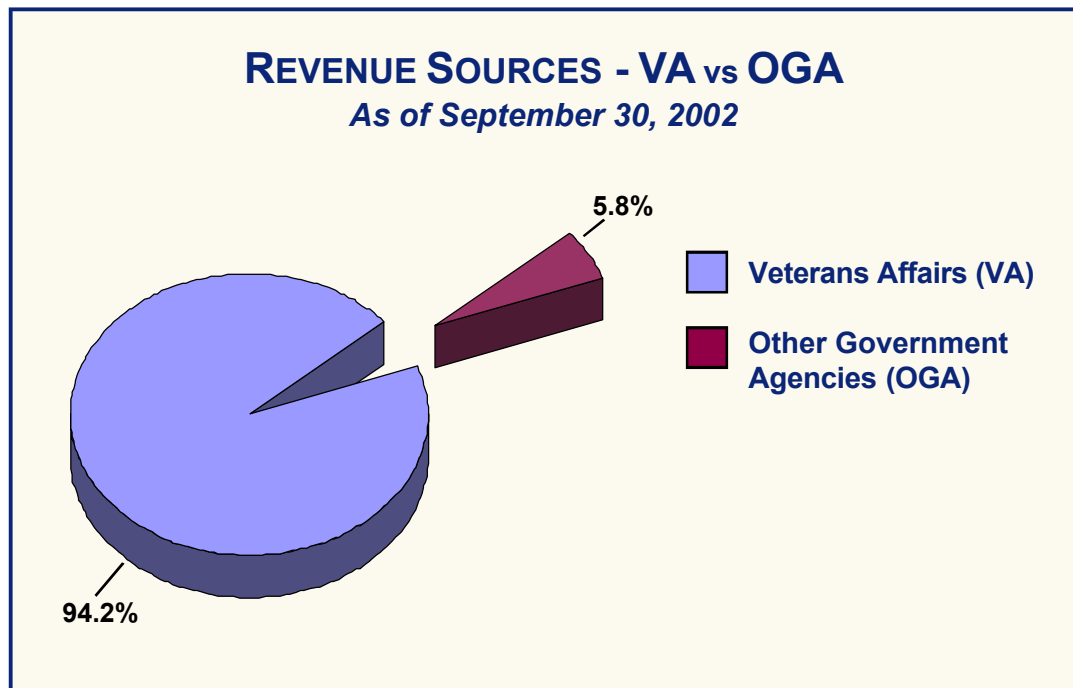
Management's Discussion and Analysis

Outlook for FY 2003

We anticipate the new year will be filled with challenges and opportunities. As we strive to provide excellent customer service and maintain our current customers, we are working to strengthen our recognition as a preferred provider of choice within the federal government and become increasingly competitive in the federal marketplace.

Expanding Fingerprint Compability

The SIC is evaluating a **Live Scan Fingerprint Processing Unit**, which electronically links to OPM and eliminates the manual screening process currently performed by the Federal Bureau of Investigation (FBI). In order to provide timely station security reports for the VA OIG and station Information Security Officers (ISOs), the SIC is in the process of having the security database overhauled.

Due to the increasing reporting requirements of our customers, the database overhaul will increase the types of background investigation and eligibility/clearance reports we currently provide. In addition, the overhaul will provide a better tracking measure of case status.

Cloning VA's Accounting System

VA's core accounting system (FMS) does not have the level of flexibility necessary to accommodate external customers. However, these potential customers can benefit from the FSC's proven expertise with FMS, which has been integral to VA's unqualified "clean" audit opinions. We are investigating the feasibility of setting up a parallel clone of FMS. If this approach is cost-effective, we will be able to offer a full range of accounting and payment services to customers outside VA.

Matching and Reconciliation Tool

In FY 2003, the FSC will introduce FASMatch, a new matching and reconciliation tool that can reconcile accounts receivable, accounts payable, fixed assets, inventories, patient records/accounts, management reporting, and automated data collection. FASMatch will revolutionize the matching and reconciliation needs across multiple files and complex systems. It easily automates manual matching of deposits and disbursements, as well as produces, manages, and reconciles the Statement of Transactions Report (SF-224). FASMatch obtains data for customer billings while providing a complete audit trail. Internally, FASMatch will be used in the Vendor File Update and Maintenance process and as a feature for identifying and controlling duplicate payments.

Processing Medical Claims Payments

In January 2003, the FSC will offer a fully integrated, end-to-end medical claims payment-processing application in conjunction with document processing through optical character recognition (OCR). State-of-the-art technology is being applied through utilization of **Plexis Healthcare System's Plexis Claims Manager (PCM)** and **Dakota Imaging's TRScan** forms processing application. Features and benefits of this technology include:

- Automated forms recognition and image enhancement
- Data entry cost reduction and improved data accuracy
- Management of unlimited fee schedules
- Web-based referral/authorization system
- Robust medical data collection and reporting

Reinstating Acquisition Services

With the reinstatement of the AAC's acquisition services product line, significant revenue growth is anticipated. Based on executed customer agreements, the AAC anticipates procurement awards of over $52 million and projected earned fees of $918,792 in FY 2003. Acquisition services rates have been restructured to include a fixed fee, which will be advantageous to the customers as a way of forecasting costs directly related to acquisition services. The revised fees will include acquisition support provided by an onsite staff of contracting officers and contracting officer technical representatives (COTR) experienced in acquiring hardware, software, and services to support us and our customers. Discounted acquisition fees will be available to customers who also receive IT-related services.

Continuity of Operations (COOP) Plan

The AAC will continue to move forward with its business COOP efforts. The long-range goal for this effort, known as the **corporate data center integration (CDCI)**, will provide enterprise fail over capabilities, enhance data availability for mission-critical applications and provide hot backup solutions. We plan to develop a tiered service offering mission-critical enterprise business functions and key enabling functions to be supported at a higher level of service while keeping more cost-effective options available for routine and analytical support activities such as historical repositories used for analysis.

The FSC completed a comprehensive COOP plan last year. This complete approach has established a "Recovery Capability" for the FSC, while instilling a continuity culture. The COOP strategy includes use of a vacant space for a recovery use "hot site" and "quick-ship/drop-ship" of equipment to support FSC needs. The COOP plans are tested and updated on a regular basis to ensure they stay accurate and current, enabling us to provide mission-critical customer service.

Management's Discussion and Analysis

Lessons Learned

With today's federal customers becoming more fiscally aware and demanding quality services, they can exercise their right to choose what services to buy and where to buy them at competitive prices. The leadership and vision of our executives and program managers are needed now more than ever to affect the cultural paradigm shift required to position us as a viable and profitable business. To survive and prosper, we need to continue to focus our leadership on the goals of operating like a business and improving our competitiveness.

Realignment of the VA RC&V

In November 2001, the VA Franchise Fund Board of Directors voted to realign the VA RC&V under the management of the AAC. The VA RC&V, a smaller enterprise fund activity, offers climate-controlled subterranean storage of records on a wide variety of media, including paper, microfiche, and tapes.

Subsequent to the reorganization, the VA RC&V executed an agreement with VHA to move 900,000 cubic feet of long-term records (primarily medical records) from 14 NARA regional records centers throughout the United States. Prior to finalizing plans to ship records from NARA, an analysis was completed weighing the costs and benefits to the project. The analysis showed that VHA would experience millions of dollars in long-term cost savings by centralizing their records holdings. In May 2002, VHA began transferring its long-term records to the VA RC&V.

The realignment highlights the fact that a larger Enterprise Center with greater business resources (business planning, financial management, cost accounting, contracting, IT, facility management, etc.) can support and assist a smaller Enterprise Center. This is especially true given the significant expansion efforts. Since the realignment, we have worked very diligently with VHA to address their concerns and to ensure that the project to centralize their records holdings is a "win-win" for all involved. Both Enterprise Centers share the overriding goal of earning customer loyalty and commitment to success by providing the highest level of service possible.

Strengthening IT Programs

The American public continues to hold us to high standards as we spend their money to administer government programs. As a result, the AAC is working with VA in the spirit of *OneVA* to strengthen our IT program and address issues relating to VA's Enterprise Architecture and Cyber Security program.

We are working with VA's Office of Tele-communications on the **Telecommunications Modernization Project (TMP)**, an integral part of the Department's initiative to strengthen VA's IT program. This initiative will substantially improve performance in support of VA's Enterprise Architecture project, establish a network management capability, and significantly improve the security and assurance of service. The **Enterprise Cyber Security Infrastructure Project (ECSIP)**, an Office of Cyber Security project approved by VA's Strategic Management Council, was the first step in meeting VA's priority to secure its computing enterprise against attacks. The AAC is the initial pilot site selected to participate in the ECSIP project. Initiation of the project will result in reducing the total number of gateways to external networks to a manageable number and significantly increasing security protections at VA gateways. Design and implementation of this standardized architecture and configuration will better protect VA's information systems and internal critical information repositories from external and internal attacks.

Combating the Backlog of Investigations

As a result of September 11th, OPM alerted federal agencies that they were experiencing a backlog on the completion of most background investigations. In addition, OPM received requests to conduct 1 million additional national security investigations. To prevent delays to our customers with national security duties, the SIC ensured that the required National Agency Check portion of the investigation was completed in less than 2 weeks. This enabled the issuance of interim security clearances. We worked closely with employees to ensure that investigative form submissions were completely accurate prior to submission to OPM. Weekly telephonic status checks with OPM were performed to ensure VA's background investigations received the proper attention.

Centralizing Travel-Related Payments

During FY 2002, the FSC undertook a study of PCS Bills of Collection (BOC) as to why they were not being pursued or collected. The findings of this study revealed VA field stations were inappropriately canceling, writing off, or waiving numerous BOCs. The errors were primarily attributed to VA field stations' limited familiarity with complex rules associated with PCS travel processing. However, the FSC has a cadre of experienced people who are devoted to processing the full range of PCS transactions, including BOCs. As such, we have proposed to centralize VA PCS travel processing at the FSC to ensure the efficient processing of these complicated travel orders and vouchers in accordance with all applicable rules and regulations. Additional benefits include improved recordkeeping and an audit trail. This proposal is in the review and concurrence process awaiting a final decision.

Management's Discussion and Analysis

Analysis of Performance Information

The performance information presented in this report accurately represents the VA Franchise Fund's performance during FY 1999 – 2002. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we continuously seek to improve our data collection and monitoring techniques.

Enabling Goal: Create an environment that fosters the delivery of *OneVA* world-class service to veterans and their families through effective communication and management of people, technology, business processes and financial resources.

Objective: Improve the overall governance of VA and the management of its business processes. Specific program objectives include:

- Ensure all application processing support and general support are of the highest quality.

- Ensure debt management collection services for delinquent consumer debt meet customer needs and requirements.

- Ensure payroll and financial services meet customer needs and requirements.

- Ensure VA's work environment is recognized by employees as conducive to productivity and achievement, and fosters respect among all.

- Ensure high quality and timeliness of investigations and adjudications for employees in sensitive/ national security and public trust positions and in managing and issuing customer identification cards.

- Ensure accurate records management and secure archival storage, protection and retrieval services for veterans' and other stored federal records.

- Establish and manage the business aspects of the VA Enterprise Centers.

Performance Summary Table

Performance Measures	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2002 Plan
Customer satisfaction (range 1-5)[1]	N/A	3.91	3.95	3.96	3.5
Availability of on-line systems rate[2]	99%	99%	99%	99.9%	99.6%
Timely release of output rate	99%	99%	99%	99.9%	99.9%
Accuracy of output rate	99%	99%	99%	99.9%	99.9%
Help desk first-contact resolution (Tier 1) rate[3]	N/A	N/A	58%	67.4%	66%
Lost call rate on toll-free telephone system	3%	3%	2.2%	2.1%	≤3%
Timeliness rate in response to debtor's written inquiries	N/A	N/A	100%	100%	100%
W-2 release dates met (All W-2s must be mailed by January 31st)	100%	100%	100%	100%	100%
FMS will be updated with credit card transactions daily, unless the FSC does not receive the transactions from Citibank	N/A	N/A	100%	100%	100%
Payment processing accuracy rate[4]	93%	95%	96%	97.9%	97.5%
Customer satisfaction rating (range 1-5)[5]	N/A	3.5	N/A	4.0	4.0

[1] The AAC uses an industry benchmark to measure customer satisfaction. In the FY 2002 survey, the AAC scored in the top 12.5% of GartnerMeasurement's Information Technology Customer Satisfaction database, giving the AAC an overall satisfaction score of 3.96 out of 5, well surpassing the database average of 3.61 for all 160 private and public sector organizations in Gartner's database.

[2] The industry standard is 99% and best practice is 99.5%.

[3] The industry standard is 66% and best practice is 70%.

[4] Payment processing accuracy has been successfully maintained as a result of utilizing an automated solution, strong training, measuring and reporting accuracy on a daily basis, and continuous process improvements at the work center level.

[5] Customer satisfaction ratings have been more accurately assessed due to the introduction of an aggressive and continuous program to use an automated data gathering solution. With the utilization of SurveyPro software, customer satisfaction data is quickly captured and analyzed to guide product line managers toward continuous process improvements.

Management's Discussion and Analysis

Performance Summary Table

Performance Measure	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2002 Plan
Class graduation rate	95%	95%	98%	98%	95%
Number of sites that have completed the firearms training program[6]	30	30	32	45	45
Timeliness rate of investigations[7]	98%	98%	98%	95%	98%
Timeliness rate of arrest records processed	100%	100%	100%	100%	100%
Timeliness rate of recall requests for individual records and multiple records	100%	99%	98%	99%	97%
Timeliness rate of emergency/ contingency test recall request for individual records and multiple records	100%	98%	100%	98%	97%
Timeliness rate of rights and interests records that are available after a period of approximately 20 days in the event of a major national disaster	N/A	N/A	N/A	N/A	97%
Operating reserves target[8]	N/A	N/A	70%	100%	70%
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0

[6] Initially, firearms training was to be conducted for 30 sites per year until all identified VA medical centers were armed. The firearms training program was originally scheduled to be completed in 2004; however, due to a mandate to accelerate the training program, it is expected to be completed by the end of 2003.

[7] As a result of September 11th, OPM alerted federal agencies that they were experiencing a backlog on the completion of most background investigations. Due to this backlog, the SIC could not make its 98% goal of timeliness rate of investigations.

[8] Maintain a positive cash balance at all times by accumulating an operating reserve equivalent to 3 months of operating expenses based on current fiscal year estimates.

The number of goals met reflects our measurable progress in leadership, systems oversight and processing, direct service delivery, and sound financial management.

Annual Goals	Goals Met	Goals Not Met
20	19	1

The table below identifies the single area where performance was not met in FY 2002. An explanation is provided that outlines how we intend to improve our performance to meet this goal in the future.

Performance Measure	2002 Actual	2002 Plan	Explanation for Improving Performance in FY 2003
Timeliness rate of investigations	95%	98%	To prevent future delays to our customers with national security duties, the SIC will ensure that the required National Agency Check (NAC) portion of the investigation is completed in less than 2 weeks. This will allow the issuance of interim national security clearances. We are working closely with VA employees to ensure that their investigative form submissions are completed accurately prior to their submission to OPM. Weekly telephonic status checks with OPM will also be performed to ensure VA's background investigations receive the proper attention.

Management's Discussion and Analysis

Analysis of Financial Statements

Composition of VA Franchise Fund Assets
As of September 30, 2002
(Dollars in Thousands)

$28,511 (24%) $4,418 (3%)

- Fund Balance with Treasury
- Property, Plant & Equipment, Net
- Accounts Receivable, Net
- Other Assets

$14,236 (12%) $73,092 (61%)

The largest asset of the VA Franchise Fund, Fund Balance with Treasury, accounts for $73,092 representing 61 percent of our total assets for FY 2002. This undisbursed account balance for the Fund is a revolving fund comprised of only entity assets. Our second largest asset reflects the book value for Property, Plant and Equipment of $28,511 which accounts for 24 percent of our total assets for FY 2002. This includes transfers from other federal agencies, which are recorded at cost. The third largest asset reflects $14,236 in Accounts Receivable which accounts for 12 percent of our total assets for FY 2002. All Accounts Receivable are from other federal agencies and are considered fully collectible. Other Assets make up the remaining 3 percent of $4,418 for FY 2002.

Composition of VA Franchise Fund Assets
As of September 30, 2001
(Dollars in Thousands)

$52,055 (56%) $14,479 (15%)

- Fund Balance with Treasury
- Property, Plant & Equipment, Net
- Accounts Receivable
- Other Assets

$868 (3%) $25,207 (26%)

The largest asset of the VA Franchise Fund, Fund Balance with Treasury, accounts for $52,055 representing 56 percent of our total assets for FY 2001. This undisbursed account balance for the Fund is a revolving fund comprised of only entity assets. Our second largest asset reflects the book value for Property, Plant and Equipment of $25,207 which accounts for 26 percent of our total assets for FY 2001. This includes transfers from other federal agencies, which are recorded at cost. The third largest asset reflects $14,479 in Accounts Receivable which accounts for 15 percent of our total assets for FY 2001. All Accounts Receivable are from other federal agencies and are considered fully collectible. Other Assets make up the remaining 3 percent for $868 for FY 2001.

VA Franchise Fund
Revenue by Major Product Category
As of September 30, 2002
(Dollars in Thousands)

$36,381 (27%)

- Information Technology
- Financial Management
- Security & Law Enforcement

$5,094 (4%)

$95,381 (69%)

The total revenue generated by the VA Franchise Fund, $136,856, is comprised of three major segments (Information Technology, Financial Management and Security and Law Enforcement). The Information Technology segment is comprised of the Austin Automation Center and the VA Records Center and Vault. This segment generated $95,381, accounting for 69 percent of our total revenue in FY 2002. Twenty-seven percent of our total revenue was generated by the Financial Management segment (comprised of the Financial Services Center and the Debt Management Center), which accounts for $36,381. The Security and Law Enforcement segment (comprised of the Security and Investigations Center and the Law Enforcement Training Center) generated the remaining $5,094 representing 4 percent of the total revenue.

VA Franchise Fund
Revenue by Major Product Category
As of September 30, 2001
(Dollars in Thousands)

$34,241 (24%)

- Information Technology
- Financial Management
- Security & Law Enforcement

$3,986 (3%)

$102,758 (73%)

The total revenue generated by the VA Franchise Fund, $140,986, is comprised of three major segments (Information Technology, Financial Management and Security and Law Enforcement). The Information Technology segment is comprised of the Austin Automation Center and the VA Records Center and Vault. This segment generated $102,758, accounting for 73 percent of our total revenue in FY 2001. Twenty-four percent of our total revenue was generated by the Financial Management segment (comprised of the Financial Services Center and the Debt Management Center), which accounts for $34,241. The Security and Law Enforcement segment (comprised of the Security and Investigations Center and the Law Enforcement Training Center) generated the remaining $3,986 representing 3 percent of the total revenue.

VA Franchise Fund Operating Expenses
As of September 30, 2002
(Dollars in Thousands)

$10,059 (8%)
$1,567 (1%)
$2,037 (3%)
$49,824 (44%)
$22,352 (19%)
$27,820 (24%)
$1,110 (1%)

- Salaries & Benefits
- Travel
- Rent, Communication & Utilities
- Contractual Services
- Supplies & Materials
- Equipment Expenses
- Other

VA Franchise Fund Operating Expenses
As of September 30, 2001
(Dollars in Thousands)

$7,014 (5%)
$1,887 (1%)
$1,565 (1%)
$46,353 (35%)
$44,870 (34%)
$28,276 (22%)
$998 (1%)

- Salaries & Benefits
- Travel
- Rent, Communication & Utilities
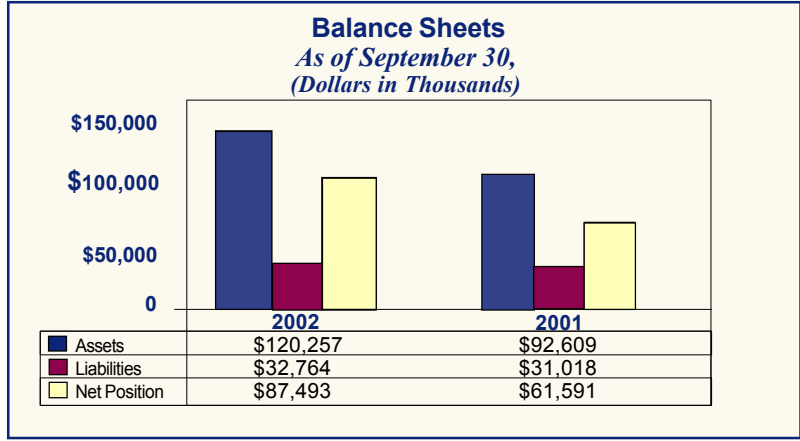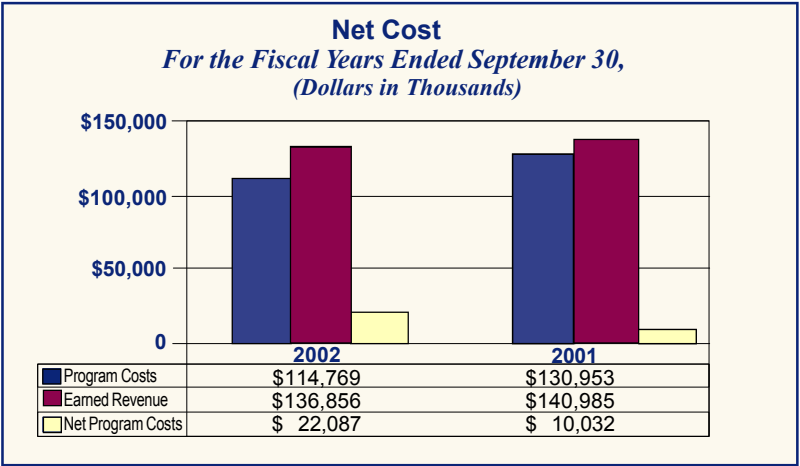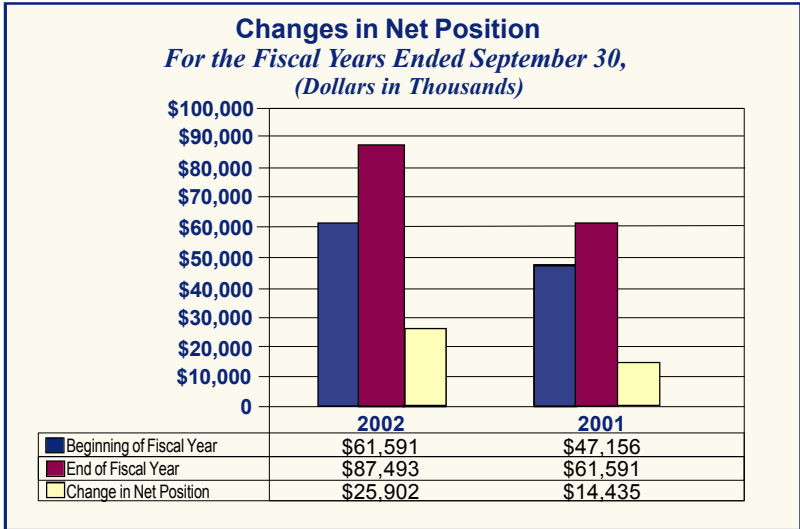- Contractual Services
- Supplies & Materials
- Equipment Expenses
- Other

The VA Franchise Fund Consolidated Statements of Net Cost state both Intragovernmental and public program costs for fiscal years 2002 and 2001. The Intragovernmental program costs for fiscal years 2002 and 2001 are $22,751 and $24,673, respectively. The public program costs for fiscal years 2002 and 2001 are $92,018 and $106,280, respectively. The combined programs costs for both fiscal years 2002 and 2001 are $114,769 and $130,953, respectively. For both fiscal years, the largest expense for the Fund is Salaries and Benefits costs. These expenditures for fiscal years 2002 and 2001 were $49,824 (44 percent) and $46,353 (35 percent), respectively. Both program cost areas of Contractual Services and Rent, Communications and Utilities are the next largest costs for the Fund. Contractual Services expenses for fiscal years 2002 and 2001 were $22,352 (19 percent) and $44,870 (34 percent), respectively. Rent, Communications and Utilities costs for fiscal years 2002 and 2001 were $27,820 (24 percent) and $28,276 (22 percent), respectively. Equipment expense costs are depreciation and acquisition costs below the Fund threshold. The Equipment expenses for fiscal years 2002 and 2001 were $10,059 (8 percent) and $7,014 (5 percent), respectively. The costs associated with expenses for Travel, Supplies and Materials, and Miscellaneous expenses combined make up less than 5 percent of all operating expenses. For fiscal years 2002 and 2001, Travel costs were $1,110 (1 percent) and $998 (1 percent), Supplies and Materials were $2,037 (3 percent) and $1,887 (1 percent), and Other Miscellaneous expenses were $1,567 (1 percent) and $1,565 (1 percent), respectively.

Changes in Net Position
For the Fiscal Years Ended September 30,
(Dollars in Thousands)

	2002	2001
Beginning of Fiscal Year	$61,591	$47,156
End of Fiscal Year	$87,493	$61,591
Change in Net Position	$25,902	$14,435

Net Cost
For the Fiscal Years Ended September 30,
(Dollars in Thousands)

	2002	2001
Program Costs	$114,769	$130,953
Earned Revenue	$136,856	$140,985
Net Program Costs	$ 22,087	$ 10,032

Balance Sheets
As of September 30,
(Dollars in Thousands)

	2002	2001
Assets	$120,257	$92,609
Liabilities	$32,764	$31,018
Net Position	$87,493	$61,591

DEPARTMENT OF VETERANS AFFAIRS

Office of Inspector General

REPORT OF THE AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS' FRANCHISE FUND CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2002

Report No. 02–02245–64   **February 28, 2003**

VA Office of Inspector General
Washington, DC 20420

DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC   20420

Memorandum to the Assistant Secretary for Management (004)

Report of Audit of the Department of Veterans Affairs' Franchise Fund Consolidated
Financial Statements for Fiscal Year 2002

1.   Attached is the Office of Inspector General's (OIG) Report of Audit of the Department of Veterans Affairs (VA) Franchise Fund Consolidated Financial Statements (CFS) for Fiscal Year (FY) 2002. The Franchise Fund is one of the components included in VA's CFS. The Franchise Fund management contracted with the independent public accounting firm Brown & Company CPAs, PPLC to perform the audit. The Franchise Fund management defined the requirements of the audit; and the OIG reviewed the audit plans, monitored the audit, and reviewed the draft reports. The independent auditors' report provides an unqualified opinion on VA's Franchise Fund FY 2002 CFS.

2.   The report on internal control over financial reporting identifies one material weakness concerning information technology security controls and one reportable condition on the application program and operating system change controls that affect one enterprise center. These findings and the related recommendations were included in the Department's FY 2002 and 2001 CFS audit reports. We discussed these findings with Franchise Fund management.

3.   The report on compliance with laws and regulations disclosed no instances of noncompliance.

4.   We will follow up on the findings during the audits of the Franchise Fund's FY 2003 CFS and VA's FY 2003 CFS.

For the Assistant Inspector General
          for Auditing

MARIE A. MAGUIRE
Director, Financial Audit Division (52CF)

Attachment

Auditors' Reports

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Director
VA Enterprise Fund Office

We have audited the accompanying consolidated balance sheet of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2002, and the related consolidated statements of net cost, changes in net position, financing, and the combined statement of budgetary resources for the year then ended. These financial statements are the responsibility of the VA Franchise Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the VA Franchise Fund as of and for the year ended September 30, 2001 were audited by other auditors whose report dated January 18, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VA Franchise Fund as of and for the year ended September 30, 2002, its net cost, changes in net position, budgetary resources, and financing for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2002 on our consideration of the VA Franchise Fund's internal control over financial reporting and a report dated December 12, 2002 on its compliance with laws and regulations.

The information in "Management's Discussion and Analysis" is presented for the purpose of additional analysis and is required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Brown & Company

Arlington, Virginia
December 12, 2002

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Director
VA Enterprise Fund Office

We have audited the consolidated financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2002, and have issued our report thereon dated December 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the VA Franchise Fund's internal control over financial reporting by obtaining an understanding of the VA Franchise Fund's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect VA Franchise Fund's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions 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 may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, certain matters involving the internal control and its operation that are considered to be reportable conditions were noted.

The VA Office of Inspector General brought to our attention that other auditors performing the audit of VA's consolidated financial statements noted certain matters involving the internal control over financial reporting that could effect the VA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The VA's consolidated financial statements include the Franchise Fund. The material weakness and other reportable condition noted relate to one of the Enterprise Centers within the Franchise Fund. The material weakness and other reportable condition noted are described in the following paragraphs.

Material Weakness - Information Technology (IT) Security Controls (Repeat Condition)

It was noted that the VA's financial data continues to be at risk due to serious weaknesses related to the VA's control and oversight over access to its information systems, which places sensitive information, including financial data at risk. Key security administration controls were tested for the core Financial Management System (FMS) and the payroll system (Personnel and Accounting Integrate Data - PAID).

Auditors' Reports

The following control weaknesses were identified:

- FMS – the numerous security weaknesses noted included inadequate segregation of duties over security administration, inappropriate access privileges, and inadequate segregation of duties permitting individuals to both obligate funds and make disbursements.

- PAID – the numerous security weaknesses noted included inadequate segregation of duties over security administration, inappropriate access privileges, inadequate management of access privileges, and inadequate segregation of duties permitting individuals to make changes to the payroll master file and process payroll transactions.

Recommendation – We reaffirm the recommendation contained in the FY 2002 consolidated financial statement audit that the VA improve security and segregation of duties controls over the FMS and PAID systems, and assign, communicate, and coordinate responsibility for monitoring and enforcing such controls.

Reportable Condition – Application Program and Operating System Change Controls (Repeat Condition)
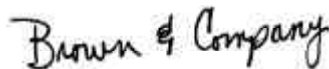
Several continuing weaknesses were noted at a VA data center, which include inappropriate access capabilities by application programmers and system support staff to production data, lack of application change procedures, inadequate procedures for testing, approving, and migrating system software changes, inadequate segregation of duties for approving, performing, testing, and documenting operating system software changes, and inadequate application program change tracking procedures. These weaknesses may cause unauthorized or invalid program and operating system changes to be placed into production.

Recommendation – We reaffirm the recommendation contained in the FY 2002 consolidated financial statement audit that improved controls over application program and operating system changes be instituted, communicated and enforced throughout the data centers.

During the course of our audit we noted other matters involving internal control and its operation that we have reported to management of the VA Franchise Fund in a separate management letter dated December 12, 2002.

In addition, with respect to internal control related to performance measures reported in "Management's Discussion and Analysis," we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the Department of Veterans Affairs Franchise Fund, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Arlington, Virginia
December 12, 2002

BROWN & COMPANY CPAs, PLLC

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The Director
VA Enterprise Fund Office

We have audited the consolidated financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2002, and have issued our report thereon dated December 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

The management of the VA Franchise Fund is responsible for complying with laws and regulations applicable to the VA Franchise Fund. As part of obtaining reasonable assurance about whether the VA Franchise Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of 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. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the VA Franchise Fund.

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

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Department of Veterans Affairs Franchise Fund, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Arlington, Virginia
December 12, 2002

ARLINGTON
2300 CLARENDON BOULEVARD, SUITE 1000
ARLINGTON, VA 22201
(703) 522-0800 • FAX: (703) 522-0806
mail@brownco-cpas.com

RICHMOND
100 WEST FRANKLIN STREET, SUITE 102
RICHMOND, VA 23220
(804) 648-2017 • FAX: (804) 648-2018
brownco-cpas-rich@erols.com

Consolidated Financial Statements

	2002	2001 Restated
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 73,092	$ 52,055
Accounts Receivable	13,952	14,422
Other Assets	4,416	867
Total Intragovernmental	91,460	67,344
Accounts Receivable	284	57
Property, Plant and Equipment, Net (Note 3)	28,511	25,207
Other Assets	2	1
Total Assets	**$ 120,257**	**$ 92,609**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable	$ 357	$ 212
Other Liabilities (Note 5)	1,383	1,670
Total Intragovernmental	1,740	1,882
Accounts Payable	2,563	3,861
Other Liabilities (Note 4 & 5)	28,461	25,275
Total Liabilities	**32,764**	**31,018**
NET POSITION	**$ 87,493**	**$ 61,591**
TOTAL LIABILITIES AND NET POSITION	**$ 120,257**	**$ 92,609**

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENTS OF NET COST
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,
(Dollars in Thousands)

	2002	2001
PROGRAM COSTS		
Gross Costs Intragovernmental	$ 22,751	$ 24,673
Less: Intragovernmental Earned Revenue	(136,856)	(140,985)
Intragovernmental Net Costs	(114,105)	(116,312)
Gross Costs Public	92,018	106,280
NET COST OF OPERATIONS	**$ (22,087)**	**$ (10,032)**

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,
(Dollars in Thousands)

	2002	2001
NET POSITION		
Beginning Balance	**$ 61,591**	**$ 47,156**
OTHER FINANCING SOURCES		
Transfers-In	759	512
Imputed Financing	3,426	3,903
Other	0	(11)
Total Financing Sources	**4,185**	**4,404**
NET COST OF OPERATIONS	22,087	10,032
Cumulative Effect of Change in Accounting Principle (Note 6)	(370)	(1)
TOTAL NET POSITION	**$ 87,493**	**$ 61,591**

The accompanying notes are an integral part of these financial statements.

Consolidated Financial Statements

	2002	2001
BUDGETARY RESOURCES		
Unobligated Balance at the Beginning of the Period	$ 38,016	$ 5,926
Spending Authority from Offsetting Collections	144,987	144,754
Total Budgetary Resources	**183,003**	**150,680**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	130,321	112,664
Unobligated Balance Available (Note 2)	50,887	36,221
Unobligated Balance Not Available (Note 2)	1,795	1,795
Total Status of Budgetary Resources	**183,003**	**150,680**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance, Net - Beginning of the Period	14,039	39,069
Less: Obligated Balance, Net - End of the Period		
Accounts Receivable	(13,911)	(14,346)
Unfilled Customer Orders from Federal Sources	0	(3,790)
Undelivered Orders	2,628	4,338
Accounts Payable	31,693	27,837
Outlays:		
Disbursements	128,175	133,866
Collections	(149,212)	(140,926)
Net Outlays	$ (21,037)	$ (7,060)

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENTS OF FINANCING
FOR THE FISCAL YEARS ENDED SEPTEMBER 30,
(Dollars in Thousands)

	2002	2001 Restated
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 130,321	$ 112,664
Less: Spending Authority from Offsetting Collections and Adjustments	(144,987)	(144,754)
Net Obligations	**(14,666)**	**(32,090)**
Other Resources		
Transfers-In	759	512
Financing Imputed for Cost Subsidies	3,426	3,904
Net Other Resources Used to Finance Activities	**4,185**	**4,416**
Total Resources Used to Finance Activities	**(10,481)**	**(27,674)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	(4,953)	22,066
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(16,575)	(15,257)
Resources that Fund Expenses Recognized in Prior Periods	(227)	(54)
Other Resources that Do Not Affect Net Cost of Operations	0	(2,775)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	**(21,755)**	**3,980**
Total Resources Used to Finance the Net Cost of Operations	**(32,236)**	**(23,694)**
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation and Amortization	9,700	9,898
Gain / Loss on Disposition of Assets	191	742
Other	258	3,022
	10,149	**13,662**
NET COST OF OPERATIONS	$ **(22,087)**	$ **(10,032)**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements ———————

Note 1. Summary of Significant Accounting Policies

Reporting Entity

Created by Congress in 1996 as one of six Franchise Fund pilots operating within the Executive Branch of Government, VA's Franchise Fund (Fund) supports VA's mission by supplying common administrative services at competitive prices. By law, the business lines within the Fund can only sell to federal entities. This organization accounted for its funds in six lines of business (VA Enterprise Centers) and in one administrative organization: Austin Automation Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and the Enterprise Fund Office.

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) standards and related concepts. The American Institute of Certified Public Accountants (AICPA) designated FASAB as the accounting standard-setting body for federal governmental entities. As a result, accounting principles promulgated by FASAB are considered accounting principles generally accepted (GAAP) in the United States of America for federal governmental entities.

Principles of Consolidation

The consolidated financial statements include the six individual activity centers of the Fund. All material intrafund transactions have been eliminated.

Accounts Receivable

Intragovernmental accounts receivable are from other federal entities and are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary.

Public accounts receivable are incurred when the Fund makes payments on behalf of their employees. Examples of this would be advances for Permanent Change of Station (PCS) travel or advances for Federal Employees Health Benefits (FEHB) when employees are on leave without pay and their health benefits are paid to the health carriers. These receivables are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary.

Other Liabilities

Other liabilities are classified as either intragovernmental or public. Intragovernmental liabilities arise from transactions between the Fund and federal entities, whereas public liabilities arise from transactions between the Fund and non-federal entities. Budgetary resources cover all other liabilities, both intragovernmental and public.

Revenues and Financing Sources

The Fund receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee-for-service" basis. Exchange revenues are recognized when earned. Expenses are recognized when incurred. All significant intra-entity balances and transactions have been eliminated in consolidation.

For financial reporting purposes under accrual accounting, operating expenses are recognized currently, while those for capital and other long-term assets are capitalized and not recognized as expenses until actually used. Financing sources for these expenses, which derive from both current and prior year appropriations and operations, are also recognized this way.

Annual, Sick and Other Types of Leave

Annual leave is accrued when earned and the accrual is reduced when leave is used. At least once a year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned but not taken. Sick and other types of leave are expensed as taken.

Imputed Financing

The imputed financing of retirement benefit costs is borne by the Office of Personnel Management to support the retirement of our employees. This cost is not included within the billing rates charged to customers.

Note 2. Fund Balance with Treasury

The undisbursed account balance for the Fund is a revolving fund comprised of only entity assets. The funds available as of September 30,

	2002	**2001**
Fund Balance with Treasury	**$73,092**	**$52,055**

Notes to the Consolidated Financial Statements

The Fund does not receive an appropriation from Congress. The Fund receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee-for-service" basis.

	2002	2001
Unobligated Apportionment		
Available	$50,887	$36,221
Unavailable	1,795	1,795
Undelivered Orders		
Unpaid	2,628	4,338
Total Unexpended Apportionment	$55,310	$42,354

Note 3. Property, Plant and Equipment

Property, plant and equipment, including transfers from other federal agencies, are recorded at cost. Expenditures for major additions, replacements, and alterations are capitalized. Routine maintenance is expensed when incurred. Items costing over $5,000 with a useful life of 2 years or more are capitalized. All capitalized purchases are depreciated using the straight-line method over the estimated useful life, usually 3 to 5 years.

Leasehold Improvements and related depreciation are accounted for as Departmental assets. The Franchise Fund utilizes these assets in the production of revenue. Since the leasehold improvements are VA assets, they are recorded at the VA Departmental threshold of $100,000.

The Property, Plant and Equipment for the Franchise Fund as of September 30,

	Cost	Accumulated Depreciation	2002 Net Book Value	2001 Net Book Value
Furniture & Equipment	$ 2,557	$ (1,053)	$ 1,504	$ 1,495
Capital Leases	7,921	(7,758)	163	3,010
ADP Equipment	22,096	(8,750)	13,346	7,270
Software	9,660	(6,014)	3,646	4,073
Leasehold Improvements	15,912	(6,060)	9,852	9,359
Total Property, Plant and Equipment	**$ 58,146**	**$ (29,635)**	**$ 28,511**	**$ 25,207**

Note 4. Leases

The Franchise Fund has both capital and operating leases. The capital lease liability is $163,000 and $3,010,000 as of September 30, 2002 and 2001, respectively. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund's FY 2002 operating lease costs were $612,000 for real property rentals and $21,000 for equipment rentals. The FY 2001 operating lease costs consisted of $117,000 for real property rentals and $34,000 for equipment rentals. The following chart represents the Franchise Fund's estimate for operating lease costs in thousands for the next 5 years, assuming a range of 3.4 to 3.6 percent yearly increase in cost.

OPERATING LEASES

Year	Percentage Increase	Real Property	Equipment
2003	3.5	$634	$22
2004	3.4	655	22
2005	3.5	678	23
2006	3.6	703	24
2007	3.6	728	25

Note 5. Other Liabilities

Budgetary resources fund all other liabilities, both intragovernmental and public.

	2002	2001
Intragovernmental		
Accrued Payables - Federal	$ 515	$ 1,480
Advances – Federal	868	190
Total Intragovernmental Liabilities	**$ 1,383**	**$ 1,670**
Public		
Accrued Payables	$23,952	$17,621
Accrued Salaries & Wages	1,171	1,708
Accrued Funded Annual Leave	3,175	2,936
Capital Lease Liability	163	3,010
Total Public Liabilities	**$ 28,461**	**$ 25,275**

Notes to the Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2002 and 2001
(Dollars in Thousands)

Note 6. Changes in Accounting Principles

The capitalization threshold for VA Departmental fixed assets was raised from $25,000 to $100,000 effective June 1, 2002. The capitalization threshold for the Fund's assets remained at $5,000, except for leasehold improvements, which are capitalized at the Departmental level. The capitalization threshold for the Fund's leasehold improvements was also increased to $100,000 effective June 1, 2002.

A line item titled "Cumulative Effect of Change in Accounting Principle" has been included on the Statement of Changes in Net Position to report the $370,000 reduction in property, plant and equipment book value for FY 2002 and a $1,000 reduction in property, plant and equipment book value for FY 2001.

Note 7. Subsequent Events

The capitalization threshold for the Fund fixed assets was raised from $5,000 to $100,000 effective October 1, 2002.

Note 8. Restatement of Fiscal Year 2001

The accompanying 2001 consolidated financial statements have been restated to reflect the recording and classification of capital leases that were incorrectly recorded as operating leases. The effect of the restatement was to increase both property, plant, and equipment and public liabilities by $3,010.

	2001	2001 Restated	Variance
Consolidated Balance Sheets			
Property, Plant & Equipment	22,197	25,207	3,010
Total Assets	89,599	92,609	3,010
Other Liabilities	22,265	25,275	3,010
Total Liabilities	28,008	31,018	3,010
Total Net Position	61,591	61,591	0
Total Liabilities & Net Position	89,599	92,609	3,010
Consolidated Statements of Net Cost			
No Change			
Consolidated Statements of Changes in Net Position			
No Change			
Combined Statements of Budgetary Resources			
No Change			
Consolidated Statements of Financing			
Resources Used to Finance Items Not Part of the Net Cost of Operations			
Property, Plant & Equipment	(7,336)	(15,257)	(7,921)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	11,901	3,980	(7,921)
Total Resources Used to Finance the Net Cost of Operations	15,773	23,694	7,921
Components Not Requiring or Generating Resources			
Depreciation & Amortization	4,987	9,898	4,911
Other	12	3,022	3,010
Total Components Not Requiring or Generating Resources	5,741	13,662	7,921

Glossary of Acronyms

AAC	Austin Automation Center
AICPA	American Institute of Certified Public Accountants
AO	Agent Orange
BCP	Business Continuity Plan
BOC	Bill of Collection
CAPPS	Computer Assisted Payment Processing System
CCS	Credit Card System
CDCI	Corporate Data Center Integration
CIA	Central Intelligence Agency
CISSP	Certified Information System Security Professional
CMOP	Consolidated Mail Outpatient Pharmacy
COOP	Continuity of Operations
CoreFLS	Core Financial and Logistics System
COTR	Contracting Officers Technical Representative
COTS	Commercial Off-the-Shelf
DASD	Direct Access Storage Device
DIHS	Division of Immigration Health Services
DMC	Debt Management Center
DMS	Document Management System
DOD	Department of Defense
DOT	Department of Transportation
DW/ODS	Data Warehouse/Operation Data Store
ECSIP	Enterprise Cyber Security Infrastructure Project
EDI	Electronic Data Interchange
EFO	Enterprise Fund Office
EFT	Electronic Funds Transfer
EOB	Explanation of Benefits
EXIM	Export/Import Bank
FASAB	Federal Accounting Standards Advisory Board
FBI	Federal Bureau of Investigation
FEHB	Federal Employees Health Benefits
FEMA	Federal Emergency Management Agency
FHIE	Federal Health Information Exchange
FMS	Financial Management System
FSC	Financial Services Center
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
GMRA	Government Management Reform Act

GSA	General Services Administration
HAC	Health Administration Center
HEC	Health Eligibility Center
Hep C Registry	Hepatitis C Registry
HIPAA	Health Insurance Portability and Accountability Act
ICR	Immunological Case Registry
I/R	Ionizing/Radiation
IRS	Internal Revenue Service
ISO	Information Security Officers
IT	Information Technology
ITB	Information Technology Board
LETC	Law Enforcement Training Center
MTF	Medical Treatment Facilities
MPR	Military Personnel Records
MRS	Medical Records Registry System
NAC	National Agency Check
NARA	National Archives and Records Administration
NASA	National Aeronautics and Space Administration
NCA	National Cemetery Administration
NDAA	National Defense Authorization Act
NFC	National Finance Center
NPRC	National Personnel Records Center
OCR	Optical Character Recognition
OGA	Other Government Agencies
OIG	Office of Inspector General
OLCS	Online Certification System
OLTP	Online Transaction Processing
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAID	Personnel and Accounting Integrated Data
PCS	Permanent Change of Station
PCM	Plexis Claims Manager
PGW	Persian Gulf War
POMS	Purchase Order Management System
RAID	Redundant Array of Independent Disks
SEC	Security and Exchange Commission
SIC	Security and Investigations Center
TAR	Taxpayer Address Record
TDY	Temporary Duty

Glossary of Acronyms

TMP	Telecommunications Modernization Project
TOP	Treasury Offset Program
TSP	Thrift Savings Plan
USPS	United States Postal Service
VAPS	Veterans Affairs Police System
VA RC&V	VA Records Center and Vault
VBA	Veterans Benefits Administration
VCS	Veterans Canteen Service
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network
VPN	Virtual Private Network
WC/OSH MIS	Workers' Compensation/Occupational Safety Health Management Information System

VA ENTERPRISE CENTERS

2002
ANNUAL REPORT

Austin Automation Center
Enterprise Business Office
1615 Woodward Street
Austin, TX 78772
512-326-6005 • 512-326-6922 (fax)
dvac@mail.va.gov
www.aac.va.gov

Debt Management Center
P.O. Box 11930
St. Paul, MN 55111
612-970-5700 • 612-970-5687 (fax)
dmc.ops@vba.va.gov
www.va.gov/debtman/default.html

Financial Services Center
Business Development Division (104/00B)
P.O. Box 149975
Austin, TX 78714
512-460-5010 • 512-460-5117 (fax)
bso@mail.va.gov
www.fsc.va.gov/fsc/index.htm

Law Enforcement Training Center
2200 Fort Roots Drive, Building 104
North Little Rock, AR 72114
501-257-4160 • 501-257-4145 (fax)
ronald.angel@med.va.gov
www.va.gov/osle/valetc/default.html

Security and Investigations Center
810 Vermont Avenue, NW (07C)
Washington, DC 20420
202-273-5510 • 202-273-7095
sherri.jennings@mail.va.gov
www.va.gov/sic/default.html

VA Records Center and Vault
1615 Woodward Street
Austin, TX 78772
512-326-6408 • 512-326-6738 (fax)
aacvarc&v@mail.va.gov
www.aac.va.gov/vault/default.html

Contact the Department of Veterans Affairs
Enterprise Fund Office for additional copies
of this report or download from the web:
http://www.va.gov/fund/reports.html

Department of Veterans Affairs
810 Vermont Avenue, NW (047F)
Washington, DC 20420
202-273-9475 • 202-273-7680 (fax)
vafund@mail.va.gov