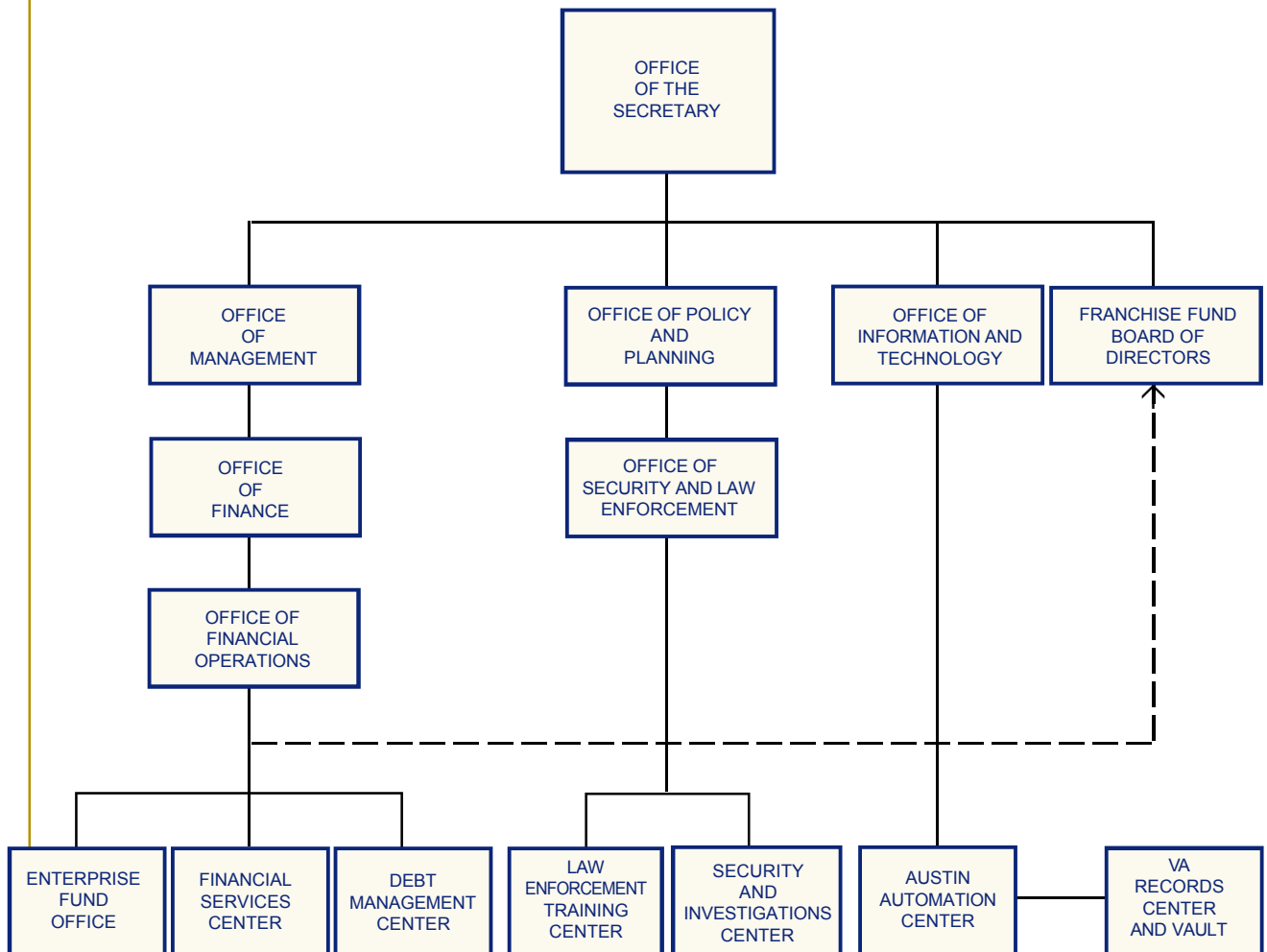


# Management's Discussion and Analysis

## 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 —



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

### Director's Corner

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.



**Dan Osendorf,**  
Director  
Debt Management  
Center

## Management's Discussion and Analysis

### Director's Corner

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.



**Rodney Wood,**  
Director  
Financial Services  
Center

## 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.

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.



**Ronald Angel,**  
Director  
Law Enforcement  
Training Center

## Management's Discussion and Analysis

### Director's Corner

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.



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

---

## Director's Corner

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.

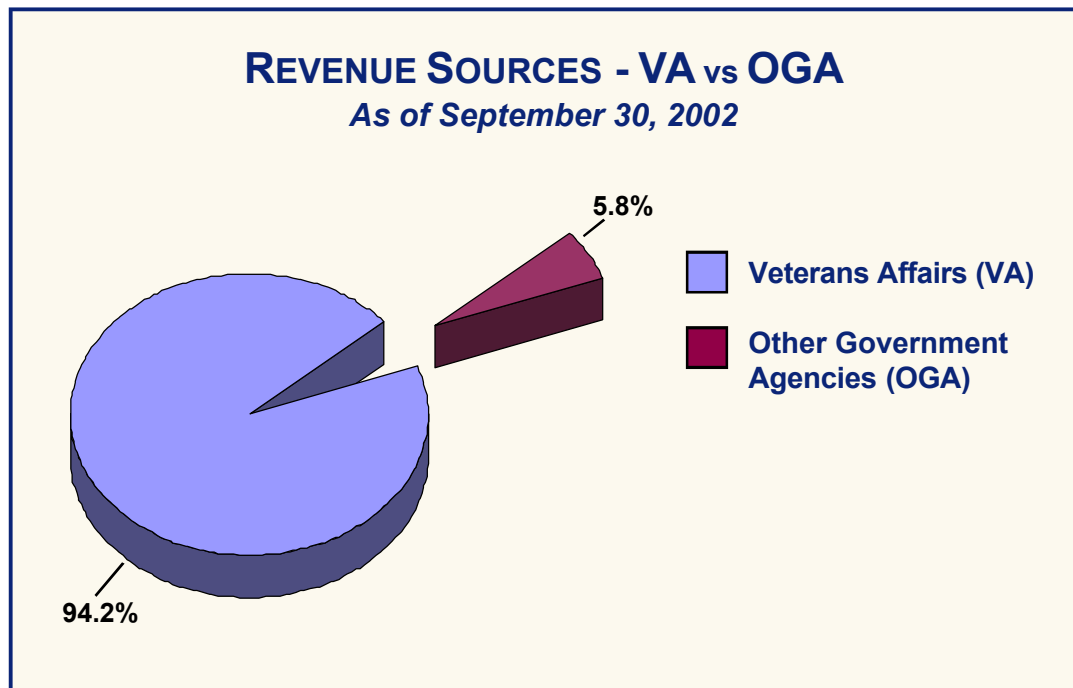
## Management's Discussion and Analysis

### 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.





### ***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 Telecommunications 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 11<sup>th</sup>, 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

<b>Performance Measures</b>	<b>1999 Actual</b>	<b>2000 Actual</b>	<b>2001 Actual</b>	<b>2002 Actual</b>	<b>2002 Plan</b>
Customer satisfaction (range 1-5) <sup>1</sup>	N/A	3.91	3.95	3.96	3.5
Availability of on-line systems rate <sup>2</sup>	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 <sup>3</sup>	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 <sup>4</sup>	93%	95%	96%	97.9%	97.5%
Customer satisfaction rating (range 1-5) <sup>5</sup>	N/A	3.5	N/A	4.0	4.0

<sup>1</sup> 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.

<sup>2</sup> The industry standard is 99% and best practice is 99.5%.

<sup>3</sup> The industry standard is 66% and best practice is 70%.

<sup>4</sup> 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.

<sup>5</sup> 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**

<b>Performance Measure</b>	<b>1999 Actual</b>	<b>2000 Actual</b>	<b>2001 Actual</b>	<b>2002 Actual</b>	<b>2002 Plan</b>
Class graduation rate	95%	95%	98%	98%	95%
Number of sites that have completed the firearms training program <sup>6</sup>	30	30	32	45	45
Timeliness rate of investigations <sup>7</sup>	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 <sup>8</sup>	N/A	N/A	70%	100%	70%
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0

<sup>6</sup> 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.

<sup>7</sup> As a result of September 11<sup>th</sup>, 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.

<sup>8</sup> 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.

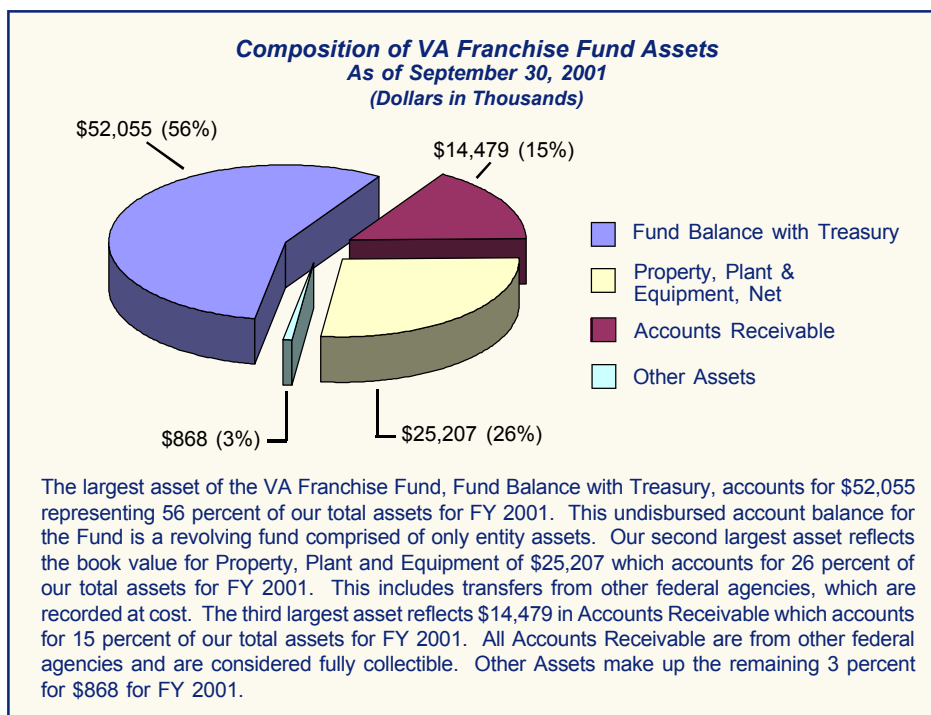
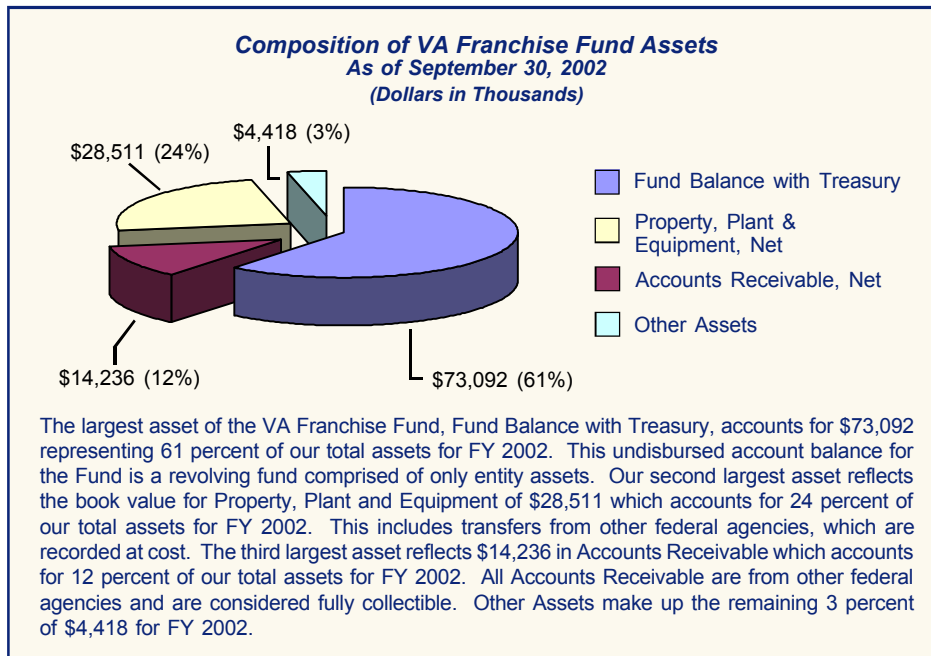
<b>Annual Goals</b>	<b>Goals Met</b>	<b>Goals Not Met</b>
<b>20</b>	<b>19</b>	<b>1</b>

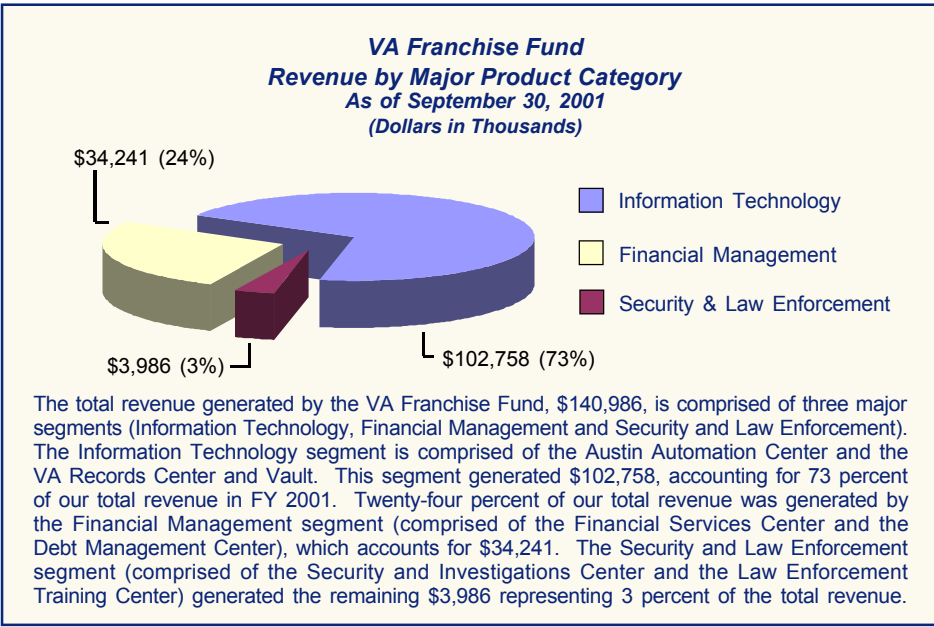
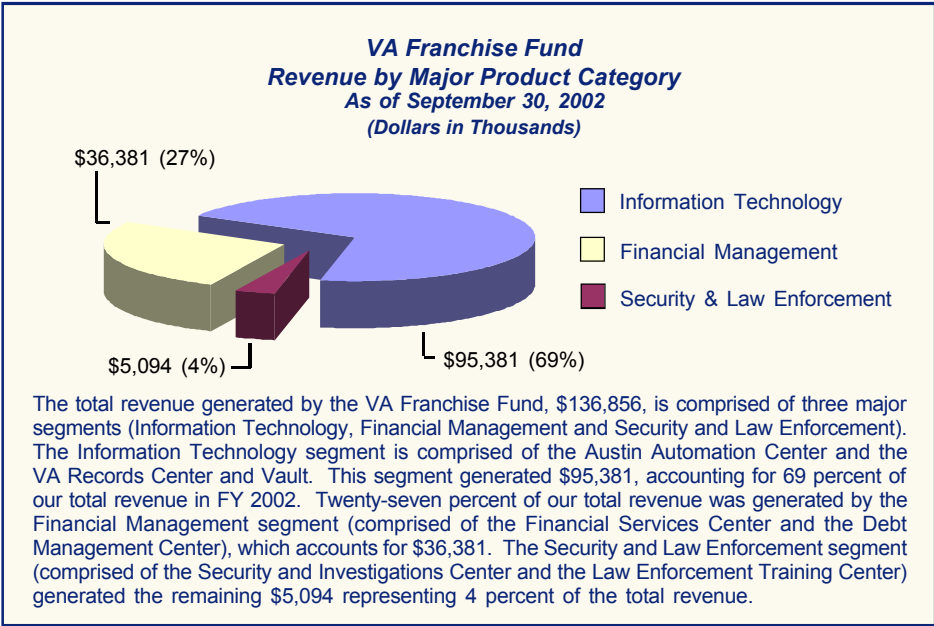
The table below identifies the single area where performance was not met in FY 2002. An explanation is provided that outlines how we intend to improve our performance to meet this goal in the future.

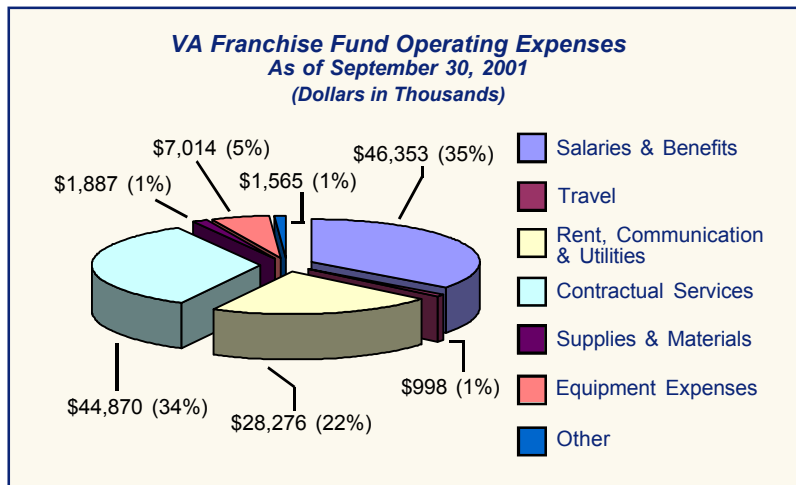
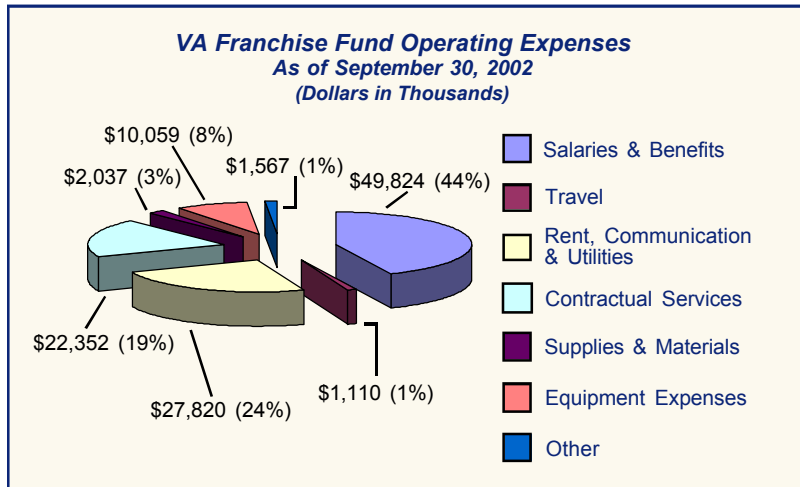
<b>Performance Measure</b>	<b>2002 Actual</b>	<b>2002 Plan</b>	<b>Explanation for Improving Performance in FY 2003</b>
Timeliness rate of investigations	95%	98%	To prevent future delays to our customers with national security duties, the SIC will ensure that the required National Agency Check (NAC) portion 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







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.

