

DEPARTMENT OF VETERANS AFFAIRS
FRANCHISE FUND

2003
ANNUAL REPORT

Capture the Momentum



of a Thriving Government Business



William H. Campbell
Chief Financial Officer

“On behalf of the Department of Veterans Affairs (VA), I offer my sincere appreciation to the VA Franchise Fund subject matter experts at the Financial Services Center and the Enterprise Fund Office for their significant contributions that led to our sixth consecutive unqualified “clean” audit opinion. This accomplishment brings us up to the standards of private industry for fiscal responsibility.

I would also like to acknowledge the VA Office of Inspector General and Brown & Company, CPAs for the professional manner in which they conducted the audit of the VA Franchise Fund FY 2003 Consolidated Financial Statements.

In addition, I commend our primary editor, Loleisa Davis and the VA Franchise Fund (Austin Automation Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Records Center and Vault, Security and Investigations Center and the Enterprise Fund Office) for their significant contributions to this report.”

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Message From the Chief Financial Officer



DEPARTMENT OF VETERANS AFFAIRS
Office of the Assistant Secretary for Management
Washington DC 20420

On behalf of the Department of Veterans Affairs (VA), I am pleased to present the VA Franchise Fund Fiscal Year 2003 Annual Report and I invite you to **Capture the Momentum of a Thriving Government Business**. This report highlights how we are meeting our franchise fund objectives of promoting efficiencies in the delivery of common administrative services, reducing duplication of effort, fostering competition, recovering full cost, maintaining customer satisfaction, and implementing improved financial management and best practices to promote efficiency and conserve resources at VA as well as other government agencies.

I would like to commend the VA Franchise Fund for successfully meeting this year's challenge of having their audit completed in calendar year 2003 under the accelerated schedule. This accomplishment greatly improves the timeliness of financial information for decision-making and demonstrates our commitment to improving financial management. Audits have been conducted on the Fund since FY 1998, and I am happy to report that we have received our sixth consecutive unqualified "clean" audit opinion. Our customers can certainly count on our financial integrity and sound stewardship.

As knowledgeable government professionals, we understand how to tailor our services to provide federal program managers with creative, cost-effective and practical solutions. Although federal agencies have unique missions, our collective experience enables us to give expert advice and counsel from an insider's point of view. We, too, as a federal agency have unique requirements and financial constraints. The American public also holds us accountable to high standards as we spend their tax dollars to administer government programs. Expensive and wasteful practices are not acceptable. Government program managers are looking to us for better information and ways to reduce costs.

Our federal customers rely on us to provide creative, cost-effective and practical solutions to fulfill their common administrative services support needs. We continue to receive exceptional reviews from our customers regarding the professionalism of our staff and the quality of our service. Because of this, a significant part of our business results from repeat business and referrals from satisfied customers.

An underlying tenet of a fee-for-service organization is competition. Competition is making us better and more accountable to our customers. We primarily serve VA—our parent agency; however, we have made great strides in acquiring business from other federal agencies. Our total revenue increased from \$136 million in FY 2002 to \$202 million in FY 2003. This dramatic increase was attributed to the significant increase in external sales. Ending FY 2002 with just over \$7.9 million in external business, we earned over \$46.5 million in FY 2003, an impressive \$38.6 million increase during a 12-month period! The dramatic growth in our revenue is but one indicator of our success, much of which can be attributed to strong leaders and managers within the individual Enterprise Centers. Their businesslike practices have enabled them to become more efficient, responsive, and cost conscious. Together they have successfully combined best business practices and state-of-the-art technology to improve service delivery and increase revenues.

William H. Campbell

Supporting VA's Mission

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 Franchise Fund were to be financed on a fee-for-service basis rather than through an appropriation. We recover the full cost of our operations through customer revenue; therefore, it is imperative to deliver high-quality goods and services at competitive prices. We must also be responsive to our customers on a continuous basis to retain their business.

The VA Franchise Fund supports VA's mission by supplying common administrative services at competitive prices. We are able to do this by adopting more efficient business processes and by increasing sales to new and existing customers. This conserves scarce VA resources by spreading fixed costs over a larger customer base. By doing so, VA

can 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.

VA business accounted for 77 percent (\$155.9 million) of our FY 2003 revenue stream. We are aggressively leveraging technology and improving customer service to expand our business beyond the walls of VA. In FY 2003, 23 percent (\$46.5 million) of our revenue came from external business.

Stakeholders

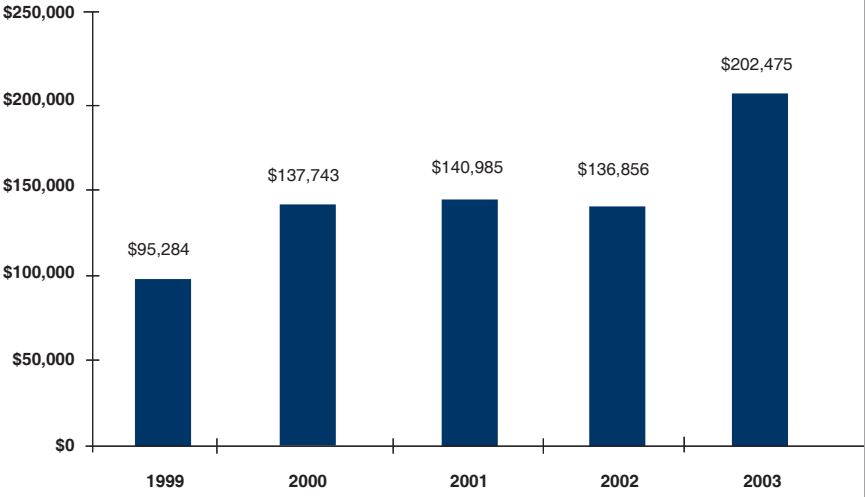
External stakeholders include: Veterans and their families, private sector vendors, the Department of Agriculture (Agriculture), Department of Defense (DoD), Department of Energy (DOE), Department of Labor (Labor), Department of the Interior, Department of State, Department of the Treasury (Treasury), Department of Transportation (DOT), General Services Administration (GSA), Office of Management and Budget (OMB), National Archives and Records Administration (NARA), National Aeronautics and Space Administration (NASA), Securities and Exchange Commission (SEC), and other federal agency organizations.

Internal stakeholders include: Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA), and other staff offices within VA.

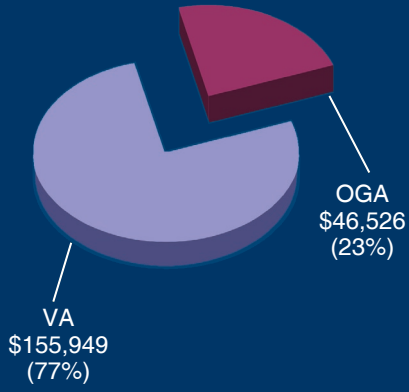


With the exception of the slight decrease in FY 2002, our revenue has steadily increased each year. By the end of FY 2003, our total revenue grew to more than \$202 million, a 32 percent increase over FY 2002 levels (\$136 million). This dramatic increase was attributed to the significant increase in our external sales. Ending FY 2002 with just over \$7.9 million in external sales, we were able to increase external sales to well over \$46.5 million by the end of FY 2003. It is clear we are doing things right, and we are committed to continuing this growth through high-quality customer service.

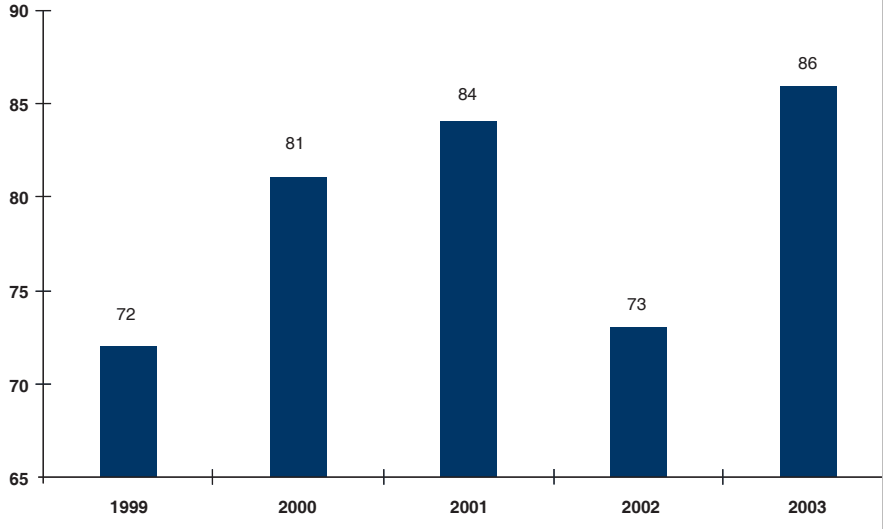
VA Franchise Fund Revenue Trends
As of September 30,
(Dollars in Thousands)



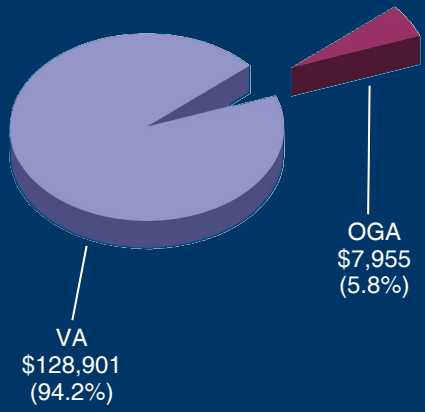
Revenue Sources - VA vs. OGA
As of September 30, 2003
(Dollars in Thousands)



VA Franchise Fund Customer Trends
As of September 30,



Revenue Sources - VA vs. OGA
As of September 30, 2002
(Dollars in Thousands)



Brief Description of the VA Franchise Fund

Made up of six self-supporting organizations and one administrative office, the VA Franchise Fund employs 653 employees. Each center provides its customers with professional, high-quality service. Our knowledgeable and experienced professionals are enabling their federal clients to succeed in today's challenging budgetary climate.

The **Austin Automation Center (AAC)** provides cost-efficient e-government solutions and enterprise best practices. The AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, eligibility benefits, and supply functions.

The **Debt Management Center (DMC)** is a leader in the federal debt management community. The DMC oversees the entire collection process: making initial cold calls to debtors, negotiating repayment plans, and administering automated recovery programs. The DMC employs every collection tool available to federal agencies (referrals to locator services, private collection agencies, and computer matching).

The **Financial Services Center (FSC)** provides federal financial solutions and a complete suite of financial management services.

The **Law Enforcement Training Center (LETC)** is the sole provider of a unique federal law enforcement training program that provides an alternative approach emphasizing nonviolent techniques to ensure the safety of VA medical centers' patients, visitors, and staff, while maintaining order in a federal institution. The LETC's program is geared toward resolving incidents in a humane, respectful manner and to utilize law enforcement as a last resort.

The **Records Center and Vault (RC&V)** provides a highly secure, climate-controlled certified storage facility that houses short- and long-term records and files.

The **Security and Investigations Center (SIC)** performs investigations/adjudications, fingerprint processing, and identification badge and access card design and production.

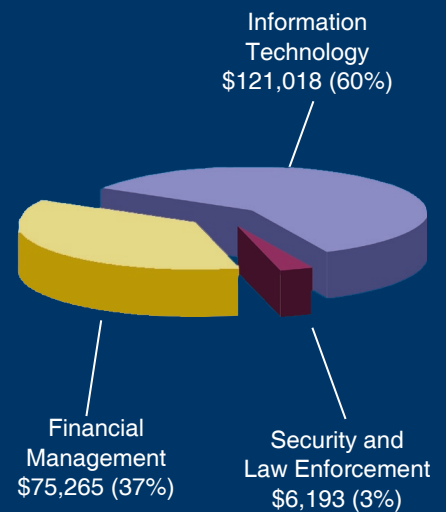
The **Enterprise Fund Office (EFO)** provides administrative support to the Enterprise Centers by directing and analyzing the budget formulation and execution process and overseeing the overall financial and business planning. The EFO prepares the annual report, coordinates marketing activities and ensures the Enterprise Centers are kept informed of current trends, policies and legislation impacting their operations. The EFO also engages a private accounting firm to conduct annual audits of the financial statements.

Major Product Categories

	Information Technology	Financial Management	Security & Law Enforcement
Austin Automation Center			
IT Systems Hosting Services	*		
Application Management	*		
Information Assurance	*		
Customer Business Continuity	*		
Configuration Management	*		
Data Conversion and Data Interfacing	*		
Acquisition Services	*		
Debt Management Center			
Account Maintenance		*	
Administrative Offset		*	
Administrative Services		*	
Predictive Dialer (Telephone Solicitation)		*	
Financial Services Center			
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		*	
Common Administrative Services		*	
Vendor File Maintenance		*	
Medical Claims Processing and Payments		*	
Data Matching and Reconciliations		*	
Training		*	
Law Enforcement Training Center			
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			*
Records Center and Vault			
Records Storage	*		
Retrieval Services	*		
Security and Investigations Center			
Investigations/Adjudications			*
Fingerprint Processing			*
Identification Badge & Access Card Design and Production			*

The VA Franchise Fund generated total revenues of \$202 million in FY 2003. Revenue is comprised of three major categories (information technology, financial management, and security and law enforcement). The information technology segment generated \$121,018 (60 percent of the total revenue), while the financial management and security and law enforcement segments generated \$75,265 and \$6,193 (37 percent and 3 percent of the total revenue, respectively). We are proud of this performance and we look forward to maintaining it in the years to come.

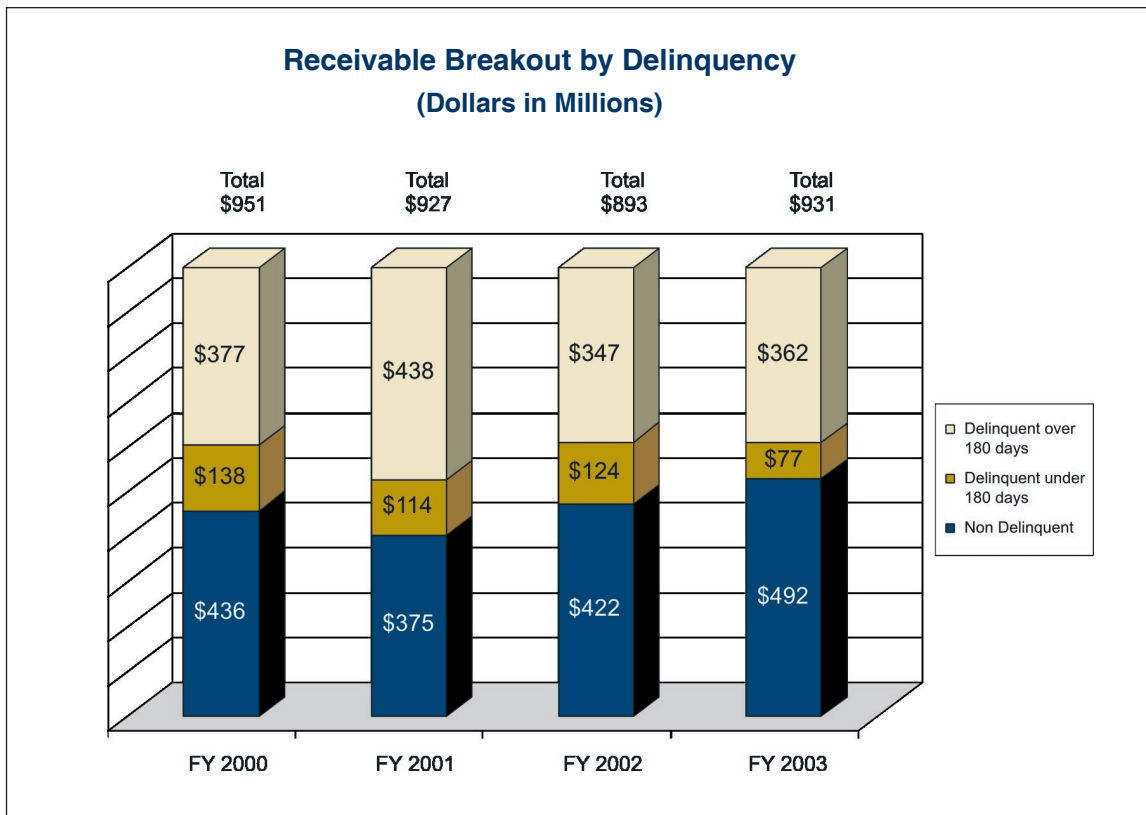
**VA Franchise Fund Revenue
by Major Product Categories**
As of September 30, 2003
(Dollars in Thousands)



Highlights

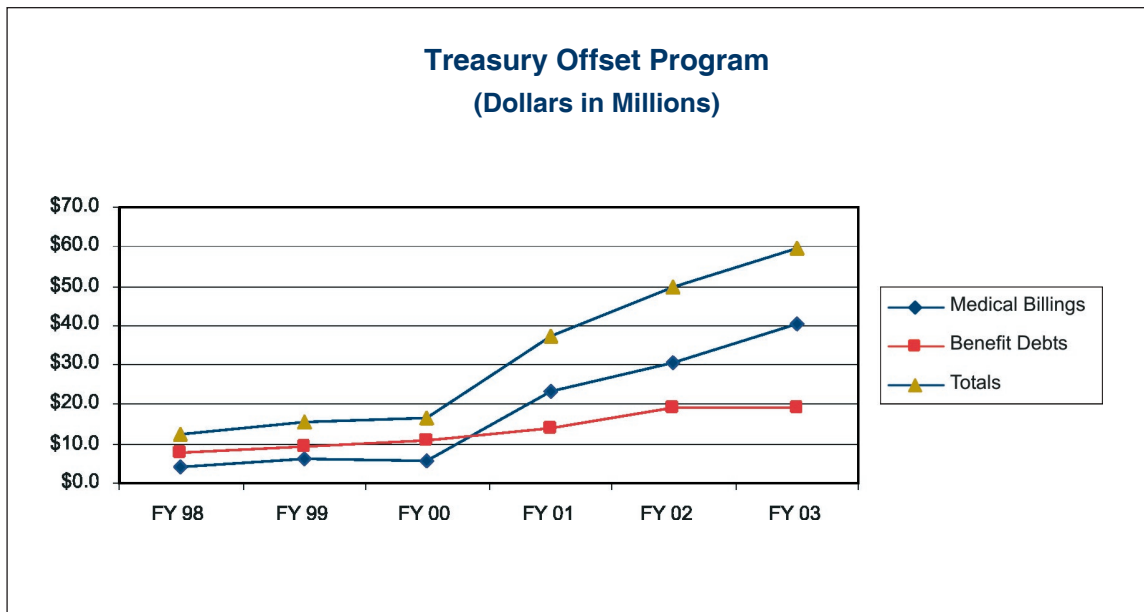
This chart depicts the total amount of benefit debt according to VA's delinquency status (delinquent over 180 days, delinquent under 180 days and non delinquent). A delinquent date is defined as one where a debt is not paid in full within 30 days from date of notification or is not in a current payment or offset status. We experienced an increase in new debt for FYs 2002 and 2003, but we were able to get more debtors in a repayment status, which accounts for the increase in non delinquent debt (from \$422 million in FY 2002 to \$492 million in FY 2003). Our debts over 180 days delinquent rose from \$347 million in FY 2002 to \$362 million in FY 2003, and they are expected to continue to increase in the future as a result of referring debts to Treasury for both cross servicing and offset under the Treasury Offset Program. Even though they are referred to Treasury for collection action, they remain on our books as a receivable and are aged accordingly.

This chart indicates that we are more successful at getting debtors into a payment status within the first 180 days of the collection process. This is evident, specifically, by the increase in the dollar value of non delinquent debt in FY 2003 and the decrease in the under 180 delinquent days total in FY 2003.



This chart depicts funds received from the Treasury Offset Program on delinquent medical debts (co-payments on pharmaceuticals or treatment received at a VA medical center, where the individual was not entitled or is required to pay a co-payment for services) and delinquent benefit debts (education, compensation, pension or loan guaranty programs, where the beneficiary becomes non-entitled to benefit payments or receives a reduced entitlement status based on changes in eligibility).

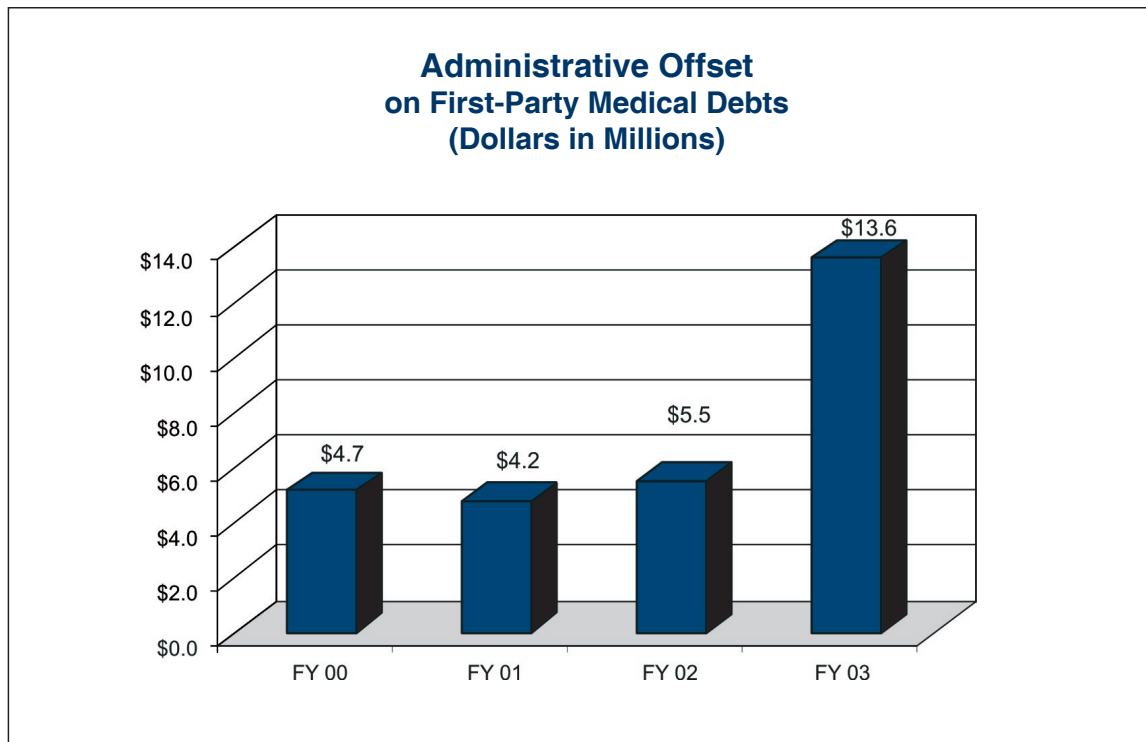
The DMC continued to experience an increase in offsets for medical billings and benefit debts. This trend follows a significant increase in offsets in FY 2001, totaling \$37.5 million, when weekly rather than annual referrals were made to Treasury. In addition, the referral process was automated to ensure that accounts are referred when eligible. This resulted in \$62.7 million offsets in FY 2003.



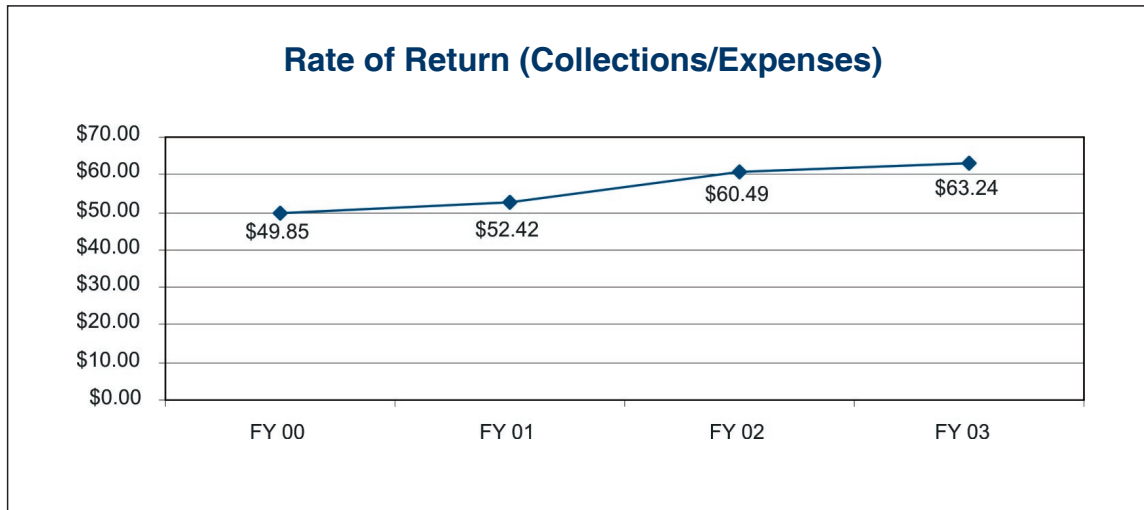
Offsets	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Medical Billings	\$ 4,394,516	\$ 6,333,622	\$ 5,844,221	\$23,346,004	\$30,690,057	\$42,910,000
Benefit Debts	7,826,005	9,470,250	10,959,761	14,205,418	19,044,547	19,826,500
Totals	\$12,220,521	\$15,803,872	\$16,803,982	\$37,551,422	\$49,734,604	\$62,736,500

Highlights

This chart depicts the total dollar amount of compensation/pension benefits that were offset and applied to liquidate delinquent first-party medical debts. VHA's delinquent medical debt file is compared against active benefit payments on a monthly basis to determine if benefits are available for offset. The number of delinquent medical accounts being referred for offset matching purposes increased 27 percent from an average of 345,118 during FY 2002 to 436,708 during FY 2003. This accounts for the significant increase in offsets from \$5.5 million in FY 2002 to \$13.6 million in FY 2003.



The following chart shows the DMC's rate of return on each dollar spent for debt collection. The rate is determined by dividing total collections by operating expenses. As the chart indicates, the DMC has improved its rate of return during the past four fiscal years. This is due to efforts to reduce operating expenses and implement initiatives aimed at improving our collection operation.



A variety of VA services (Veterans Canteen Service, Denver Distribution Center, VBA Loan Guaranty, Personnel and Accounting Integrated Data (PAID) State Tax and Financial Management System (FMS) Payment Processing) have been streamlined by moving operations from a paper-based system to Electronic Data Interchange/Electronic Funds Transfer (EDI/EFT). Of the approximately 5.9 million total payments made to vendors in FY 2003, 3.5 million were processed by EFT.

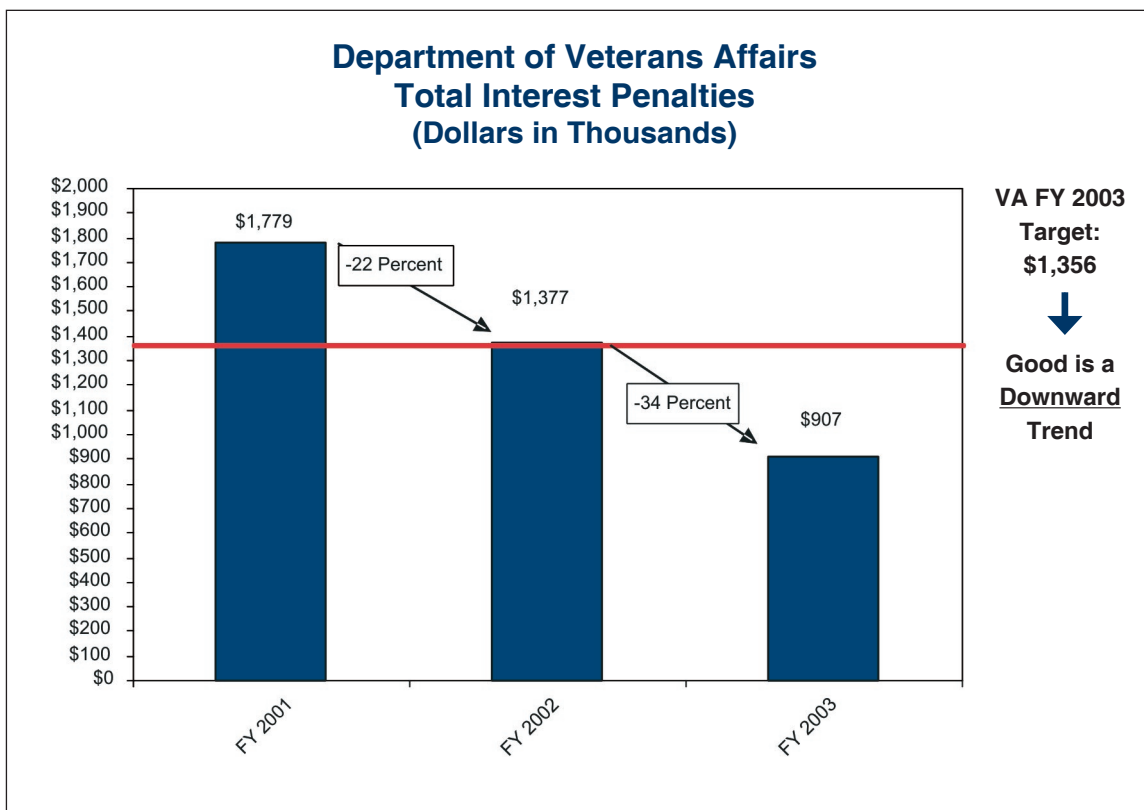
Electronic Payment to Vendors				
	Number of Invoices Paid by EDI/EFT	Number of Invoices Paid by Check	Percentage	Total Payments
FY 2001	3,488,932	1,122,726	76%	4,611,658
FY 2002	3,284,082	1,837,661	64%	5,121,743
FY 2003	<u>3,537,522</u>	<u>2,434,634</u>	59%	<u>5,972,156</u>
Total ¹	10,310,536	5,395,021	66%	15,705,557

¹ The value of these payments total \$10.1 billion, \$7.2 billion of which were made by EFT.

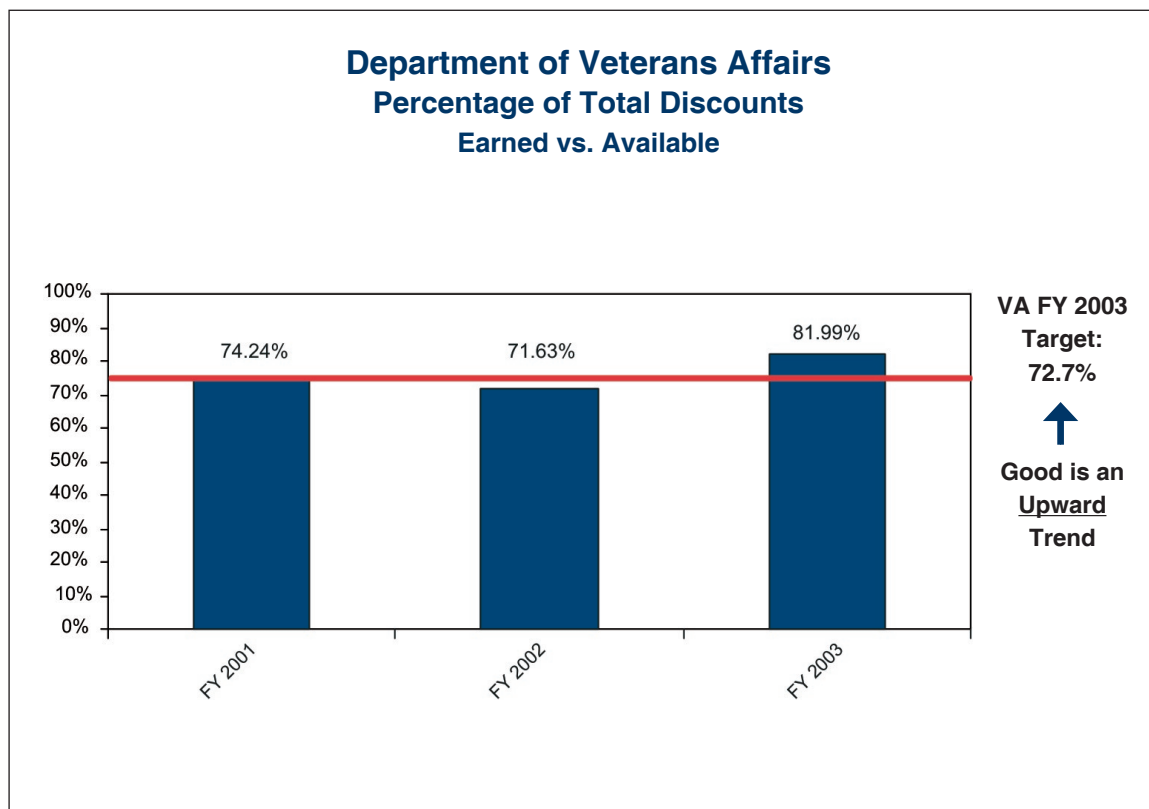
Highlights

VA continued to significantly improve vendor payment processes throughout FY 2003. The Department processed 5.9 million invoices subject to the Prompt Payment Act, worth over \$10.1 billion, with nearly 97 percent paid on time. In FY 2003, interest payments VA-wide declined from \$1.3 million to \$907,000, a 34 percent improvement over 2002 levels. At the same time, discounts earned increased by \$526,000 (30 percent) over FY 2002 levels and we expect this improved performance level to continue. Combined, payment processing improvements saved VA \$996,000.

As a result of the FSC's and VA field facilities' efforts to curb interest penalties, the amount and number of interest penalties paid have decreased. The FSC established several management tools that provide the current status of all invoices received, age of those invoices, and their volume. The reports provide management with real time information, allowing them to act quickly to ensure payments are processed timely.



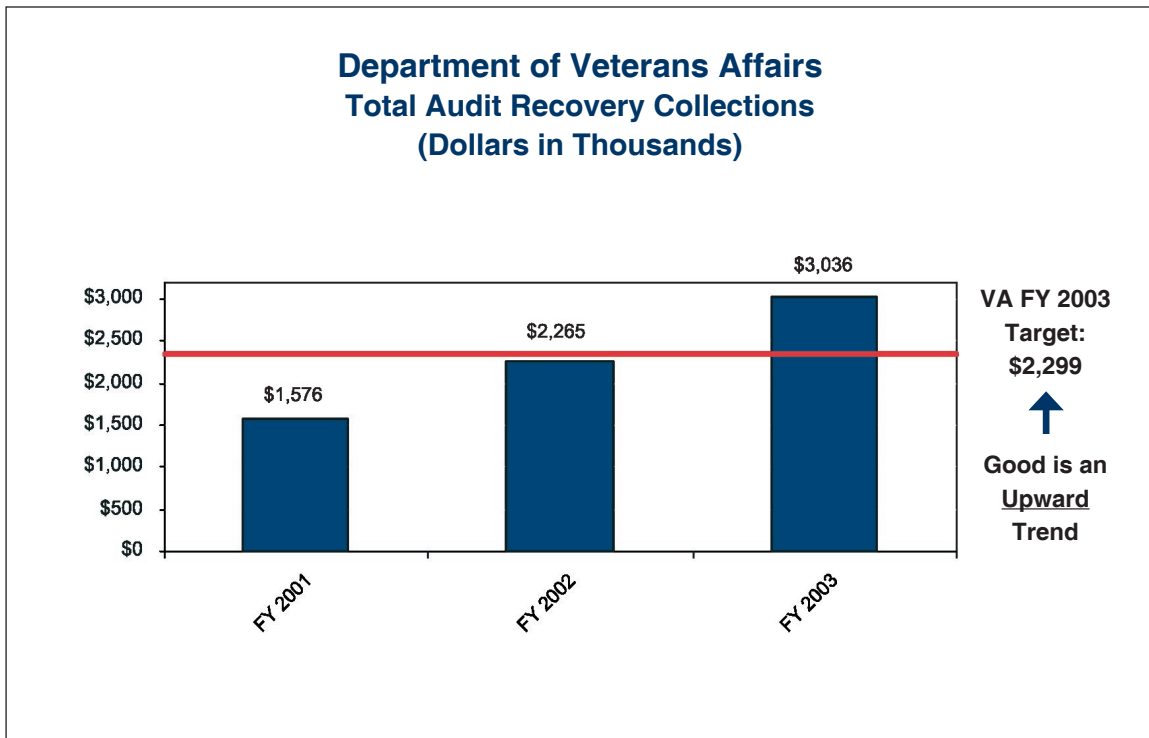
VA's focus on maximizing discounts earned has boosted its purchasing power. During FY 2003, VA surpassed its 72.7 percent target. Significant strides were made in increasing discounts earned, raising the percentage earned to 81.99 percent—a 14 percent improvement over FY 2002 levels (71.63 percent). Total discounts earned jumped from \$1.7 million in FY 2002 to \$2.3 million in FY 2003.



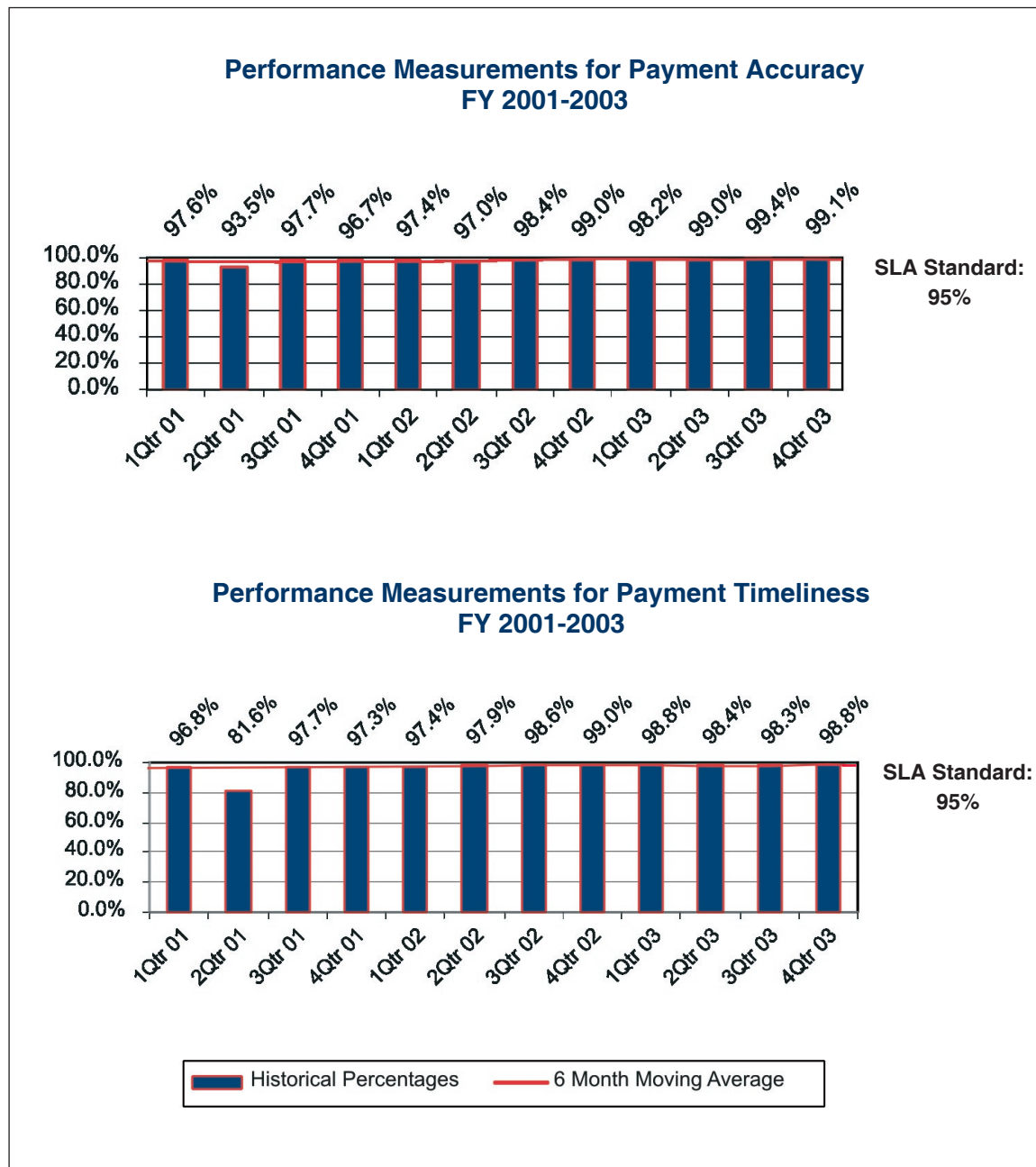
Highlights

On behalf of the Department and in accordance with Public Law 107-107 (Recovery Audits), the FSC performs a daily review of potential duplicate vendor payments to identify, prevent, and recover funds erroneously paid to vendors. In order to maintain VA internal controls, the FSC staff reviews daily reports created from tables in FMS and conducts payment history searches for potential duplicate payments. Whenever possible, scheduled payments are cancelled before Treasury issues the payment. Vendor statements are also reviewed to ensure that outstanding prior year credits are properly utilized.

VA has steadily increased audit recoveries. Audit recoveries totaled \$1.6 million in FY 2001, \$2.3 million in FY 2002 and \$3.0 million in FY 2003.



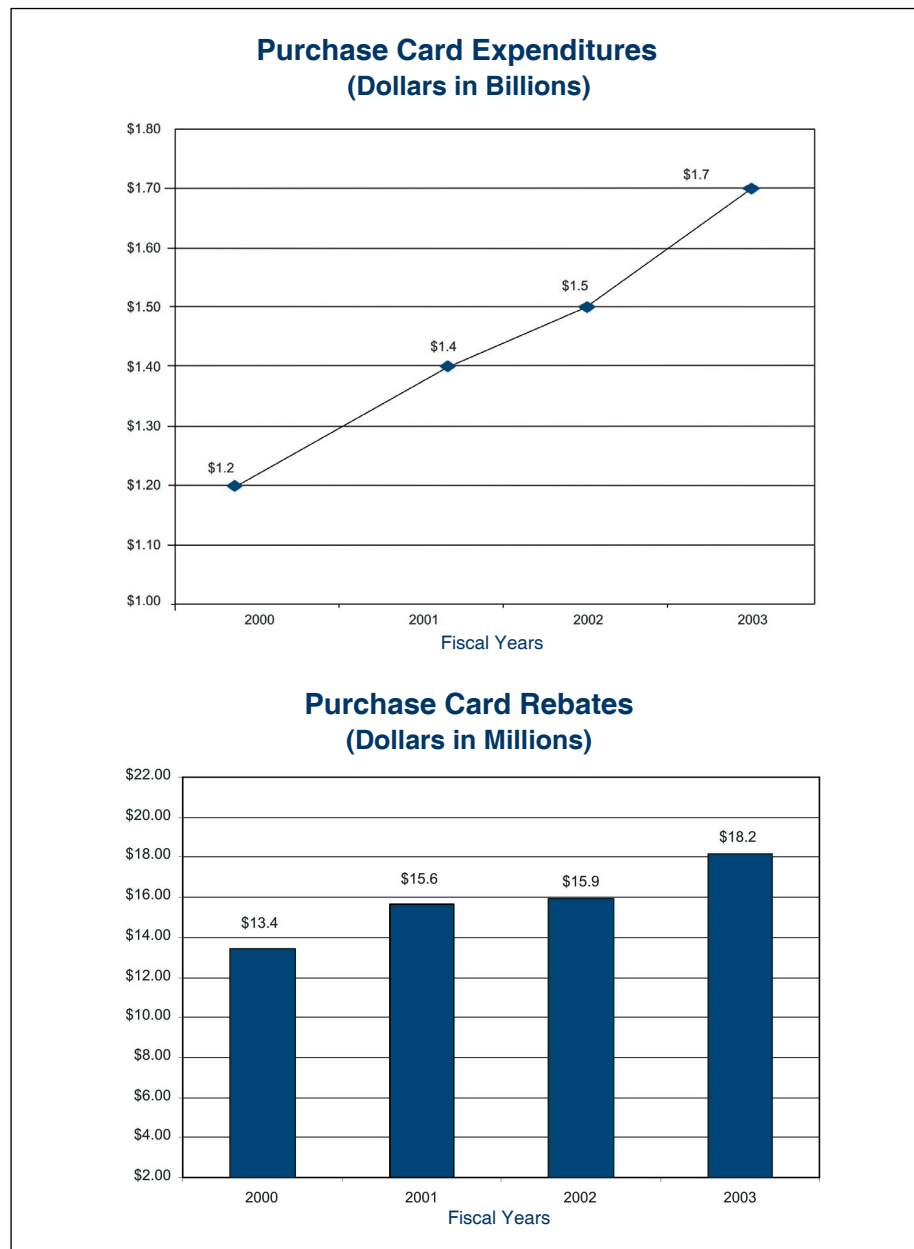
The FSC tracks payment accuracy and timeliness rates. Quarterly, statistical sampling is used to evaluate the accuracy and timeliness of payments to evaluate performance against the established standards in customer agreements. Over the last 10 reporting periods, performance has exceeded our 95 percent standards in both areas. Our 4th quarter payment accuracy rate was 99.1 percent and our 4th quarter payment timeliness rate was 98.8 percent.



Highlights

The Department has aggressively used the governmentwide commercial purchase card program since FY 2000, representing \$1.2 billion in purchases. In FY 2003, over 3.2 million purchase card transactions were processed, representing over \$1.7 billion in purchases.

The success of VA's purchase card program is due largely to our Credit Card System (CCS) and electronic reconciliation procedures. CCS enables the FSC to electronically receive and process credit card payments daily, resulting in significant rebates to our customers. The rebates associated with the daily electronic billing and payment process for centrally billed card accounts continues to increase. VA rebates increased from \$13.4 million in FY 2000 to \$18.2 million in FY 2003.



The FSC combines technical expertise and industry knowledge to tailor Electronic Commerce/Electronic Data Interchange (EC/EDI) solutions to customers. As we sharpened our EC/EDI experience and knowledge, we applied them to other areas. We are continuing our collaboration with VBA to allow mortgage loan applications to be received and processed electronically, and electronic mortgage guaranty certificates to be returned to the loan service within 2 business days. Additional initiatives are underway to increase VA's efficiency in servicing mortgage benefits to our veterans.

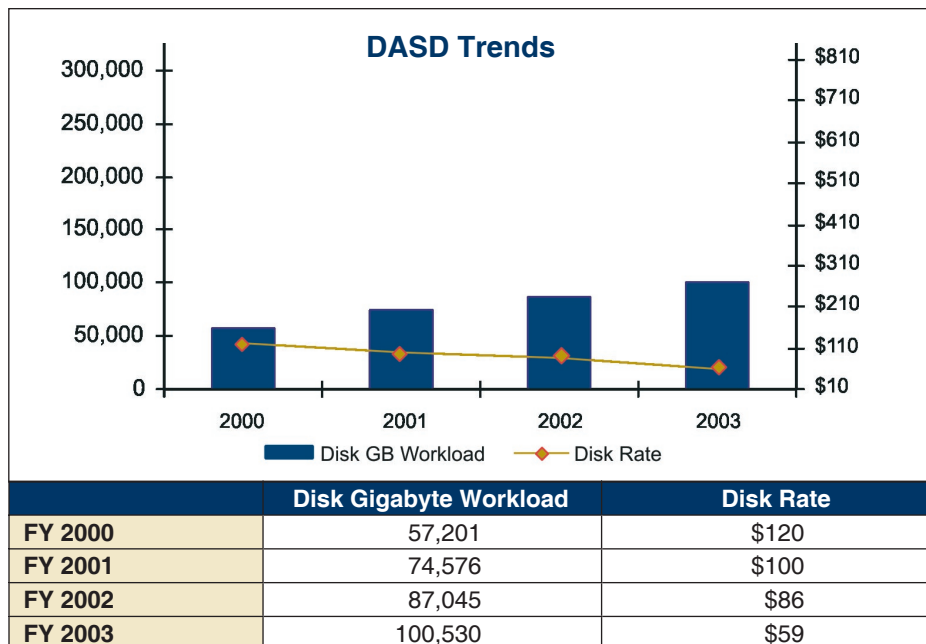
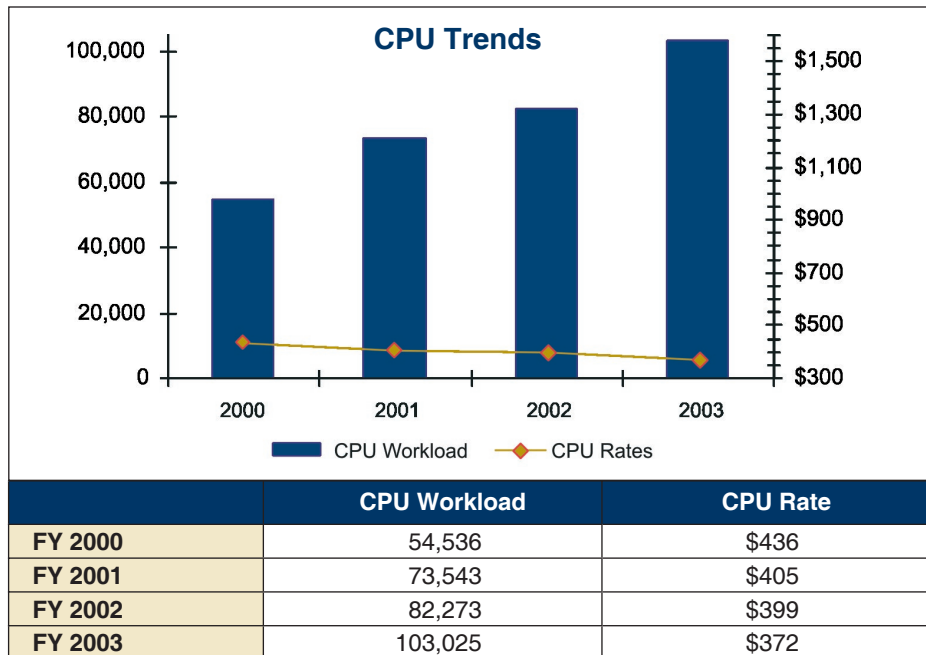
We also continue to support a critical VHA initiative for the electronic exchange of healthcare claims and payment data. Our involvement extends to identifying business requirements, designing business models, developing data exchange processes, providing customized editing and tracking functions, and mitigating development and deployment issues.

From FY 2002 to FY 2003, the total number of EDI transactions processed increased from 5.27 million to 10.4 million—a 97 percent increase. This increase was attributable to the following projects:

Electronic Commerce/Electronic Data Interchange (EC/EDI) Projects		
Total Customer	FY 2002	FY 2003
VHA Chief Business Office Medical Claims	1,334,529	5,359,526
VBA Loan Guaranty Mortgage Status Updates	281,801	523,437
VBA Loan Guaranty Certificate Processing	115,766	304,044
VBA Mortgage Loan Application Center	726,554	709,713
Veterans Canteen Service EFT Payments	432,042	436,162
Veterans Canteen Service Invoices	1,554	14,193
Veterans Canteen Service Purchase Orders	0	6,546
Denver Distribution Center Payment Vouchers	216,800	260,523
Denver Distribution Center Billing Documents	2,953	3,318
Denver Distribution Center Invoices	48,769	106,555
Other (EFT Payments, State Taxes, Certified Invoices, Computer Assisted Payment Processing System, Prime Vendor)	2,110,380	2,676,487
Total	5,271,149	10,400,504

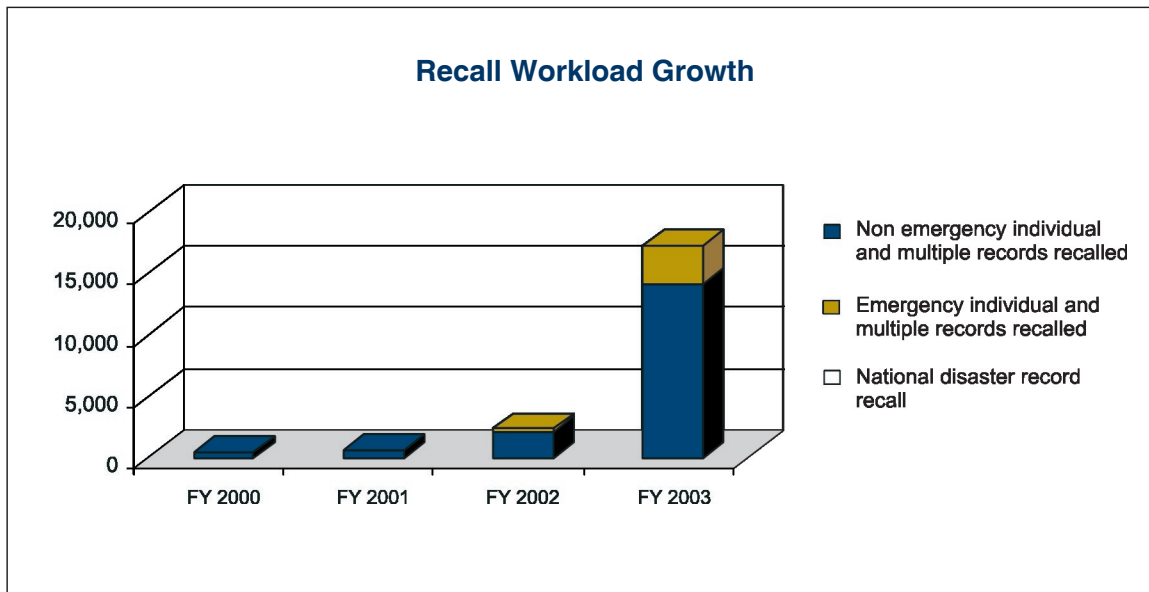
Highlights

The AAC central processing unit (CPU) and direct access storage devices (DASD) rates were developed in FY 1993 and have been revised at least annually in subsequent years. The following charts illustrate decreasing rates as workload volumes have generally increased. The AAC is actively working to reduce CPU and DASD costs, despite increasing software costs. The industry-wide decrease in hardware costs per unit and the AAC usage of best practices resulted in a continued decline in CPU and DASD rates in FY 2000-2003, while workload volumes increased.



The following chart depicts actual FY 2000 through FY 2003 annual workload for non emergency and emergency recalls. National disaster record recalls will only occur in the event of a national disaster.

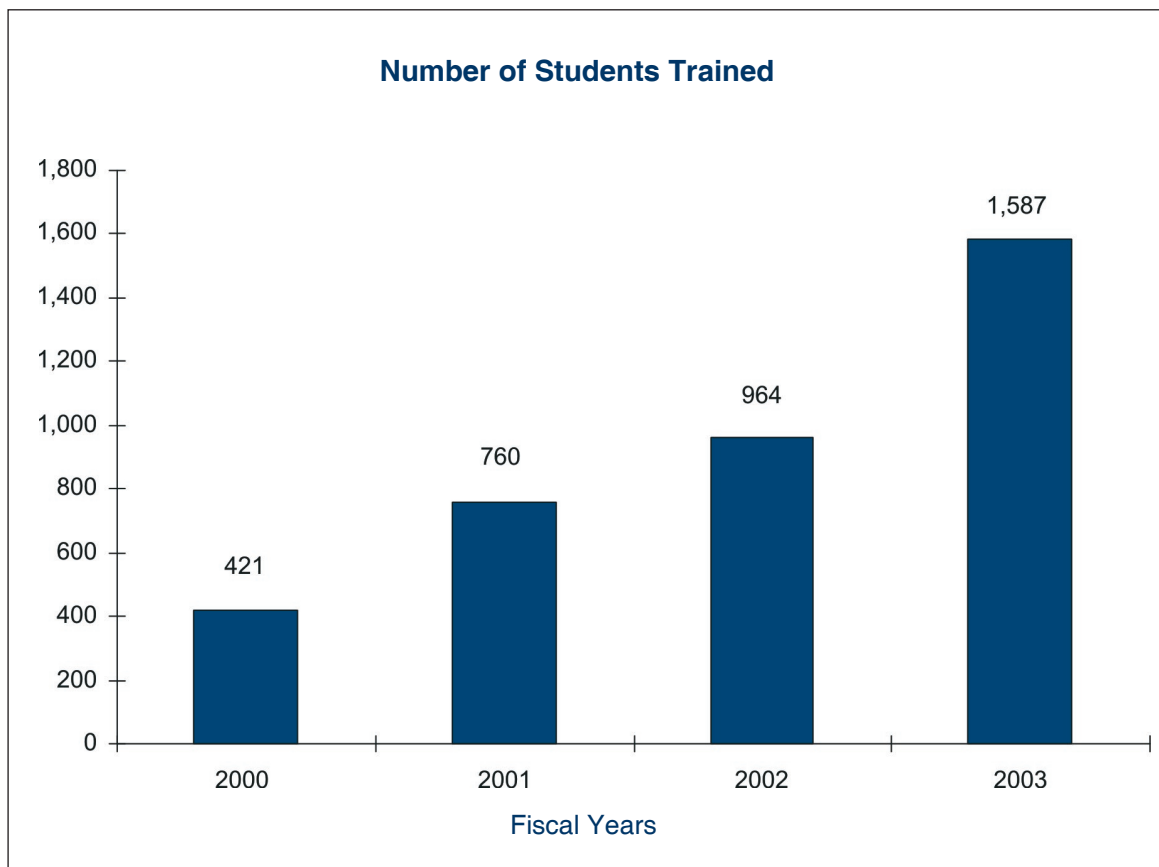
With the relocation of VHA records from NARA, the RC&V is experiencing an exponential growth in business. Workload projections in labor hours for the recall of records (emergency and non emergency) by VHA field facilities, re-files, and interfiles are expected to increase dramatically when all VHA records have been relocated. Although NARA provided preliminary estimates of 70,000 recalls per year, after we received all 960,000 boxes, the RC&V staff calculated a “worse case” scenario of 52,000 recalls (which is a mid-point between NARA’s estimates and the RC&V’s original best estimate).



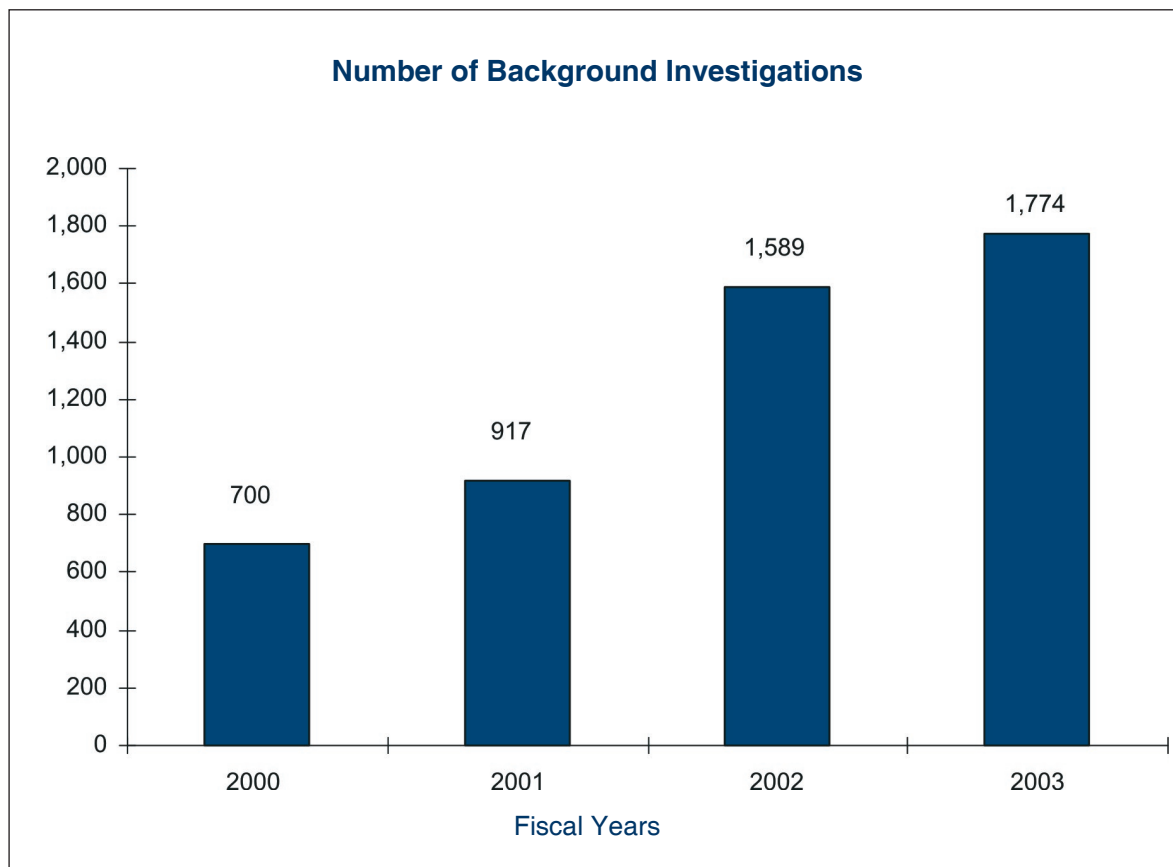
	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual
Non emergency individual and multiple records recalled	425	607	2,103	14,106
Emergency individual and multiple records recalled	96	59	257	3,128
National disaster record recall	0	0	0	0

Highlights

The LETC played a vital role in helping VHA, the Indian Health Service, Tripler Army Medical Center, National Guard, National Museum of Art and Washington Navy Yard meet their specific training needs. In FY 2003, 95 percent of the enrolled students graduated from the LETC's training program. Enrollment drastically increased from 421 students in FY 2000 to 1,587 in FY 2003.



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 background investigations received expeditious processing. As a result, 1,774 investigations were conducted in FY 2003, as compared to 700 in FY 2000, 917 in FY 2001 and 1,589 in FY 2002.



FRANCHISE FUND OBJECTIVES

Information Technology Segment

Federal 100 Information Technology (IT) Professional Award

Federal Computer Week March 2003 edition honored Linda Voges (Director of the AAC) with one of its 2003 Federal 100 awards. The 2003 awards were presented to 100 leaders who made a difference in Federal IT during the 2002 calendar year. The winners were nominated by *Federal Computer Week* readers and selected by an independent panel of judges for their contributions to the development, acquisition, or management of Federal IT. While the award goes to individuals, the judges note that the winners are part of an "all-star team." The award recognizes the AAC's success in achieving high availability, outstanding customer satisfaction results, and receiving the Cyber Security Practitioner of the Year Award, among other efforts.

DoD-VA Sharing

The AAC hosts several important data sharing projects between DoD and VA. The Consolidated Mail Out Pharmacy (CMOP) project allows DoD patients to receive prescription refills using VA CMOP facilities, which has resulted in substantial cost savings to DoD and enhanced revenue for VA. This project is expected to expand to include all DoD medical facilities (approximately 200). The laboratory project is similar to CMOP and allows DoD hospitals to order lab results from VA medical centers and have results transferred back to them securely using a Virtual Private Network hosted at the AAC. If cost savings projections are correct, this program will also see an expansion to include all DoD medical treatment facilities and an expanded number of VA medical centers. DoD is also investigating the benefits of using the DoD-VA gateway at the AAC to transmit images, such as X-ray, CAT scan, and other digitized medical data to VA medical centers for analysis. Such telemedicine projects have already been effective within VA.

Federal Health Information Exchange (FHIE)

The AAC hosts platforms and provides network connectivity for the FHIE system. This system is a data repository that receives information (laboratory results, radiology reports, outpatient prescription data, and selected demographic information) from DoD. To transition to the VA system, the records of approximately 3.7 million servicemembers will be transferred electronically from DoD to the VHA FHIE data repository. This will provide VA access to veterans' previous health information.

Centers Information Processing System

The Centers Information Processing System was a legacy system that originally provided records to NARA's customers over the network or dial-in modem. Customers without dial-in modems called, faxed or mailed written requests for records to NARA. The AAC Web-enabled and implemented the application several years ago, giving it a graphical user interface so that customers can access records over any Web browser.



Converting Medical Registries

Numerous medical registries (Clinical Case Registry, Hepatitis C Registry, Immunological Case Registry, Agent Orange, Persian Gulf, and Ionizing/Radiation) were converted from batch to Web-enabled registries in FY 2003. There are several advantages of Web-based 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 treatment facilities with more control over processes.

Workers' Compensation/Occupational Safety and Health Management System

This system is used by VA, GSA, NASA, the Department of Justice, and the Department of State to manage workers' compensation and safety programs. The application was rewritten to be compatible with Windows 2000 and was upgraded to the latest version of the Oracle database software. The new version improves the user interface and security, and reduces future maintenance requirements.

The franchising concept adds value to the government because it empowers self-supporting federal government business entities to promote efficiencies in common administrative services, reduce duplication of effort, foster competition, maintain customer satisfaction, and implement improved financial management and best practices.

As a self-sustaining organization, we do not receive appropriated funds; therefore, we must recover the full cost of our operations through customer revenue obtained from providing common administrative services. It is imperative to deliver high-quality goods and services at competitive prices to stay in business. We must be responsive to our customers on a continuous basis to retain their business. We must also demonstrate good stewardship and promote customer confidence in our ability to conduct business in a responsible way. Independent audits of our operations are conducted and used to ensure management accountability and financial integrity.

We adopted more businesslike practices that enabled us to become more efficient, responsive, and cost conscious. Over the years we have emerged as one of the leaders in the Franchise Fund Pilot Program and a model to be followed by other federal agencies looking to become more entrepreneurial. We have become an integral part of the federal evolution of working better and costing less.

Today, with the growing number of fee-for-service government agencies, federal customers can exercise choice about what services to buy and where to buy them. 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 and expand our customer base.

As a full-service provider, we are creating a customer-focused environment where business plans, performance measures, financial stewardship, and competition are integral to our continued success.

FRANCHISE FUND OBJECTIVES

Information Technology Segment

Moving Forward with Business Continuity Efforts

The AAC will work to ensure mission-critical and essential data is available in the event of a disaster. The AAC continues to move forward with its business continuity efforts. The long-range goal of this effort is Corporate Data Center Integration (CDCI). CDCI will provide the AAC with enterprise fail-over capabilities, enhancing data availability for mission-critical applications, and providing hot site backup solutions to customers. The AAC plans to develop a tiered service allowing 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 activities such as historical repositories used for analysis.

CDCI Lead Project Manager

The AAC serves as the lead project manager for the CDCI with the Continuity of Operations (COOP) planning project. The AAC stresses its business continuity planning by working with customers to find cost-effective alternatives, like remote electronic vaulting, to the more traditional disaster recovery/business continuity process, which will allow shortened recovery time and recovery point objectives. This will enable the AAC to meet Presidential Decision Directive 67, which requires mission-critical systems be restored within 12 hours. In addition, this initiative provides an infrastructure capable of supporting the electronic collection and storage of data under the Government Paperwork Reduction Act.

Upgrading Infrastructure Management

To continue to offer customers the most cost-effective, state-of-the-art environment, the AAC continually upgrades and maintains its technical infrastructure "just in time." The upgrade and maintenance of the infrastructure is typically transparent to the customer. The AAC constantly monitors the infrastructure in support of this endeavor. The AAC successfully upgraded its enterprise server to an IBM z900 Model 2C5 server capable of executing 1,305 million instructions per second. The AAC has also upgraded the enterprise server operating system to z/OS (the newest operating system for IBM mainframes). This brings the AAC to industry standards for enterprise servers. Future plans for infrastructure maintenance include consolidating data for multiple customers on the open system servers, raising the mark on high systems availability, and leveraging costs by providing enterprise-wide hardware and software solutions.

Requesting Accession Numbers Online

A project to Web-enable the process of requesting accession numbers and recalls is expected to be available in FY 2004. This project will allow customers to complete requests electronically and receive accession numbers and other information over the

FRANCHISE FUND OBJECTIVES

Web. Not only will this project result in faster and more accurate services to customers, it will eliminate several manual recordkeeping steps at the RC&V, resulting in significant labor savings.

Expanding the RC&V Facility

The RC&V began a facility expansion project in October 2002 that will provide needed capacity through FY 2005. The expansion involved building two 50,000-square foot storage bays adjacent to the current location to accommodate the VHA Relocation Project as well as the growth in the VHA records inventory as a result of new accessions.

Managing the VHA Records Relocation Project

The AAC's management of the RC&V continues to move it in the direction of business and financial viability. The VHA Records Relocation Project, involving transporting nearly a million cubic feet of records from NARA to the RC&V, continues to be a success. This project, which began in May 2002, is targeted for completion in August 2004.

Staff at NARA and the RC&V have worked closely together over the past 3 years to coordinate the shipment of as many as 14 truckloads of records per week in a way that minimized the disruption of NARA activities while making optimal use of resources at the RC&V. At the same time, VHA facilities began shipping newly retired records to the RC&V rather than NARA. The success of this endeavor is a tribute to the excellent working relationships among the RC&V staff, NARA, and our VHA customers. At the end of FY 2003, this project was 77 percent completed.

The AAC developed a Web-enabled database of the records shipped to the RC&V, which allows its owners to determine the location of their records during the VHA Records Relocation Project. In addition, specific detailed instructions on how the transition would occur, as well as how to ship records to the RC&V are available. This database is expected to minimize disruption in records management and afford access to information 24 hours a day, 7 days a week.

The value of a records storage facility is defined by its ability to quickly retrieve and return records to customers when requested. The RC&V excels in this area, attaining a 99 percent success rate for retrieving records within established timeframes. Despite the complexity of VHA's Relocation Project and the challenges encountered, service has remained a top priority.

FRANCHISE FUND OBJECTIVES

Financial Management Segment

Implementing a Collection Strategy

The DMC implemented a dynamic collection strategy aimed at reducing costs by generating fewer collection notices. Letters were revamped to be more reader friendly, informative and direct. As a result, the collection cycle is expected to be shortened and more cost-effective.

Collecting Credit Card Collections Online

The DMC submitted a participation agreement and Internet processing amendment to the Bank of America (Department of the Treasury's contractor) for online credit card processing. This is the starting point for planning the DMC's participation in a governmentwide effort to have credit card payments to federal agencies accepted via the Internet. Ultimately, the DMC intends to make it possible for debtors to pay their debts online with credit cards and debits from their checking accounts. Online credit card payments will offer a simple, convenient payment option to veterans. It will be fully automated, therefore, totally eliminating human intervention from point of entry to the actual application of payment.

Currently, credit card payments (MasterCard, VISA, American Express and Discover) are accepted by the DMC's toll-free telephone service. This year alone, the DMC responded to over 267,000 calls, with a lost call rate of only 2 percent, which resulted in \$2.1 million in collections, a 17 percent increase over FY 2002 collections of \$1.7 million.

Streamlining Payment Operations to Vendors

Several VA services (the Veterans Canteen Service, Denver Distribution Center, VBA Loan Guaranty, Personnel and Accounting Integrated Data (PAID) State Tax, and Financial Management System (FMS) Payment Processing) have been streamlined by moving operations from a paper-based system to electronic data interchange (EDI)/electronic funds transfer (EFT). Of the approximately 5.9 million total payments made to vendors in FY 2003, 3.5 million were processed by EFT. To date, a total of \$10.1 billion has been paid to vendors—\$7.2 billion of those payments were made by EFT.

Improving Online Certifications

The FSC has continued to improve their online certification process, which allows invoices greater than \$2,500 to be certified electronically and sent for payment. The On Line Certification System allows the FSC to notify certifying officials via e-mail of any invoices requiring payment certification. Through the Intranet, the certifying official can view, certify, and forward the invoice to the FSC for payment processing,

FRANCHISE FUND OBJECTIVES

reducing the processing time to hours rather than days. In FY 2003, a total of 3,160 individuals were assigned user IDs to access the system. This automated process has and will continue to reduce interest penalty payments for the Department.

During FY 2004, the FSC plans to expand the certified invoices service throughout VHA and will implement the online system at all facilities as part of VHA's payment centralization initiative. Additionally, the FSC is developing an Internet-based application, which will be marketed to potential OGA customers.

Improving Vendor Payments

VA continued to significantly improve vendor payment processes throughout FY 2003. The Department processed 5.9 million invoices subject to the Prompt Payment Act, worth over \$10.1 billion, with nearly 97 percent paid on time. In FY 2003, interest payments VA-wide declined from \$1.3 million to \$907,000, a 34 percent improvement over 2002 levels. At the same time, discounts earned increased by \$526,000 (30 percent) over FY 2002 levels and we expect this improved performance level to continue. Combined, payment processing improvements saved VA \$996,000.

Handling Vendor Inquiries

The FSC handles invoices for some 350,000 commercial vendors who supply goods and services to VA's 162 medical centers, 57 regional offices, and 120 national cemeteries nationwide.

The FSC provides vendor payment history on the Internet. By visiting the Vendor Inquiry System, vendors can query online for payment status on pending invoices and payment history on paid invoices. This application stores 4 years of information on invoices. By the end of FY 2003, there were 5,080 registered vendors who conducted over 105,300 queries to assist them with payment identification.

Processing Vendor Payments

Currently, the FSC's payment accuracy rate is 98.9 percent and their payment timeliness rate is 98.6 percent. The FSC believes there is room to improve upon these statistics and they will continue to raise the bar on their financial performance. Performance measures and metrics are incorporated into customer agreements and the FSC will routinely assess performance in relation to the established measures.

FRANCHISE FUND OBJECTIVES

Financial Management Segment

Revolutionizing Matching and Reconciliations

The FSC introduced FASMatch, a new matching and reconciliation tool that can reconcile accounts receivable, accounts payable, fixed assets, inventories, patient records/accounts, and management reporting, and automate data collection. FASMatch revolutionizes the matching and reconciliation needs across multiple files and complex systems. It automates manual matching of deposits and disbursements, and produces, manages, and reconciles the Statement of Transactions Report (SF-224).

FASMatch was heavily used in the FY 2003 Annual Close process. It was a key contributor in leading VA to its fifth consecutive unqualified “clean” audit opinion and the VA Franchise Fund to its sixth consecutive unqualified “clean” audit opinion. It is also used in the vendor file update and maintenance process and has been found to be a great success in identifying and controlling duplicate payments.

Processing Medical Claims

In February 2003, the FSC began providing the Division of Immigration Health Services (DIHS) with an integrated, end-to-end medical claims payment-processing application in conjunction with document processing through an Optical Character Reader. State-of-the-art technology is being applied through the utilization of Plexis Healthcare System’s Plexis Claims Manager and Dakota Imaging’s TRScan forms application. Features and benefits of this technology include:

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

This application truly represents a full life cycle—automated service from the time an invoice reaches the FSC through generation of payment—and is in full compliance with the Prompt Payment Act and the Health Insurance Portability and Accountability Act. Our staff certifies payment files daily prior to disbursement. The system also generates an Explanation of Benefits (EOB) file, which enables Treasury to enclose an EOB to the provider with each payment.

DIHS and the FSC expanded their partnership with the establishment of a Preferred Provider Network (PPN) agreement in May 2003. Under this agreement, the FSC is responsible for the establishment and maintenance of the PPN to ensure that medical and ancillary services are available to the detainee population for which DIHS orders managed care services. An individual was hired in June 2003 to manage the PPN activities. After determining the current level of access, additional providers will be recruited to augment and further develop the PPN to meet the healthcare needs of the detainees.

FRANCHISE FUND OBJECTIVES

Supporting VA's e-Travel Initiative

During 2003, VA began implementing a new electronic travel system, known as e-Travel. This system allows travelers and/or alternate preparers to prepare and submit travel authorities and expense reports using a Web-based system. The FSC is currently facilitating the data conversion effort, conducting user training VA-wide, serving as the contracting officer's technical representative (COTR), providing help desk support, and providing global systems administration functions. Once the e-Travel package is fully implemented VA-wide, the FSC will provide user help desk and systems administration services as necessary and will continue to serve as the COTR.

Audit Recovery and Initiating Payment Collections

Proactive in identifying overpayments and initiating collection actions, the FSC's 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 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, including 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.

In accordance with Public Law 107-107 (Recovery Audits), the FSC performs a daily review of potential duplicate vendor payments to identify, prevent, and recover funds erroneously paid to vendors. In order to maintain VA internal controls, the FSC staff reviews daily reports created from tables in FMS and conducts payment history searches for potential duplicate payments. Whenever possible, scheduled payments are cancelled before Treasury issues the payment. Vendor statements are also reviewed to ensure that outstanding prior year credits are properly utilized.

VA surpassed its target goal of \$2.3 million total audit recovery collections. FY 2003 collections of duplicate payments and the recovery of applied vendor statements credits increased \$771,000 (34 percent) over FY 2002 levels, and FY 2003 collections were \$3.0 million. Improved payment oversight has also driven a 41 percent reduction in duplicate payments identified and cancelled prior to disbursement, compared to FY 2002 levels.

FRANCHISE FUND OBJECTIVES

Security and Law Enforcement Segment

Expanding Fingerprint Capability

The SIC will be utilizing Live Scan Fingerprint capability in November 2003, which electronically links to OPM and eliminates the manual screening process currently performed by the Federal Bureau of Investigation (FBI). The Live Scan Classification Management System model will allow the SIC processors to take flawless fingerprint images using revolutionary optical and lighting screens, as well as input personal data, and electronically transmit data to OPM. Print images yield near-perfect images and drastically lower rejection rates by OPM and the FBI. In addition, fingerprints will be classified and arrest data will be obtained within 24-48 hours, as opposed to 30 days associated with the manual process. Prompt notification allows the SIC to alert VA field stations of employee arrest reports, outstanding warrants, and state-wide notification listings.

Replacing Manual Process with Online Security Eligibility

The SIC will be replacing its manual processing of paperwork with an online security eligibility system that will electronically route forms to employees who require national security clearances or public trust eligibility in FY 2004. With the implementation of this system, employees will be able to complete and submit forms online for review. The use of this system will reduce the processing time from the SIC to OPM from 2 weeks to 2-3 days. Customers will appreciate a tremendous cost savings and the SIC will reduce its 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 specified suspense deadline. The use of online forms is estimated to decrease processing time by 30 days.

Successfully Arming VA Police Officers

VA approved the arming of VA police at its medical centers in March 1999. The arming initiative was scheduled for completion by the end of FY 2004. At the direction of the Secretary, the initiative was accelerated in FY 2001. In an effort to meet the Secretary's goal, over the last 3 years, the SIC worked closely with the LETC to expeditiously process background investigations which enabled the LETC to meet its goal of completing the firearms initiative by the end of FY 2003—a full year ahead of schedule.

FRANCHISE FUND OBJECTIVES

Promoting Efficiencies in the Delivery of Common Administrative Services

Opening a New Training Facility

After 2 years of construction, the LETC completed an extensive construction project in September 2002. The LETC now houses state-of-the-art computer-operated and controlled firing range positions, an armory, weapons cleaning area, administrative offices and classrooms. The success of this endeavor is a tribute to the excellent working relationships among the LETC, Little Rock Medical Center and their contractors. The addition has made it easier to conduct firearms training and police officer survival tactics.

Developing Refresher Training Course

The LETC plays a vital role in helping VA's law enforcement community meet their training needs. During FY 2002, the Deputy Assistant Secretary for Security and Law Enforcement directed the LETC to develop and implement an 80-hour refresher-training course for all VA police officers who received training prior to 1986. 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, the LETC began developing the curriculum and allocating resources in FY 2002 and completed the necessary requirements in FY 2003. The training program will be implemented in FY 2004 and the LETC will be training a total of 751 police officers over a 3-year period (300 in FY 2004 and FY 2005 and 151 in FY 2006).

FRANCHISE FUND OBJECTIVES

Information Technology Segment

Participating in Enterprise Initiatives

The AAC is reducing duplication of efforts by actively participating in several enterprise initiatives that will eliminate the development of redundant or duplicate systems. The AAC participates on several of the Enterprise Architecture (EA) teams, defining infrastructure improvements and technical reference material included in the OneVA EA Projects. The AAC provides professional and processing services to several OneVA IT investment projects including, Personnel and Accounting Integrated Data (PAID), Core Financial and Logistics System (CoreFLS), Health Data Repository (HDR), Telecommunications Modernization Project (TMP), Veterans Services Network (VETSNET), and Customer Relationship Management (CRM) for the OneVA Registration and Eligibility and Contact Management process.

Actual implementation of some of the EA projects will be staged over the next 3 to 5 years. The EA drives and supports VA's mission by:

- Improving and enhancing VA's delivery of service to veterans
- Eliminating the development of redundant or duplicate systems across service divisions
- Improving IT accountability and cost containment
- Ensuring that the developing IT asset base is built upon widely accepted industry standards and best practices

Supporting VA's Personnel and Accounting Integrated Data (PAID)

In FY 2003, the AAC completed more than 80 different service requests initiated by the PAID Change Control Board in order to "bring PAID current". The AAC also implemented a series of new interfaces that allow PAID to communicate with OPM's Employee Express (EEX). EEX is an automated system that enables VA employees to electronically initiate the processing of discretionary human resources/payroll transactions. EEX advances the e-government strategy by allowing employees to use the Internet as a primary means to conduct human resources and benefit transactions with VA.

Supporting Core Financial and Logistics System (CoreFLS)

VA is in the process of replacing its core financial management and logistics systems and many of the legacy stovepipe systems interfacing with them with an integrated, commercial off-the-shelf (COTS) package—CoreFLS. CoreFLS will help VA address and correct management and financial weaknesses in transactions from VA systems, provide necessary financial support for credit reform initiatives, and improve automated analytical and reconciliation tools.

FRANCHISE FUND OBJECTIVES

Reducing Duplication of Effort

From a long-term financial systems viewpoint, the FSC's support of the CoreFLS initiative is crucial to improve VA financial systems integration and the ability to provide a full range of accounting services to VA and OGAs. The FSC's expertise was instrumental in other VA financial management system transitions and they have proven to be vital to the successful development and implementation of CoreFLS. The FSC actively assists the CoreFLS project office in the testing program and supports the vendor file cleanup area by providing subject-matter expertise, help desk functionality and common administrative support services. The AAC also supports this effort by providing dedicated open systems platform support software, database administrator support, and Tier 1 (first-contact) help desk support.

Health Data Repository (HDR)

The AAC supports VHA's HDR by participating in prototype testing of this COTS software currently used by DoD. The overall goal of the HDR prototype project is to plan and propose the development of a repository of health information that resides on one or more independent platforms for use by VHA clinicians and other personnel in support of patient-centric care. The data to be stored in the repository will serve as a system-wide longitudinal record that supports warehouses and data marts, and replaces existing Veterans Health Information Systems and Technology Architecture feeds to national systems such as the Decision Support System and National Patient Care Database.

My HealtheVet

The AAC provided staff to support and assist with the project planning, definition of hardware requirements, preparation of security documentation, configuration management, and implementation/systems administration of the initiative known as Customer Relationship Management (CRM) for OneVA Registration and Eligibility and Contact Management, My Healthe Vet. This project will enable veterans to perform "one stop shopping" in locating VA services. It is an Oracle-based system that will support the rapid location of relevant VA resources and services. This Web-based service will become available to veterans in November 2003.

FRANCHISE FUND OBJECTIVES

Information Technology Segment

VBA Corporate Support

During FY 2003, the AAC provided additional hardware for VBA to establish a batch-processing domain. The AAC acquired and made operational a platform that mirrors the AAC production environment and placed it at the Hines, Illinois, information technology center as an alternate failover site in the event of a disaster. The AAC conducted disaster recovery testing for VBA's production applications. This platform has the capacity to provide a functional production-sized test environment, and negotiations are currently underway with VBA to establish a full production test environment for VBA corporate applications.

Veterans Service Network (VETSNET)

The AAC is coordinating a major effort to migrate many of VBA's legacy systems into the integrated information system, VETSNET. When fully implemented, VETSNET is intended to meet the critical needs of veterans and their beneficiaries who receive benefits and services from VBA. VETSNET will move VBA to an online processing environment.

Telecommunications Modernization Project (TMP)

The TMP provides state-of-the-art wide area network technology to support the transportation of information across VA business lines. The AAC plays a pivotal position in VA networking, which is reflected in the TMP design that ensures that all VA facilities can access the AAC with a minimal number of network "hops." The AAC will continue to add high-speed data lines and capabilities for an increasing number of OneVA projects, such as CoreFLS and HDR, which will be housed at the AAC.

Enterprise Cyber Security Infrastructure Program (ECSIP)

The ECSIP, a VA Office of Cyber Security project, was the first step in meeting VA's priority to secure its computing enterprise against attacks. The mission of this project is to centrally develop and deploy standardized solutions for common security requirements and functions to improve the overall security posture of the VA IT enterprise. ECSIP provides enterprise-wide security and Virtual Private Network (VPN) services for VA. The AAC was the first pilot site for ECSIP and is host to the national ECSIP OneVA VPN. ECSIP provides firewall services, intrusion detection monitoring, content filtering, virus protection and other security services to ensure that data passing through the ECSIP portal is protected. The Office of Cyber Security monitors ECSIP 24 hours a day.

FRANCHISE FUND OBJECTIVES

Reducing Duplication of Effort

Financial Management Segment

Matching VHA's Composite Files

The DMC matches a composite file of VHA's delinquent first-party medical debts against benefit files to determine if administrative offset is available. From a centralized database, the DMC initiates offset action and refers funds to the appropriate center for application. This process relieves each medical center of the responsibility for sending letters and establishing administrative offsets.

Automating the Process of Referring Delinquent Accounts

The DMC automated the process of referring delinquent accounts to credit reporting agencies when the accounts become eligible. The debtor is warned in a second collection letter that failure to liquidate the debt could result in referral. The DMC automatically refers eligible debts on a monthly basis to various credit reporting agencies. At the end of FY 2003, delinquent debt referrals totaled \$233 million.

Referring Delinquent Debts to the Credit Alert Interactive Voice Response System (CAIVRS)

OMB requires federal agencies to refer delinquent debts to CAIVRS, which is a database of delinquent debts maintained by the Department of Housing and Urban Development. Any lender issuing a government-guaranteed loan must first check this database to see if the individual has a delinquent debt with the Government. If so, that information is considered in the underwriting process for the new loan. The DMC automatically refers delinquent accounts to CAIVRS on a monthly basis. At the end of FY 2003, referrals totaled \$116 million.

Referring Delinquent Debts to Treasury Offset Program

The DMC refers delinquent debts to the Treasury Offset Program. Rather than having each medical facility prepare its own referral file, the DMC has VHA refer eligible debts electronically to a hold file where they are consolidated and then merged with VBA benefit debt referrals. This allows for one referral from the Department and eliminates the need for a separate referral to Treasury from each facility.

Centralizing Vendor Payments

By the end of January 2004, all certified payments at VA Central Office and Veterans Integrated Service Networks (VISN) will have transferred to the FSC. By centralizing these payments at the FSC, VA will benefit from increased economies of scale and other efficiencies, increased discounts accrued, and decreased interest penalty payments.

FRANCHISE FUND OBJECTIVES

Financial Management Segment

Centralizing Permanent Change of Station (PCS) Financial Processing

In April 2003, all financial processing of VA PCS travel was centralized at the FSC. The FSC provides expert guidance and assistance to VA employees throughout this complex process—thereby easing the stress surrounding a relocation, improving accuracy, and providing VA with enhanced internal controls over the bills of collection process. Processes covered under this centralization initiative include:

- Bills of Collection Process
- Travel Clerk Function
- PCS Payment and Audit Services
- Liaison for Relocation Services and Move Management
- Liaison for Real Estate Reasonableness Review

This initiative streamlines the PCS move process and ensures the employee receives consistent PCS entitlement counseling. This will ultimately prevent improper entitlements and ensure a higher satisfaction level for employees. The FSC also established a Travel Help Desk to assist employees with travel issues. During FY 2003, the FSC facilitated a total of 596 PCS moves, of which 405 occurred since the centralization of PCS at the FSC. The FSC also processed 13 PCS moves for the Department of the Interior's Office of the Inspector General.

FRANCHISE FUND OBJECTIVES

Security and Law Enforcement Segment

Centralizing Records Management

In an effort to better serve the VA, the LETC is working with the AAC to develop a centralized Records Management System for the Office of Security and Law Enforcement and the individual Police Services at the medical centers. This system will house all law enforcement-related information to include offense reports, daily police journals, physical security assessments, police training data, firearms and baton instructor lesson plans, and testing material and weapons qualification and inventory information. It will improve the efficiency of the individual police officers and provide senior management with an excellent tool for gathering law enforcement-related statistical information and will also provide the ability to track trends in general criminal activity and physical security deficiencies. The system also has the potential to fit the automation needs of other federal law enforcement agencies, and after implementation throughout VA, it will be marketed as a product line to outside customers.

Reducing Duplication of Effort

FRANCHISE FUND OBJECTIVES

Fostering Competition

An underlying tenet of entrepreneurial government is competition. Competition spurs efficiency and encourages market participants to provide the best-value products and services to meet customer needs. We are not a mandatory source offeror; therefore, we must compete in the federal marketplace in the best interest of our federal clients. Federal agencies are seeking the most economical and best-valued source to support their programs. We must have a clear sense of where we are now and where we hope to go, especially in relation to our competitors. This has placed competitive pressure on us to increase our efficiency and improve performance to keep our existing customers and attract new ones.

Acquiring a Greater Share in the Federal Marketplace

Acquiring a greater share of the federal marketplace continues to be a challenge for us. We are aggressively leveraging technology and improving customer service and efficiency to expand our services to enable OGAs to streamline their operations and concentrate on their core mission. Overall, the Fund's total revenue grew by more than \$66 million. This impressive increase in total revenue is attributed to our 17 percent increase in OGA business. Of the six Enterprise Centers, the two largest (the AAC and FSC) acquired the most OGA business in FY 2003—\$9 million and \$37 million, respectively.

We will continue to reach across Departmental boundaries for opportunities and innovative ways to increase our OGA business. As we refine our marketing strategies and expand our product offerings, we will continue to form new partnerships.

Establishing BuyIT.Gov

The AAC will establish BuyIT.Gov, a Federal Acquisition Center, as its own product line to assist OGAs in acquiring supplies and services for their programs. There are ample opportunities in this market to help OGAs with acquisition services and awarding contracts to private industry. Strategies for the future include:

- Expanding acquisition services to OGAs focusing on the federal technology market
- Soliciting and awarding Global IT Support Services contracts
- Providing acquisition services for security and all related initiatives to OGA customers
- Providing acquisition services for e-government and all related initiatives to OGA customers

FRANCHISE FUND OBJECTIVES

Exploring Federal Business Opportunities (FedBizOpps)

Working in concert with OMB's enhanced focus on public-private competition for business, the FSC formed a team to prepare proposals to government solicitations. By establishing this capability, the FSC will be well positioned to respond to a FedBizOpps request for proposal in an attempt to acquire additional business.

Hosting Mid-Atlantic Cooperative Administrative Support Unit (CASU)

The FSC became the new host for the Mid-Atlantic CASU in FY 2003. The Mid-Atlantic CASU (based in New York, NY; Pittsburgh, PA; and Washington, DC) is a customer-driven organization that tailors its product lines to meet customer needs through high quality, low cost services, with quick turnaround response. The Mid-Atlantic CASU provides temporary help services for administrative assistance; cost-per-copy services for copier machines, bulk paper and laser cartridges; purchase services for copiers; and employee assistance program services to its present customer base of 287 federal organizations. CASUs provide the federal community with discounted services through the economies of scale gained by the volume of business they provide to their vendors. This program remains a very stable and reliable source for support services within the federal marketplace and provides an effective means for federal agencies to support the Administration's focus on competitive sourcing.

Taking on More Business

During the past 2 years, the LETC slightly decreased its external business in order to meet the increased demand from its primary customer (VHA). With the successful completion of VA's firearms initiative in FY 2003 and the addition of a large training facility, the LETC can take on more business. Basic Police Officer training has proven to be an attractive product line. It is sought out by federal agencies that have the same customer-oriented vision of policing as VA, but have been underserved by the federal law enforcement training community.

FRANCHISE FUND OBJECTIVES

As a financially self-sustaining organization, we do not receive appropriated funds; therefore, to stay in business we must recover the full cost of our operations through customer revenue.

Annual Business Planning

One of the first things we had to do upon becoming a Franchise Fund entity was to understand our own costs and ensure that we collected enough revenue to cover operational costs. Prior to becoming a fee-for-service organization, we were not required to develop business plans. Now each center submits a business plan for its operations annually. Establishing a business planning process was a key success factor for the VA Franchise Fund. Business planning also affords us a tool to identify trends and new business opportunities. Each year, we look for new ways to improve our business planning to address the current and future needs of our customers. The Enterprise Fund Office serves as a conduit between VA's Franchise Fund Board of Directors and the Enterprise Centers in overseeing the overall process associated with annual business plan updates.

Generating Revenue to Cover Operating Expenses

We have been able to price our services in a competitive manner. FY 2003 has been our most successful year. The Fund generated total revenues of \$202 million to cover its \$184 million in total operating expenses. Our revenue is comprised of three major segments (information technology, financial management, and security and law enforcement). The information technology segment generated 60 percent (\$121 million) of the revenue, while the financial management and security and law enforcement segments generated 37 percent (\$75 million) and 3 percent (\$6 million), respectively. We are proud of this performance and we look forward to maintaining it in future years.

FRANCHISE FUND OBJECTIVES

Maintaining Customer Satisfaction

Information Technology Segment

In addition to encouraging customer feedback throughout the year, the AAC customer satisfaction is independently measured annually. The AAC conducted a comprehensive customer satisfaction survey during the fourth quarter of FY 2003. A professional firm, Gartner Measurement, a division of Gartner under contract to the AAC, designed and conducted the survey, then reported the results. The AAC scored solidly in the top 10 percent of Gartner Measurement's Information Technology Customer Satisfaction database with an overall satisfaction rating of 4.10 out of 5.00, achieving a "best in class" rating and well surpassing the database average of 3.58 for all 143 private and public sector organizations in Gartner's database.

Financial Management Segment

In the DMC's line of business, customer satisfaction can be clearly measured by the amount of negative comments received from customers. If customers are served properly, complaints are minimized. The corrective actions taken to improve performance depend on the complaints identified. We continually review processes and procedures to ensure that the most cost-effective, efficient means are being used.

Utilizing SurveyPro.com software enables the FSC to obtain feedback from customers by product line. Web-based surveys are part of an ongoing program to measure and benchmark overall customer satisfaction, timeliness, and effectiveness of product line service delivery. Customers have a convenient way to rate different aspects of product lines on a scale of 1 (poor) to 5 (outstanding). Management reviews the survey data to gauge customer satisfaction and to better understand customer requirements. Meeting and exceeding customer expectations is critical to our success, and our customer survey data is a quantifiable tool to benchmark how we are doing in this regard. In FY 2003, the FSC scored 4.1 out of 5.00.

Security and Law Enforcement Segment

The LETC receives immediate feedback through student critiques that are distributed at the completion of each course. In addition to critiques being provided to the students, feedback is sought from Chiefs of Police concerning the performance of their officers after having attended our training program.

The SIC receives praise and thanks from customers via e-mail and in person. The SIC is in the process of developing a standardized survey to accurately measure customer service levels.

FRANCHISE FUND OBJECTIVES

Customer Testimonials

"With the many years that I have dealt with the AAC, I strongly feel that the staff is doing an excellent job in fulfilling all my needs in running online and batch jobs. When I have encountered problems and contacted the staff, everyone that I have spoken to at the AAC has a positive attitude and are eager to help. I feel that all the staff needs to be commended for running and maintaining such a complex computer system."

2003 AAC Customer Survey Participant
VHA

"We had our first workgroup meeting yesterday with the Office of the Detention Trustee and we were the only ones who submitted their claims data on time. We are also the only ones who have a Provider Network component and authorization system. We looked REALLY good! Thanks so much to the FSC staff for all they've done in support of this effort. It made a difference."

Captain Nina Dozoretz
Division of Immigration Health Services

"Wow—I ran a report and there were no past due bills...Kudos to Austin!! I REALLY appreciate the hard work the Finance Center is doing to facilitate timely bill payments to Cendant Mobility."

Mary Kosowski, CRP
Account Manager
Cendant Mobility, Bethesda, Maryland

"It is a good day in the VISN. The Monthly Interest & Discount Report shows that we have now obtained an 83.4 percent reduction in losses based on our benchmark of FY 2000. I give credit to our reaching this next level to the FSC's commitment to helping us to take advantage of discounts. A special "Atta Girl" to Susan Reynolds. She informed me of her being on a special team working on this problem and, when I identified some problem areas, she did whatever she did and now this month (May 2003) we are at a 85.3 percent efficiency on taking discounts—another all time record for us."

George Cude
VISN 22 Network Business Center

FRANCHISE FUND OBJECTIVES

Maintaining Customer Satisfaction

“As busy as most fiscal people are at this time of the year I still wanted to take time to tell you how much I appreciate the work you and the staff at the FSC are doing in the Credit Recovery Program. The work your office does has great benefit for the Department. Resources that would otherwise be lost are restored to facilities to be used to support programs benefiting veterans. I’m also impressed with the efficiency of your organization. The work you do was previously handled by a private sector vendor. You not only do the same work faster but at less cost. I’m sure your group will keep up the good work whether or not it’s recognized, but I wanted to be sure you knew that you’ve earned my respect and appreciation.”

Steve Graves
Office of Acquisition and Materiel Management
VA Central Office, Washington, DC

“Just a quick note to let you know of the great support I have received from the FSC. Your staff’s assistance in all fiscal matters is greatly appreciated! When they are asked about the status of anything for the Cemetery, they do all in their power to get me an answer. Fiscal year close out has been great for over four years for Station 898, because of their contributions. You are lucky to have a staff of this caliber working on your team!

In a world as fast and as complex as the one we live in today time is always taken to complain but seldom taken to give a job well done! FSC staff has done just that and more.

Your assistance is greatly appreciated!”

Bill Livingston
Director
Los Angeles National Cemetery Administration

“I wanted to let you know that your staff provided EES with great coverage in the absence of our regular contact. You know me, I’m not shy about what I say when things are screwed up and I wanted to let you know that I’m not shy about letting you know when things work good too. They (two staff members who stepped in) are caring individuals and have provided great customer service to EES. It is nice to know that we now will have others to go to when we need things done or fixed instead of putting the full burden on our regular contact only. Thanks again.”

Jackie Sparks
VA Employee Education System (EES)

FRANCHISE FUND OBJECTIVES

Customer Testimonials

"The quality of training provided by the LETC has increased significantly in the past few years. My officers return from the school with a clear understanding of their role in serving the veteran."

Jeff Kaufman
VISN 4 Chief of Police
VA Medical Center, Philadelphia

"The majority of my officers came to us directly from military police units and were unaccustomed to the concept of service oriented policing. After attending the training program at the LETC, they return with a full understanding of how to handle customers in stressful situations."

William Devaney
Provost Marshal
Tripler Army Medical Center, Hawaii

"Staff at the RC&V continue to offer quality service in the storage, recall, and transfer of VHA records. VHA is anticipating successful completion of the relocation of all VHA records from 14 NARA Federal Records facilities to the RC&V in FY 2004."

Louise Papile
Special Assistant for Network Support
VHA, VA Central Office, Washington, DC

"Thanks Sherri for your positive attitude and assistance. We'll keep you informed on items necessary to process the large number of Security Checks that require the approval of the Secretary."

Karen Guile
Chief, Operations Division, Human Resources Service
VA Central Office, Washington, DC

FRANCHISE FUND OBJECTIVES

Our objective is to improve the overall governance and performance of the Fund by applying sound business principles, ensuring accountability, and enhancing our management of resources through improved capital asset management, acquisition and competitive sourcing, and linking strategic planning, budgeting, and performance planning.

Overseeing the Fund

As our program matured, we adopted more businesslike practices, which enabled us to become more efficient, responsive, and cost conscious. The Franchise Fund Board of Directors and VA's Business Oversight Board oversee key issues that affect the Fund's ability to execute program and fiduciary responsibilities.

The Franchise Fund Board of Directors represents the major organizations within VA, including VHA, VBA, NCA, and staff offices. The Chairman of the Board is VA's Chief Financial Officer. The Board takes an active role in providing business oversight. Significant Board responsibilities include reviewing and approving the addition and/or deletion of Enterprise Centers, annual budgets and rates, capital projects, and revisions to the Franchise Fund Charter.

In addition to the Board, the Fund receives direction from VA's Business Oversight Board. This Board serves as the Department's senior management forum on all VA business activities and is chaired by the Secretary of Veterans Affairs. Its mission is to review and oversee the performance, efficiency and effectiveness of Department business processes. Specific activities include identifying, monitoring and managing key business issues facing VA; reviewing and approving the Department's business activities planning, performance planning, and performance reporting documents; and monitoring business processes and goal attainment.

Engaging an Accounting Firm

In FY 1998 and each year thereafter, we have engaged a private sector accounting firm to audit the financial statements of the VA Franchise Fund. Our sixth consecutive unqualified "clean" audit opinion attests to our financial integrity.

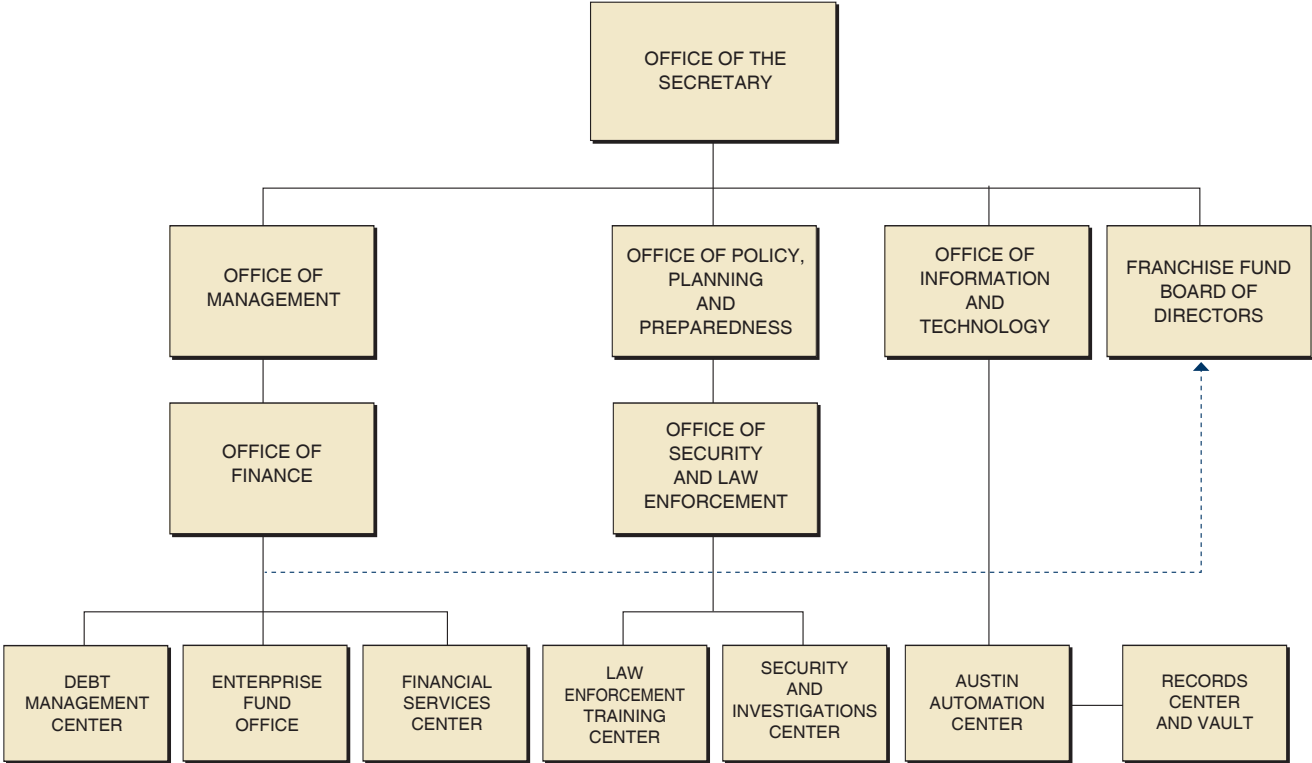
In FY 2003, the FSC used FASMatch, a data matching, reconciliation, and resolution tool to improve our financial accountability. FASMatch's capabilities greatly enhanced the audit of the Statement of Transactions Report (SF-224) reconciliation with data integrity, and the system provides and maintains a complete and clear individual record audit trail. FASMatch has been an invaluable asset in enhancing our financial accountability, and we will continue to leverage its capabilities in the future.

Management's Discussion and Analysis

Created by Congress in 1996 as one of six Franchise Fund pilots operating within the Executive Branch of Government, the VA Franchise Fund (Fund) was authorized under the Government Management Reform Act of 1994. The Fund supports the Department's mission by providing common administrative services on a fee-for-service basis rather than through an annual appropriation. By law, the business lines within the Fund can only sell common administrative services to federal entities. The Fund is comprised of an administrative office (Enterprise Fund Office) and six Enterprise Centers that are divided into three major segments (financial management, security and law enforcement and information technology). The Enterprise Centers are managed by three different senior management components (the Office of Management, the Office of Policy, Planning and Preparedness and the Office of Information and Technology). The Enterprise Centers report to the Franchise Fund Board of Directors and the Office of the Secretary to ensure sound business principles, financial accountability, and goal attainment.

In FY 2003, the Fund generated total revenues of \$202 million. The financial management segment (Debt Management Center and the Financial Services Center) generated 37 percent (\$75 million), the security and law enforcement segment (Security and Investigations Center and the Law Enforcement Training Center) generated 3 percent (\$6 million) and the information technology segment (Austin Automation Center and the Records Center and Vault) generated 60 percent (\$121 million) of the total revenue.

VA Franchise Fund Organization Chart



VA Franchise Fund At-A-Glance

	Centers	Brief Descriptions	Products/Services	Locations
Information Technology	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, eligibility benefits, and supply functions.	<ul style="list-style-type: none"> IT Systems Hosting Application Management Information Assurance Customer Business Continuity Configuration Management Data Conversion and Data Interfacing Acquisition Services 	Austin, TX
	Records Center and Vault (RC&V)	Highly secure, climate-controlled certified storage facility that houses short- and long-term records and files.	<ul style="list-style-type: none"> Records Storage Retrieval Services 	Midwest
Financial Management	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. The DMC employs every collection tool available to federal agencies (referrals to locator services, private collection agencies, and computer matching).	<ul style="list-style-type: none"> Account Maintenance Administrative Offset Administrative Services Predictive Dialer (Telephone Solicitation) 	St. Paul, MN
	Financial Services Center (FSC)	Customer-focused federal financial solutions and service provider of a complete suite of financial management services.	<ul style="list-style-type: none"> 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 Common Administrative Services Vendor File Maintenance Medical Claims Processing and Payments Data Matching and Reconciliation Training 	Austin, TX
Security and Law Enforcement	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, visitors, and staff and to maintain order in federal institutions. The LETC's program is geared toward resolving incidents in a humane, respectful manner and utilizing law enforcement as a last resort.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> Investigations/Adjudications Fingerprint Processing Identification Badge & Access Card Design and Production 	Washington, DC
	Enterprise Fund Office (EFO)	Provides administrative support to the Enterprise Centers by directing and analyzing the budget formulation and execution process and overseeing the overall financial and business planning. The EFO prepares the annual report, coordinates marketing activities and ensures the Enterprise Centers are kept informed of current trends, policies and legislation impacting their operations. The EFO also engages a private accounting firm to conduct annual audits of the financial statements.		Washington, DC

Management's Discussion and Analysis



**William H. Campbell,
Chief Financial Officer**

"The franchising concept adds value to the government because it empowers self-supporting federal government business entities to promote efficiency and conserve resources at their parent organization as well as OGAs by consolidating common administrative support functions, reducing administrative support costs, enhancing financial management practices, and expanding competition."

Interview with the Chief Financial Officer

How does the Fund support veterans?

In our information technology segment, the AAC provides VHA, VBA, and NCA with IT services that support many of the key systems that directly support veterans. The RC&V provides storage, management, and retrieval services to VA medical centers that store veterans' records.

In our financial management segment, the DMC's toll-free telephone service is staffed with experienced operators who provide veterans with clear, concise information regarding their benefit debts, due process rights, and payment options. The FSC ensures vendors who participate in VA's multi-billion dollar Prime Vendor Procurement Program are paid on time. These vendors provide VA medical centers with an efficient way to order supplies at low, negotiated contract prices and guarantee delivery within 24 hours, eliminating the need for warehousing large volumes of supplies.

In the security and law enforcement segment, the LETC provides well-trained police officers to ensure the safety of veterans, their families and visitors, and staff at VA medical centers. The SIC ensures that employees who provide patient protection, process claims, have access to veterans' information, and provide medical care receive the appropriate level of background investigations and timely adjudications.

How does the franchising concept add value to the government?

Now more than ever agencies are being asked to do more with less. The pressure to streamline operations and eliminate inefficiency is at its peak. Personnel and financial resources are limited. The American public is holding us to high standards as we spend their tax dollars to administer government programs. Expensive and wasteful practices are not acceptable.

The franchising concept adds value to the government because it empowers self-supporting federal government business entities to promote efficiency and conserve resources at their parent organization as well as OGAs by consolidating common administrative support functions, reducing administrative support costs, enhancing financial management practices, and expanding competition.

As a self-sustaining organization, we do not receive appropriated funds. We recover the full cost of our operations through customer revenue obtained from providing common administrative services. It is imperative for us to deliver high-quality goods and services at competitive prices to stay in business. As we successfully penetrate

the federal market, we can spread fixed costs over a larger unit base, which ultimately leads to lower costs for all customers. We must also demonstrate good stewardship and promote customer confidence in our ability to conduct business in a responsible way. Independent audits of our operations are conducted and used to ensure management accountability and financial integrity.

What were some of the challenges the Fund faced in transitioning to the new model of a businesslike organization?

One of the biggest challenges was shifting our mindset to a more businesslike approach. One of the first things we had to do was understand our own costs and ensure that we collected sufficient revenue to cover our operational costs; so, we developed appropriate pricing mechanisms. We also developed business plans and used them as our blueprint for financial management and for establishing priorities for short-term and long-term decisions involving capital acquisitions and mission-related initiatives.

We also had to focus on customers' needs and wants. Hence, we had a self-perpetuating cycle of customers driving us to improve our customer service, delivery, and performance. We instituted Customer Relationship Managers, also commonly referred to as Account Executives, to act as customer advocates. We became business partners with every customer by demonstrating our collective experience whenever they needed it.

Developing performance metrics was another achievement. We had to understand how we were doing in delivering our products and services so we could meet or exceed customer expectations. This led to custom-tailored agreements, making us truly accountable to our customers.

To move our marketing efforts in a more corporate-like direction, we established a corporate logo, a corporate brochure, and Web sites. We also participated in tradeshow and speaking opportunities to educate others about our products and services and the benefits of doing business with us.

Lastly, we wanted to attest our financial integrity and sound stewardship with our customers by engaging a private sector accounting firm to audit our financial statements.

As we transitioned to a self-supporting entity, we exhibited resilience and resourcefulness, which are hallmarks of a small business. We adopted more businesslike practices, enabling us to become more efficient, responsive, and cost conscious. Over the years we have emerged as a leader in the Franchise Fund Pilot Program, and a model to be followed by other federal agencies that seek to become more entrepreneurial.

How would you characterize the Fund's financial condition?

Very sound. The Fund has been subjected to a financial statement audit by an independent public accounting firm since 1998. Independent audits of our operations are used to ensure management accountability and financial integrity. I am happy to report that we received our sixth consecutive unqualified "clean" audit opinion.

Management's Discussion and Analysis

Interview with the Chief Financial Officer

Over the years, how has the Fund transformed into a viable competitor?

Quite simply, our people—both VA employees and contractors transformed us into viable competitors. Our managers and their staff have responded to the challenges and are thriving. The pressure of having to really satisfy customers is fostering a “can do” attitude and a sense that anything and everything is possible.

How do you feel about the Fund's current state in the marketplace?

Great. Virtually every Enterprise Center increased its revenues in FY 2003. The Fund generated total revenues of \$202 million in FY 2003. Our revenue is comprised of three major segments (information technology, financial management, and security and law enforcement). The information technology segment generated 60 percent (\$121 million) of the revenue, while the financial management and security and law enforcement segments generated 37 percent (\$75 million) and 3 percent (\$6 million), respectively. We are proud of this performance and are looking forward to maintaining it in the years to come.

Our current customers are staying and buying more. VA customer business accounted for 77 percent of our revenue stream in FY 2003. Acquiring a greater share of the federal marketplace has been a challenge. We are aggressively leveraging technology and improving customer service and efficiency to expand our services beyond the walls of VA. Our efforts will enable external agencies to streamline their operations and concentrate on their core mission. Overall, the Fund's external revenue grew from \$7.9 million in FY 2002 to \$46.5 million in FY 2003.

What role does the Internet play in your operations?

Implementing Web-enabled technology is a major driver of e-government. The development of business applications that can share information over the Internet is dramatically improving both operations and overall service delivery.

In the information technology segment, the AAC has been very instrumental in developing, supporting, and hosting a variety of Web-enabled applications associated with sharing healthcare and eligibility data and accessing military records and e-medical registries. In addition, the AAC Web site has online tutorials, demonstrations and operations status. For the VHA Records Relocation Project, the AAC developed a Web-enabled database for the RC&V customers to determine the location of their records. In addition, specific detailed instructions on how the transition would occur, as well as how to ship records to the RC&V are available. This database minimizes disruption in records management to VHA and the RC&V staff and affords access to information 24 hours a day, 7 days a week. A project to Web-enable the process of requesting accession numbers and recalls is expected to be available in FY 2004. This project will allow customers to complete requests electronically and receive accession numbers online. Not only will this project result in faster and more accurate services to customers, but it will also eliminate several manual recordkeeping steps, resulting in significant labor savings.

In the financial management segment, the DMC has begun researching the requirements for accepting credit card payments over the Internet. Online credit card payments will offer a simple, convenient payment option to veterans and eliminate human intervention from point of entry to the actual application of payment. Currently, credit card payments (MasterCard, VISA, American Express and Discover) are accepted by the DMC's toll-free telephone service. This year alone, the DMC responded to over 267,000 calls, with a lost call rate of only 2 percent, which resulted in \$2.1 million in collections, a 17 percent increase over FY 2002 collections of \$1.7 million.

The FSC's Vendor Inquiry System enables vendors to make inquiries over the Internet to determine the payment status on pending invoices and payment history on paid invoices. This application stores 4 years of information on invoices. By the end of FY 2003, 5,080 registered vendors conducted over 105,300 queries. Through the Intranet, certifying officials can view, certify, and forward invoices to the FSC for payment processing, reducing processing time to hours rather than days. By the end of FY 2003, 3,160 individuals were granted access. This automated process has and will continue to reduce interest payments for the Department. The success of VA's purchase card program is largely due to the FSC's Credit Card System (CCS). CCS enables the FSC to electronically receive and process credit card payments daily. In FY 2003, VA earned \$18.2 million in rebates.

During 2003, VA began implementing a new electronic travel system, known as e-Travel. This system will allow travelers and/or alternate preparers to electronically prepare and submit travel information using a Web-based system. The system is COTS-based and permits the traveler to make trip reservations with a "booking engine." When travelers prepare their vouchers, they have the option of directing some or all of their reimbursement to their travel card account. The FSC is currently facilitating the data conversion effort, conducting user training VA-wide, serving as the contracting officer's technical representative (COTR), providing help desk support, and providing global systems administration functions. Once the e-Travel package is fully implemented VA-wide, the FSC will continue in all of these roles to support full utilization of the system.

In the security and law enforcement segment, the SIC will implement a system for generating and electronically routing security eligibility forms to employees who require national security clearances or public trust eligibility. With the implementation of this system, employees will be able to complete and submit forms online for review. Use of this system will reduce the processing time from the SIC to OPM from 2 weeks to 2-3 days. Customers will appreciate tremendous cost savings and the SIC will reduce staff time previously required to send follow-up notices. Further, the system will be designed to prompt employees via e-mail who have not completed the forms by the suspense deadline. The use of online forms is expected to decrease overall processing time by 30 days.

Interview with the Chief Financial Officer

Explain how you intend to improve your financial performance. For example, reducing erroneous payments, ensuring financial accountability, and improving VA financial management systems.

Reductions in erroneous payments

Proactive in identifying overpayments and initiating collection actions, the FSC's 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 of FY 2002, which states that agencies with \$500 million in annual procurements must conduct recovery audits focused on overpayments. The FSC's daily monitoring of payments 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, saves additional administrative time and effort for personnel at all VA facilities, and ensures money remains in VA accounts.

VA surpassed its target of \$2.3 million in total audit recovery collections. FY 2003 collections of duplicate payments and the recovery of applied vendor statements credits increased by \$771,000 (34 percent) over FY 2002 levels, and FY 2003 collections totaled \$3.0 million. Improved payment oversight has also driven a 41 percent reduction in duplicate payments identified and cancelled prior to disbursement, compared to FY 2002 levels.

Financial Accountability

Customers can count on our financial integrity and sound stewardship. Our financial statements are audited each year by a professional accounting firm and we have received an unqualified "clean" audit opinion each year.

We utilized FASMatch's capabilities in FY 2003 and we will continue to refine our use of the FASMatch data matching, reconciliation, and resolution tool to improve our financial accountability. FASMatch greatly enhances the audit of the Statement of Transactions Report (SF-224) reconciliation with data integrity and provides and maintains a complete and clear individual record audit trail. We have found it to be an invaluable asset in enhancing our financial accountability.

Financial Management System

VA will be replacing its core financial management and logistics systems and many of the interfacing legacy stovepipe systems with an integrated, commercial off-the-shelf package, CoreFLS. CoreFLS will help VA address and correct management and financial weaknesses in transactions from VA systems. Additionally, CoreFLS will provide necessary financial support for credit reform initiatives and improve automated analytical and reconciliation tools.

From a long-term financial systems viewpoint, our support of the CoreFLS initiative is crucial to improving VA financial systems integration and enhancing our ability to provide a full range of accounting services to VA and OGAs. The FSC's expertise was instrumental in other VA financial management system transitions and has proven to be vital to the successful development and implementation of CoreFLS. The FSC actively assists the CoreFLS project office in the testing program and supports the vendor file cleanup area by providing subject-matter expertise, help desk functionality and common administrative support services. In addition, the AAC provides dedicated open systems platform, software database administrator, and Tier 1 (first-contact) help desk support.

How does the Fund measure its program performance?

Performance measures play a major role in the management of the Fund. From a financial perspective, the success or failure of any business can be clearly gauged by revenue and expense metrics. We have done extremely well by financial measures. Coupled with our financial metrics, program performance metrics will position us to better compete in the future.

The performance information presented in this report accurately represents our performance during FY 2000 – 2003. I am happy to report that 15 of 18 goals were met in FY 2003 (refer to the performance measures section for additional information). This reflects our measured progress in leadership, systems oversight and processing, direct service delivery, and sound financial management.

Where do you see the Fund going?

We are aggressively leveraging technology and improving customer service and efficiency to expand our services beyond VA. Acquiring a greater share of the federal marketplace continues to be a challenge for us. With new technological advancements on the horizon, we will continue to focus business improvements on our customers to make sound, fiscally responsible decisions that will have a positive impact.

As knowledgeable government professionals, we know how to tailor our services to provide federal program managers with cost-effective, customer-driven alternatives to fulfill their common administrative support needs. Although federal agencies have unique missions, our collective experience enables us to give expert advice and counsel from an insider's point of view. As a federal agency, we know the unique requirements and constraints that federal agencies face.

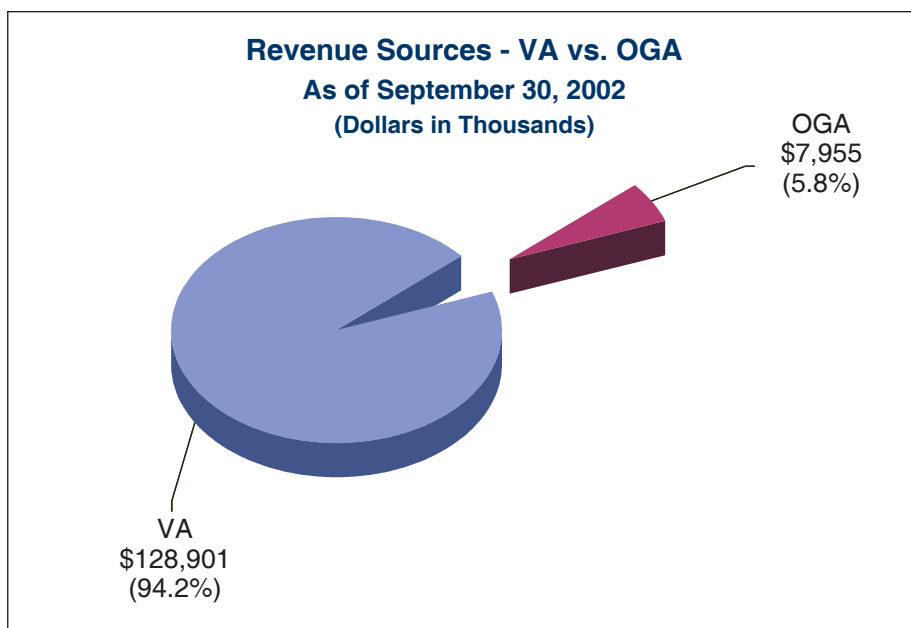
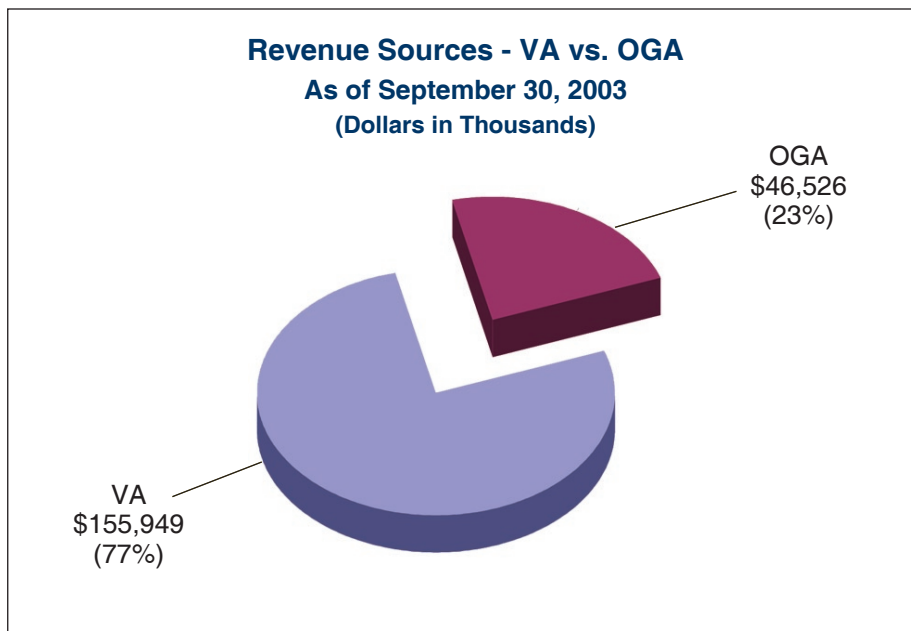
The American public is holding us to high standards as we spend taxpayer dollars to administer government programs. Expensive and wasteful practices are not acceptable. Government program managers are looking to us to promote efficiency and conserve resources by consolidating common administrative support functions, reducing administrative support costs, and enhancing financial management practices. We will

Interview with the Chief Financial Officer

continue to find ways for our customers to streamline their operations and eliminate inefficiency so they can focus their attention on mission-critical functions. As we successfully penetrate the federal market, we can spread fixed costs over a larger unit base, which ultimately leads to lower costs for all customers. We project that we will generate \$250 million in revenue in FY 2004.

Our success as a Franchise Fund demonstrates our ability to offer business solutions that meet customers' needs at competitive prices, using best practices, providing exceptional customer service, and satisfying each customer's unique requirements.

VA customer business accounted for 94.2 percent (\$128.9 million) of our revenue stream in FY 2002 and 77 percent (\$155.9 million) in FY 2003. Acquiring a greater share of the federal marketplace has been a challenge. We are aggressively leveraging technology and improving customer service and efficiency to expand our services beyond VA. Our efforts will enable external agencies to streamline their operations and concentrate on their core mission. Overall, the Fund's external revenue grew from 5.8 percent (\$7.9 million) in FY 2002 to 23 percent (\$46.5 million) in FY 2003.





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

"Our success as a franchise fund entity demonstrates our ability to provide business solutions that meet customers needs at competitive prices, using industry best practices, exceptional customer service, and a guarantee to provide the flexibility to satisfy each customer's unique requirements. Our overriding goal is to earn our customers' loyalty and succeed in providing the highest level of service possible."

Message From the Director

Since entering entrepreneurial government, the Austin Automation Center (AAC) has grown and prospered, significantly expanding both our customer and revenue bases. We consider ourselves to be business partners with our customers and strive to sustain superior relationships with each customer. Our success in sustaining these relationships is the result of focusing our technologies and business improvements on the customer and making sound, fiscally responsible decisions that positively impact the customer. During fiscal year 2003, we focused on several initiatives that will significantly enhance our overall service delivery to customers.

To ensure customers continue to benefit from our high standards of excellence, and in support of the President's agenda for management of human capital, strategic initiatives for staff recruitment, development, and retention are in place, our staff has participated in and earned professional employee certifications in several areas including business continuity, help desk, project management and security. The end product is a diverse workforce that is highly educated and uniquely qualified to perform work for our customers.

With 60 percent of our security professionals having obtained their Certified Information Systems Security Professional designation (considered the gold standard), we illustrate our commitment to addressing high priority security issues. Appropriate resources are applied to implement and maintain an effective security program at our center. These efforts continue to ensure the security of our employees, and the security of our customers' data and applications.

We offer our customers highly reliable, and scalable enterprise servers (z900) and open systems (UNIX and Windows) processing platforms that are closely monitored and upgraded "just-in-time" to provide our customers with the capacity and information technology (IT) management tools needed to support business critical applications. We are also exploring remote electronic vaulting, an alternative to the more traditional disaster recovery/business continuity process. This will reduce the recovery time for mission-critical data while providing for near-current data.

As an experienced provider of IT services for over 35 years, we understand the necessity of maximizing the knowledge, skills, and abilities of our workforce, the critical need for heightening data security, the importance of infrastructure management, and the importance of business continuity planning.

Message From the Director

We reorganized and cross-trained our employees to make the most efficient use of our resources. As we streamline our workforce, we continue to seek ways of centralizing and automating our collection process. As a result, we have been able to reduce operating costs and provide competitive prices to our customers.

FY 2003 was a productive year for the DMC as we improved our rate of return and increased collections. We strive to streamline operations and reduce operating costs. Our rate of return (dividing operating expenses into collections/offsets) is one factor that we use to determine our return on the dollar. We improved from \$60.49 in FY 2002 to \$63.24 in FY 2003, a 5 percent increase. Collections/offsets increased from \$353 million in FY 2002 to \$368 million in FY 2003, a 4 percent increase, while our operating expenses decreased slightly.

The Department of the Treasury continues to push for compliance on collection initiatives authorized by the Debt Collection Improvement Act of 1996. The two initiatives receiving the most attention are the Treasury Offset Program (TOP) and the Debt Referral Program for accounts over 180 days delinquent. We automated our referral programs and achieved 97 percent compliance for referrals under both programs. The Department of Veterans Affairs (VA) realized \$49.7 million in collections from TOP in FY 2002 and \$62.7 million in FY 2003 respectively.

We began researching the requirements for accepting credit card payments over the Internet. Online credit card payments will offer a simple, convenient payment option to veterans that eliminate the costs and potential errors associated with manual processing. Currently, credit card payments (MasterCard, VISA, American Express and Discover) are accepted from our toll-free telephone service. This year alone, we responded to over 267,000 calls, with a lost call rate of 2 percent, collecting \$2.1 million in credit card collections. This was a 17 percent increase over FY 2002 collections of \$1.7 million.

We look forward to FY 2004 as a year to improve and expand our programs while refining internal operations and processes. We will continue to seek new business opportunities and strive to improve customer service.



**Daniel Osendorf,
Director
Debt Management Center**

"The DMC's technology continues to reduce operating costs and improve customer service."

Management's Discussion and Analysis



Rodney Wood,
Director
Financial Services Center

"Sound financial management is key to our collective success. 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 the VA Franchise Fund's financial statements (Brown & Company, CPAs). I am happy to report that the Department attained its fifth consecutive unqualified "clean" audit opinion and the VA Franchise Fund its sixth consecutive unqualified "clean" audit opinion."

Message From the Director

On behalf of the Financial Services Center (FSC), I extend my sincere thanks to our customers for entrusting their business to us. Our goal is to provide outstanding customer service, technological innovations, and financial solutions that will exceed customer needs. We appreciate our customers' business and look forward to continuing our partnerships with them.

We continue to expand our support to the Department of Veterans Affairs (VA) and other government agencies (OGA) by continuing to provide a full spectrum of financial products designed to ensure financial accuracy, accountability, standardization, strong internal controls, and economies of scale.

The FSC has a fully developed set of strategic goals and objectives that link to VA's overarching strategic goals. Through the monitoring of our performance measures and metrics, we track our progress toward attaining these goals and strategies.

During this past year, we added five new customers. As a result, we were able to spread our overhead expenses over an expanding customer base. Our payment accuracy and timeliness rates both exceeded 98 percent. By leveraging vital customer relationships and improving our internal processes, we helped customers realize a dramatic improvement in their discount and interest penalty performance. Those in VISN 22 (Southern California Healthcare System) and in VA Central Office (Washington, DC) that used our On Line Certification System significantly decreased their interest penalty payments by 44 and 76 percent, respectively. New customers were acquired as they began to realize the power of our Document Management System, an electronic document imaging, secure storage, and flexible retrieval system that allows users to streamline document management and diminish the need for paper file storage space. We reached a significant milestone with the addition of a new medical claims payment product line in support of a new customer, the Division of Immigration Health Services. We expanded our consulting business and broadened our business base through sponsorship of the Mid-Atlantic Cooperative Administrative Support Unit.

Sound financial management is key to our collective success; the FSC led VA to its fifth and the Franchise Fund to its sixth consecutive unqualified "clean" audit opinion. We developed FASMatch, an automated data matching and reconciliation tool for the major functions of reconciling customer accounting records with the Department of the Treasury, to assist us in continuing this trend. This capability now provides over a 99 percent automatic match of unmatched Statement of Transactions Report (SF-224) items, which significantly enhances the quality of our end product.

I am confident our suite of products and services can meet or exceed the financial needs of our existing and future customers.

Message From the Director

At the Law Enforcement Training Center (LETC), we place a premium on training the federal law enforcement communities at healthcare facilities, parks, museums, and other federal special mission or limited jurisdiction settings nationwide and use an approach that focuses specifically on assaultive patient situations. We employ the finest law enforcement instructors, and our goal is to equip our students with the knowledge, skills and abilities to resolve incidents in a humane and respectable manner. We provide students 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, students learn an alternative law enforcement approach from seasoned instructors, who emphasize customer/patient safety in all 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, patrolling techniques, federal arrest authority and healthcare facility law enforcement. Several specialized and advanced courses (baton instructor, detective, semi-automatic pistol, firearms instructor, administrative investigations 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.

During the past 2 years, we slightly decreased our business from other government agencies (OGA) in order to meet the increased demand from our primary customer (the Veterans Health Administration). With the successful completion of the Department of Veterans Affairs' (VA) firearms initiative in FY 2003 and the addition of our large training facility, we can now increase our OGA business. We project that we will increase our OGA business by 30 percent.

Our unique training program has proven to be attractive to OGAs that possess a similar customer oriented vision of law enforcement as VA and have expressed their feelings of being underserved by the federal law enforcement training community. We are the only federal agency in full compliance with Title 38 (specialized training for dealing with assaultive patients in a healthcare environment).

We are 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 superior training. In addition, positive feedback from our customers indicates they are very satisfied with the quality of our training.



Ronald Angel,
Director
Law Enforcement Training
Center

"Our mission is to serve as a leader in providing world-class law enforcement training. We provide new and experienced law enforcement professionals with the necessary skills to fulfill their responsibilities to provide a service to our Nation's veterans."



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

"In FY 2002, the RC&V was realigned under the AAC. The AAC's management of the RC&V continues to move it in the direction of business and financial viability. We met the challenge of this realignment with a positive "can-do" attitude. The realignment highlights the fact that a larger Enterprise Center with greater resources (business planning, financial management, accounting, contracting, IT, facility management, etc) can support and assist a smaller Enterprise Center. This is especially true given the significant expansion efforts. We have worked very diligently with NARA and VHA to address their concerns to ensure the VHA Relocation Project is a major success."

Message From the Director

The Records Center and Vault (RC&V) provides records storage, management, and related retrieval services to the Department of Veterans Affairs (VA) and other government agencies (OGA). The value of a records storage facility is defined by its ability to quickly retrieve and return records to customers when requested. The RC&V excels in this area, attaining a 99 percent success rate for retrieving records within established timeframes. Despite the complexity of the Veterans Health Administration (VHA) Records Relocation Project and the challenges we encountered, customer service has remained a top priority.

Proactive cost management and projections for significant cost savings influenced the decision to consolidate all veterans' retired medical records at our facility. The enormous task of transporting nearly one million veteran records from National Archives and Records Administration (NARA) facilities across the country to our facility is in its final stages. This project, which began in May 2002, is targeted for completion in August 2004.

We began a facility expansion project in October 2002 that will provide needed capacity through FY 2005. In addition, a project to Web-enable the process of requesting accession numbers and recalls is expected to be available in FY 2004. This project will allow customers to complete requests electronically and receive accession numbers and other information via the Web. Not only will this project result in faster and more accurate services to customers, it will eliminate several manual recordkeeping steps, resulting in significant labor savings.

We are committed to earning our customers' loyalty and to the goal of providing unparalleled records management services.

Message From the Director

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. All federal agencies are required by the Office of Personnel Management (OPM) to process and adjudicate their respective background investigations and maintain an effective Personnel Security Program, in accordance with Executive Orders 10450, 12958 and 12968 and 5 Code of Federal Regulations Sections 731, 732 and 736. We fulfill this role for the Department of Veterans Affairs (VA) by ensuring that government and contractor employees in sensitive and public trust positions meet the investigative requirements of executive orders and OPM regulations.

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 Law Enforcement Training Center, to ensure all individuals subject to a background investigation received expeditious processing. As a result, 1,774 background investigations were conducted in FY 2003.

In an effort to accelerate the processing of investigative forms, the SIC will be exploring opportunities to replace the manual processing of paperwork with an online security eligibility form, which will be electronically routed to employees who require national security clearances or public trust eligibility. In addition, we will be utilizing Live Scan Fingerprint capability, which electronically links to OPM and eliminates the manual screening process currently performed by the Federal Bureau of Investigation (FBI). The Live Scan Classification Management System model will allow our processors to take flawless fingerprint images using revolutionary optical and lighting screens, as well as input personal data, and electronically transmit data to OPM. Print images yield near-perfect images and drastically lower rejection rates by OPM and the FBI. In addition, fingerprints will be classified and arrest data will be obtained within 24-48 hours, as opposed to 30 days. Prompt notification will allow us to alert stations of employee arrest reports, outstanding warrants, and state-wide notification listings. These initiatives will significantly enhance our overall service delivery.



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

"With new technological advancements on the horizon, we will be focusing our business improvements on the customer and making sound, fiscally responsible decisions that positively impact the customer."

Management's Discussion and Analysis



Steve Swanson,
Director
Enterprise Fund Office

"The Fund generated total revenues of \$202 million to cover its \$184 million in total operating expenses. Our revenue is comprised of three major segments (information technology, financial management, and security and law enforcement). The information technology segment generated 60 percent (\$121 million) of the revenue, while the financial management and security and law enforcement segments generated 37 percent (\$75 million) and 3 percent (\$6 million), respectively. We are proud of this performance and are looking forward to maintaining it in the years to come."

Message From the Director

The Enterprise Fund Office provides administrative support to the Fund by directing, reviewing and analyzing budget formulations, overseeing overall financial and business planning, managing the annual audit and annual report preparation, coordinating marketing activities, and ensuring the Enterprise Centers are kept informed of current trends, policies, and legislation impacting their operations. In addition, we serve as a conduit between the Fund and the Franchise Fund Board of Directors.

As a self-sustaining organization, the Fund does not receive appropriated funds; therefore, we must recover the full cost of our operations through customer revenue obtained from providing common administrative services. It is imperative for us to deliver high-quality goods and services at competitive prices to stay in business. We must also demonstrate good stewardship and promote customer confidence in our ability to conduct business in a responsible way. Independent audits of our operations are conducted and used to ensure management accountability and financial integrity. I am happy to report that we received our sixth consecutive unqualified "clean" audit opinion on our financial statements.

As our program matured, we adopted more businesslike practices, which enabled us to become more efficient, responsive, cost conscious and bottom-line oriented. Over the years we have emerged as one of the leaders in the Franchise Fund Pilot Program, and a model to be followed by other federal agencies looking to become more entrepreneurial. We have become an integral part of the federal evolution of working better and costing less.

FY 2003 has been our most successful year. The Fund generated total revenues of \$202 million to cover its \$184 million in total operating expenses. Our revenue is comprised of three major segments (information technology, financial management, and security and law enforcement). The information technology segment generated 60 percent (\$121 million) of the revenue, while the financial management and security and law enforcement segments generated 37 percent (\$75 million) and 3 percent (\$6 million), respectively. We are proud of this performance and are looking forward to maintaining it in the years to come.

Acquiring a greater share of the federal marketplace continues to be a challenge for us. We are aggressively leveraging technology, improving customer service and encouraging efficiency to expand our services beyond the walls of VA, to enable other government agencies (OGAs) to streamline their operations and concentrate on their core mission. Overall, the Fund's OGA revenue grew to more than \$46.5 million in FY 2003.

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Analysis of Performance Information

The performance information presented in this report accurately represents the VA Franchise Fund's performance during FY 2000 – 2003. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we constantly seek to improve our data collection and monitoring techniques.

Enabling Goal: Deliver world-class service to veterans and their families by applying sound business practices that result in effective management of people, communications, technology, and governance.

Objective: Improve the overall governance and performance of VA by applying sound business principles, ensuring accountability, and enhancing our management of resources through improved capital asset management; acquisition and competition sourcing; and linking strategic planning, budgeting, and performance planning.

- 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 national security and public trust positions and in managing and issuing customer identification badges.
- 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 Measure	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2003 Plan	Was the 2003 Performance Goal Met?	
						Yes	No
Austin Automation Center (AAC)							
Customer satisfaction rating (range 1-5) ¹	3.91	3.95	3.96	4.10	3.60	√	
Availability of on-line systems rate ^{2, 3}	99.0%	99.0%	99.9%	99.8%	99.8%	√	
Help Desk First-Contact Resolution (Tier 1) rate ⁴	N/A	58.0%	67.4%	69.6%	68.0%	√	
Help Desk Abandoned Call Rate ⁵	N/A	5.6%	4.1%	4.0%	5.0%	√	
Debt Management Center (DMC)							
Rate of Return (Collections versus Expenses)	N/A	N/A	N/A	\$63	\$59	√	
Financial Services Center (FSC)							
W-2 release dates met (All W-2s must be mailed by January 31 st)	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	100%	100%	100%	100%	√	
Payment processing accuracy rate ⁶	95.0%	96.0%	97.9%	98.9%	98.0%	√	
Customer satisfaction rating (range 1-5) ⁷	3.5	N/A	4.0	4.1	4.2		√

¹ The AAC uses an industry benchmark to measure customer satisfaction. In the 2003 survey, the AAC scored in the top 10 percent of GartnerMeasurement's Information Technology Customer Satisfaction database, giving the AAC an overall satisfaction score of 4.10 out of 5.00, well surpassing the database average of 3.58 for all 143 private and public sector organizations in Gartner's database.

² The industry standard is 99 percent and best practice is 99.5 percent.

³ Goal will be 99.9 percent upon Corporate Data Center Integration (CDCI) implementation

⁴ The industry standard is 66 percent and best practice is 70 percent.

⁵ The industry standard is 7 percent and best practice is 5 percent.

⁶ 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.

⁷ The FSC management responded to customer feedback by reducing rates and simplifying their service level and franchise agreements. Process improvements, in addition to implementing a new survey structure in FY 2004, include increased senior management oversight of survey results on a monthly basis. The FSC is confident the combination of these improvements will help attain the FY 2004 customer satisfaction goal.

Management's Discussion and Analysis

Performance Summary Table

Performance Measure	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2003 Plan	Was the 2003 Performance Goal Met?	
						Yes	No
Law Enforcement Training Center (LETC)							
Class graduation rate	95.0%	98.0%	98.0%	95.0%	95.0%	√	
Security and Investigations Center (SIC)							
Timeliness rate of arrest records processed	100%	100%	100%	100%	100%	√	
Timeliness rate of investigations ⁸	98.0%	98.0%	95.0%	98.0%	98.0%	√	
Records Center and Vault (RC&V)							
Timeliness rate of recall requests	99.0%	98.0%	99.0%	99.8%	97.0%	√	
Timeliness rate of emergency/contingency test recall requests	98.0%	100%	98.0%	99.9%	97.0%	√	
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 ⁹	N/A	N/A	N/A	N/A	97.0%		
Timeliness rate of accession number assignment ¹⁰	N/A	N/A	N/A	N/A	97.0%		
Enterprise Fund Office (EFO)							
Operating Reserves Target ¹¹	N/A	70.0%	100%	100.0%	85.0%	√	
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	√	

⁸ 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 percent goal of timeliness rate of investigations.

⁹ National disaster record recalls will only occur in the event of a national disaster.

¹⁰ This is a new measure. Results will be tracked in FY 2004.

¹¹ 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.

Number of Annual Goals	Number of Goals Met	Number of Goals Not Met	N/A ^{9, 10}
18	15	1	2

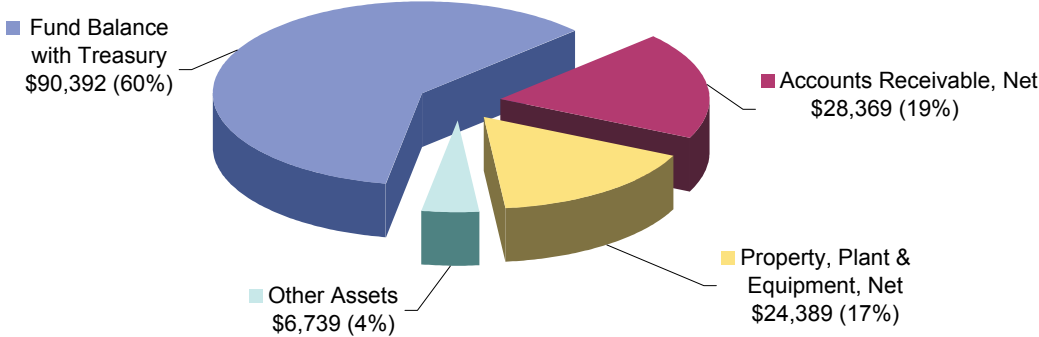
The table below identifies the single area where performance was not met in FY 2003. An explanation is provided that outlines how we intend to improve our performance to meet this goal in FY 2004.

Performance Measure	2003 Actual	2003 Plan	Explanation for Improving Performance in FY 2004
Customer satisfaction rating (range 1-5) ⁷	4.1	4.2	Process improvements, in addition to implementing a new survey structure in FY 2004, include increased senior management oversight of survey results on a monthly basis. The FSC is confident the combination of these improvements will help attain the FY 2004 customer satisfaction goal.

Management's Discussion and Analysis

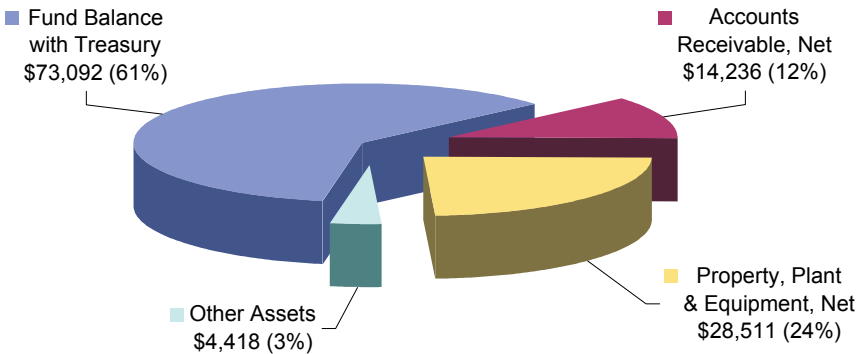
Analysis of the Financial Statements

**Composition of VA Franchise Fund Assets
As of September 30, 2003
(Dollars in Thousands)**



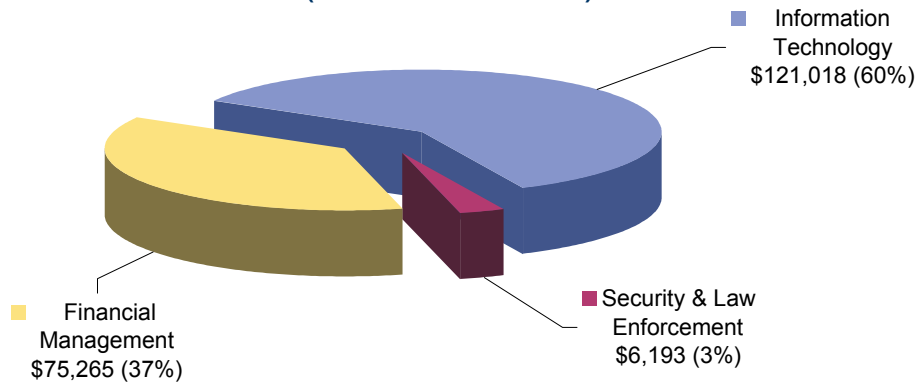
The VA Franchise Fund assets totaled \$149,889 in FY 2003. The Fund's assets are comprised of Fund Balance with Treasury, Property, Plant and Equipment, Accounts Receivable and Other Assets. The largest asset, Fund Balance with Treasury, accounts for \$90,392 representing 60 percent of our total assets. This undisbursed account balance is a revolving fund comprised of only entity assets. Our second largest asset reflects Accounts Receivable of \$28,369, which accounts for 19 percent of our total assets. All Accounts Receivable are from other federal agencies and are considered fully collectible. The third largest asset reflects the book value of \$24,389 in Property, Plant and Equipment, which accounts for 17 percent of our total assets. This includes transfers from other federal agencies, which are recorded at cost. Other Assets make up the remaining \$6,739, which accounts for 4 percent of our total assets.

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



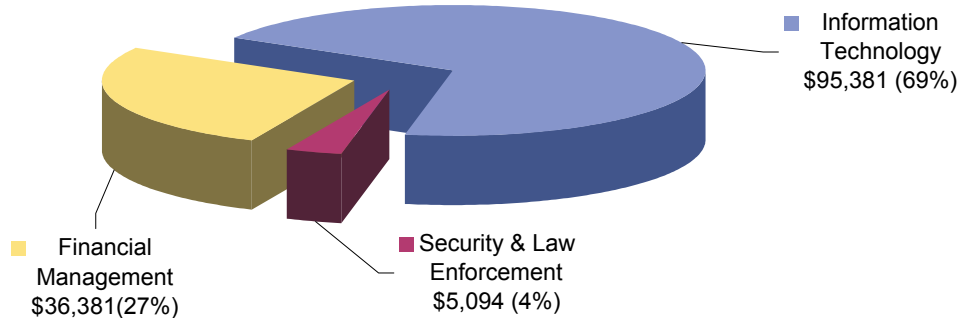
The VA Franchise Fund assets totaled \$120,257 in FY 2002. The Fund's assets are comprised of Fund Balance with Treasury, Property, Plant and Equipment, Accounts Receivable and Other Assets. The largest asset, Fund Balance with Treasury, accounts for \$73,092 representing 61 percent of our total assets. This undisbursed account balance is a revolving fund comprised of only entity assets. Our second largest asset reflects the book value of \$28,511 in Property, Plant and Equipment, which accounts for 24 percent of our total assets. This includes transfers from other federal agencies, which are recorded at cost. The third largest asset reflects Accounts Receivable of \$14,236, which accounts for 12 percent of our total assets. All Accounts Receivable are from other federal agencies and are considered fully collectible. Other Assets make up the remaining \$4,418, which accounts for 3 percent of our total assets.

**VA Franchise Fund Revenue by Major Product Categories
As of September 30, 2003
(Dollars in Thousands)**



The total revenue generated by the VA Franchise Fund, \$202,475, 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 Records Center and Vault. This segment generated \$121,018, which accounts for 60 percent of our total revenue. Thirty-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 \$75,265 of our total revenue. The Security and Law Enforcement segment (comprised of the Security and Investigations Center and the Law Enforcement Training Center) generated the remaining \$6,193, which accounts for 3 percent of our total revenue.

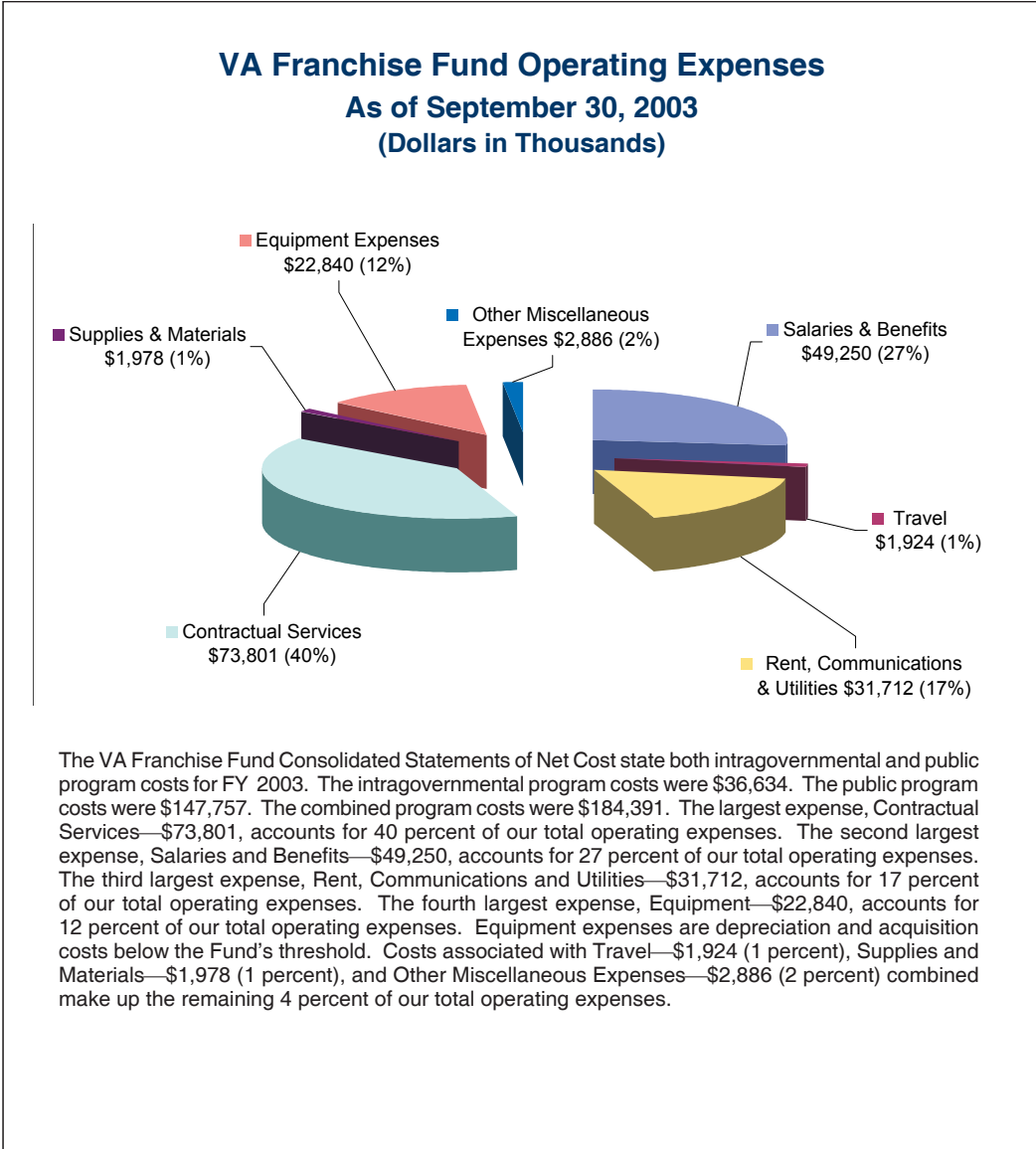
**VA Franchise Fund Revenue by Major Product Categories
As of September 30, 2002
(Dollars in Thousands)**



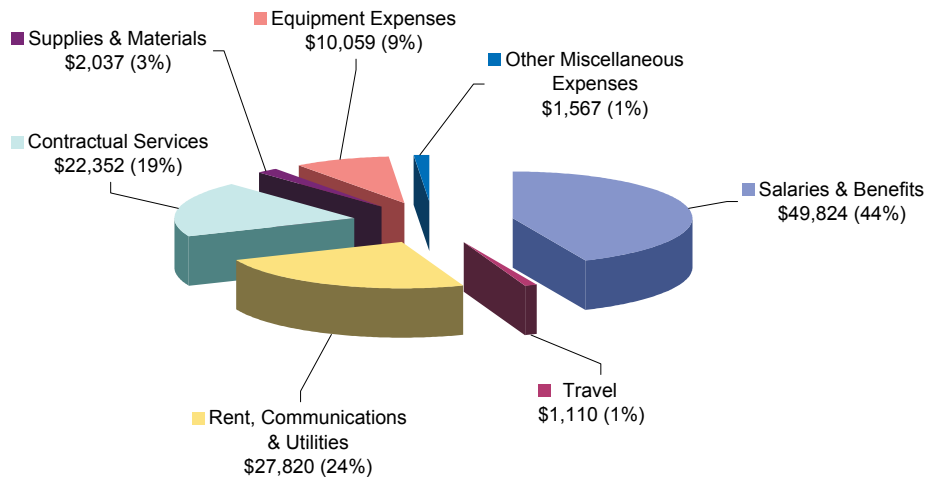
The total revenue generated by the VA Franchise Fund, \$136,856, is comprised of three major segments (Information Technology, Financial Management and Security and Law Enforcement). The Information Technology segment is comprised of the Austin Automation Center and the Records Center and Vault. This segment generated \$95,381, which accounts for 69 percent of our total revenue. 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 of our total revenue. The Security and Law Enforcement segment (comprised of the Security and Investigations Center and the Law Enforcement Training Center) generated the remaining \$5,094, which accounts for 4 percent of our total revenue.

Management's Discussion and Analysis

Analysis of Financial Statements



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



The VA Franchise Fund Consolidated Statements of Net Cost state both intragovernmental and public program costs for FY 2002. The intragovernmental program costs were \$22,751. The public program cost was \$92,018. The combined program costs were \$114,769. The largest expense, was Salaries and Benefits—\$49,824 accounts for 44 percent of our total operating expenses. The second largest expense, Rent, Communications and Utilities—\$27,820, accounts for 24 percent of our total operating expenses. The third largest expense, Contractual Services—\$22,352, accounts for 19 percent of our total operating expenses. The fourth largest expense, Equipment—\$10,059, accounts for 9 percent of our total operating expenses. Equipment expense costs are depreciation and acquisition costs below the Fund's threshold. The costs associated with expenses for Travel—\$1,110 (1 percent), Supplies and Materials—\$2,037 (3 percent), and Other Miscellaneous Expenses—\$1,567 (1 percent) combined make up 5 percent of our total operating expenses.



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 YEARS 2003 AND 2002

Report No. 03-02159-52

December 19, 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 2003**

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 Years (FY) 2003 and 2002. The Franchise Fund is one of the components included in VA's CFS. The Franchise Fund management defined the requirements of the audit and contracted with the independent public accounting firm, Brown & Company CPAs, PLLC, to perform the audit. The independent auditors' report provides an unqualified opinion on VA's Franchise Fund FYs 2003 and 2002 CFS.
2. The report on internal control over financial reporting identifies one material weakness concerning information technology security controls. This finding and the related recommendation were included in the VA's FY 2003 CFS audit reports. During FY 2003, management has taken corrective action to eliminate the reportable condition reported in the FY 2002 audit report relating to application program and operating system change controls that affect one enterprise center.
3. The report on compliance with laws and regulations concluded that VA, as a whole, is not in substantial compliance with the financial management system requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. The VA's CFS include the Franchise Fund. The VA's internal control issues concerning an integrated financial system and information technology security controls indicate noncompliance with the requirements of Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," which incorporates by reference OMB Circulars A-123, "Management Accountability and Control," and A-130, "Management of Federal Information Resources."
4. The independent auditors will follow up on the internal control finding and evaluate any corrective actions during the audits of the VA's and the Franchise Fund's FY 2004 CFS.

For the Assistant Inspector General
for Auditing

A handwritten signature in cursive script that reads "Marie A. Maguire".

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

Attachment



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 sheets of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, financing, and the combined statements of budgetary resources for the years then ended (collectively referred to as the financial statements). 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 audits provide 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 September 30, 2003 and 2002, and its net cost, changes in net position, budgetary resources, and financing for the years 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 November 12, 2003 on our consideration of the VA Franchise Fund's internal control over financial reporting and a report dated November 12, 2003 on its compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The "Management's Discussion and Analysis" (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and 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 MD&A. However, we did not audit the information and, accordingly, express no opinion on it.

A handwritten signature in black ink that reads "Brown & Company". The signature is written in a cursive, flowing style.

Arlington, Virginia
November 12, 2003

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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 financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2003, and have issued our report thereon dated November 12, 2003. 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 (OIG) 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 noted relates to one of the Enterprise Centers within the Franchise Fund and is described in the following paragraphs.

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

During fiscal year (FY) 2003, VA's financial data continue to be at risk due to serious weaknesses related to the VA's implementation and enforcement of general controls and oversight over access to the data center and recovery of its information systems.

These weaknesses placed financial data at risk. Key controls were tested over security administration for the general computer systems at the data center, as well as the payroll system (Personnel and Accounting Integrate Data - PAID), and the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP).

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In the PAID and IFCAP applications, security weaknesses were identified, which included improper design of system controls to support segregation of duties, inappropriate access privileges and inadequate management of access privileges, and inadequate segregation of duties.

Recommendation

We reaffirm the recommendation contained in the VA's FY 2003 consolidated financial statements audit that VA improve information systems security and segregation of duties controls over general systems and key financial applications, such as the PAID and IFCAP systems, and assign, communicate, and coordinate responsibility for monitoring and enforcing such controls.

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 November 12, 2003.

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 VA Franchise Fund, the VA OIG, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.



Arlington, Virginia
November 12, 2003

=====**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 financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2003, and have issued our report thereon dated November 12, 2003. 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's 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, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the VA Franchise Fund.

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

Under FFMIA, we are required to report whether the VA Franchise Fund's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the VA Franchise Fund financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph. However, the VA Office of Inspector General (OIG) 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 weaknesses in internal control over financial reporting indicate that the VA is not in full compliance with the requirements of OMB Circulars A-123, A-127, and A-130. The other auditors believe these material weaknesses, in the aggregate, result in departures from certain of the requirements of OMB Circulars A-123, A-127, and A-130, and are therefore, instances of substantial non-compliance with the Federal financial management systems requirements under FFMIA.

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 VA Franchise Fund, the VA OIG, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Arlington, Virginia
November 12, 2003

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Consolidated Financial Statements

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30,
(Dollars in Thousands)**

	<u>2003</u>	<u>2002</u>
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 90,392	\$ 73,092
Accounts Receivable	28,328	13,952
Other Assets	6,642	4,416
Total Intragovernmental	<u>125,362</u>	<u>91,460</u>
Accounts Receivable	41	284
Property, Plant and Equipment, Net (Note 3)	24,389	28,511
Other Assets	97	2
Total Assets	<u>\$ 149,889</u>	<u>\$ 120,257</u>
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable	\$ 243	\$ 357
Other Liabilities (Note 5)	9,722	1,383
Total Intragovernmental	<u>9,965</u>	<u>1,740</u>
Accounts Payable	7,495	2,563
Other Liabilities (Notes 4 & 5)	24,533	28,461
Total Liabilities	<u>41,993</u>	<u>32,764</u>
NET POSITION	<u>\$ 107,896</u>	<u>\$ 87,493</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 149,889</u>	<u>\$ 120,257</u>

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

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

	<u>2003</u>	<u>2002</u>
PROGRAM COSTS		
Gross Costs Intragovernmental	\$ 36,634	\$ 22,751
Less: Intragovernmental Earned Revenue	<u>(202,475)</u>	<u>(136,856)</u>
Intragovernmental Net Costs	(165,841)	(114,105)
Gross Costs Public	<u>147,757</u>	<u>92,018</u>
NET COST OF OPERATIONS	<u>\$ (18,084)</u>	<u>\$ (22,087)</u>

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

	<u>2003</u>	<u>2002</u>
NET POSITION		
Beginning Balance	<u>\$ 87,493</u>	<u>\$ 61,591</u>
OTHER FINANCING SOURCES:		
Transfers-In	1,199	759
Imputed Financing	<u>3,783</u>	<u>3,426</u>
Total Financing Sources	<u>4,982</u>	<u>4,185</u>
NET COST OF OPERATIONS	18,084	22,087
Cumulative Effect of Change in Accounting Principle (Note 6)	<u>(2,663)</u>	<u>(370)</u>
TOTAL NET POSITION	<u>\$ 107,896</u>	<u>\$ 87,493</u>

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

Consolidated Financial Statements

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30,
(Dollars in Thousands)**

	<u>2003</u>	<u>2002</u>
BUDGETARY RESOURCES		
Unobligated Balance at the Beginning of the Period	\$ 52,682	\$ 38,016
Spending Authority from Offsetting Collections	214,353	144,987
Total Budgetary Resources	<u><u>267,035</u></u>	<u><u>183,003</u></u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	194,179	130,321
Unobligated Balance Available (Note 2)	54,414	50,887
Unobligated Balance Not Available (Note 2)	18,442	1,795
Total Status of Budgetary Resources	<u><u>267,035</u></u>	<u><u>183,003</u></u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance, Net - Beginning of the Period	20,410	14,039
Less: Obligated Balance, Net - End of the Period		
Accounts Receivable	(28,328)	(13,911)
Undelivered Orders (Note 2)	4,865	2,628
Accounts Payable	40,999	31,693
Outlays:		
Disbursements	182,637	128,175
Collections	(199,937)	(149,212)
Net Outlays	<u><u>\$ (17,300)</u></u>	<u><u>\$ (21,037)</u></u>

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

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

	<u>2003</u>	<u>2002</u>
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$ 194,179	\$ 130,321
Less: Spending Authority from Offsetting Collections and Adjustments	<u>(214,353)</u>	<u>(144,987)</u>
Net Obligations	(20,174)	(14,666)
Other Resources		
Transfers-In	1,199	759
Financing Imputed for Cost Subsidies	<u>3,783</u>	<u>3,426</u>
Net Other Resources Used to Finance Activities	4,982	4,185
Total Resources Used to Finance Activities	(15,192)	(10,481)
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	(4,674)	(4,953)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(5,780)	(16,575)
Resources that Fund Expenses Recognized in Prior Periods	<u>244</u>	<u>(227)</u>
Total Resources Used to Finance Items Not Part of Net Cost of Operations	(10,210)	(21,755)
Total Resources Used to Finance the Net Cost of Operations	(25,402)	(32,236)
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation and Amortization	10,152	9,700
Gain/Loss on Disposition of Assets	(251)	191
Other	<u>(2,583)</u>	<u>258</u>
	7,318	10,149
NET COST OF OPERATIONS	\$ (18,084)	\$ (22,087)

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

Notes to the Consolidated Financial Statements

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002
(DOLLARS IN THOUSANDS)**

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Created by Congress in 1996, as one of six Franchise Fund pilots operating within the Executive Branch of Government, the Department of Veterans Affairs' (VA) Franchise 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 activity centers (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. The consolidated financial statements include the six individual activity centers of the Fund. All material intrafund transactions have been eliminated.

B. Basis of Presentation

The VA Franchise Fund consolidated financial statements report all activities of Franchise Fund components. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that the VA Franchise Fund is a component unit of the U.S. Government. The Franchise Fund's fiscal year (FY) 2003 and 2002 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements," as amended.

C. 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 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 in the United States of America for Federal governmental entities.

D. Fund Balance with Treasury

The Department of the Treasury (Treasury) performs cash management activities for all Federal Government agencies. The Fund Balance with Treasury represents the right of the VA Franchise Fund to draw on the Treasury for allowable expenditures.

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002
(DOLLARS IN THOUSANDS)**

E. 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 travel or advances for Federal Employees Health Benefits 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.

F. Property, Plant and Equipment

The majority of the general Property, Plant and Equipment (PP&E) is used to provide common administrative services to the VA and other federal entities and is valued at cost, including transfers from other federal agencies. Major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred. Individual items are capitalized if the useful life is 2 years or more and the unit price is \$100,000 or greater. Equipment is depreciated on a straight-line basis over its useful life, usually 3 to 5 years. There are no restrictions on the use or convertibility of general PP&E.

G. 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.

H. 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

Notes to the Consolidated Financial Statements

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002
(DOLLARS IN THOUSANDS)**

for these expenses, which derive from both current and prior year appropriations and operations, are also recognized this way.

I. 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.

J. 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.

K. Litigation

VA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of VA Franchise Fund management and legal counsel, the ultimate resolutions of these proceedings, actions, and claims will not materially affect the financial position or results of VA Franchise Fund operations.

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002
(DOLLARS IN THOUSANDS)**

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,

	2003	2002
Fund Balance with Treasury	\$ 90,392	\$ 73,092

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.

	2003	2002
Unobligated Apportionment		
Available	\$ 54,414	\$ 50,887
Unavailable	18,442	1,795
Undelivered Orders		
Unpaid	4,865	2,628
Total Unexpended Apportionment	\$ 77,721	\$ 55,310

Notes to the Consolidated Financial Statements

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002
(DOLLARS IN THOUSANDS)**

Note 3. Property, Plant and Equipment

PP&E, 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 \$100,000 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 Departmental threshold of \$100,000.

PP&E As of September 30, 2003:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	\$ 1,503	\$ (725)	\$ 778
Capital Leases	7,921	(7,921)	—
ADP Equipment	20,296	(8,830)	11,466
Software	8,196	(6,088)	2,108
Leasehold Improvements	17,540	(7,503)	10,037
Total PP&E	\$ 55,456	\$ (31,067)	\$ 24,389

PP&E As of September 30, 2002:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	\$ 2,557	\$ (1,053)	\$ 1,504
Capital Leases	7,921	(7,758)	163
ADP Equipment	22,096	(8,750)	13,346
Software	9,660	(6,014)	3,646
Leasehold Improvements	15,912	(6,060)	9,852
Total PP&E	\$ 58,146	\$ (29,635)	\$ 28,511

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002
(DOLLARS IN THOUSANDS)**

Note 4. Leases

The Franchise Fund has both capital and operating leases. The capital lease liability is \$0 and \$163,000 as of September 30, 2003 and 2002, respectively. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund's FY 2003 operating lease costs were \$713,934 for real property rentals and \$40,967 for equipment rentals. The FY 2002 operating lease costs consisted of \$612,000 for real property rentals and \$21,000 for equipment rentals. The following chart represents the Franchise Fund's estimate for operating lease costs for the next 5 years, assuming a range of 2.5 to 2.9 percent annual increase in cost.

OPERATING LEASES			
Fiscal Year	Percentage Increase	Real Property	Equipment
2004	2.5	\$ 732	\$ 42
2005	2.6	751	43
2006	2.7	771	44
2007	2.8	793	45
2008	2.9	816	47

Note 5. Other Liabilities

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

	2003	2002
Intragovernmental		
Accrued Payables - Federal	\$ 8,972	\$ 515
Advances – Federal	750	868
Total Intragovernmental Liabilities	\$ 9,722	\$ 1,383
Public		
Accrued Payables	\$ 19,783	\$ 23,952
Accrued Salaries & Wages	1,400	1,171
Accrued Funded Annual Leave	3,350	3,175
Capital Lease Liability (see Note 4)	–	163
Total Public Liabilities	\$ 24,533	\$ 28,461

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002
(DOLLARS IN THOUSANDS)**

Note 6. Changes in Accounting Principles

The capitalization threshold for Departmental fixed assets was raised from \$25,000 to \$100,000 effective June 1, 2002. During FY 2002, the capitalization threshold for the Fund's fixed assets remained at \$5,000, except for leasehold improvements, which were capitalized at the Departmental level. The capitalization threshold for the Fund's fixed assets was raised from \$5,000 to \$100,000 effective October 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 PP&E book value for the Fund's leasehold improvements for FY 2002 and the \$2,663,000 reduction in PP&E book value for the Fund's fixed assets for FY 2003.

Glossary of Terms

AAC	Austin Automation Center
CAIVRS	Credit Alert Interactive Voice Response System
CASU	Cooperative Administrative Support Unit
CCS	Credit Card System
CDCI	Corporate Data Center Integration
CFS	Consolidated Financial Statement
CMOP	Consolidated Mail Outpatient Pharmacy
COOP	Continuity of Operations
CoreFLS	Core Financial and Logistics System
COTR	Contracting Officer's Technical Representative
COTS	Commercial off-the-shelf
CPA	Certified Public Accountant
CPU	Central Processing Unit
CRM	Customer Relationship Management
DASD	Direct Access Storage Device
DIHS	Division of Immigration Health Services
DMC	Debt Management Center
DoD	Department of Defense
DOE	Department of Energy
DOT	Department of Transportation
EA	Enterprise Architecture
EC/EDI	Electronic Commerce/Electronic Data Interchange
ECSIP	Enterprise Cyber Security Infrastructure Program
EDI	Electronic Data Interchange
EES	Employee Education System
EEX	Employee Express
EFO	Enterprise Fund Office
EFT	Electronic Funds Transfer
EOB	Explanation of Benefits
FASAB	Federal Accounting Standards Advisory Board
FBI	Federal Bureau of Investigation
FEDBIZOPPS	Federal Business Opportunities
FFMIA	Federal Financial Management Improvement Act
FHIE	Federal Health Information Exchange
FHWA	Federal Highway Administration
FMS	Financial Management System
FSC	Financial Services Center
FY	Fiscal Year

Glossary of Terms

GMRA	Government Management Reform Act
GSA	General Services Administration
HDR	Health Data Repository
IFCAP	Integrated Funds Distribution, Control Point Activity, Accounting and Procurement
IT	Information Technology
LETC	Law Enforcement Training Center
MDA	Management's Discussion and Analysis
NARA	National Archives and Records Administration
NASA	National Aeronautics and Space Administration
NCA	National Cemetery Administration
OGA	Other Government Agencies
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAID	Personnel and Accounting Integrated Data
PCS	Permanent Change of Station
PP&E	Property, Plant and Equipment
PPN	Preferred Provider Network
RC&V	Records Center and Vault
SEC	Security and Exchange Commission
SIC	Security and Investigations Center
TMP	Telecommunications Modernization Project
TOP	Treasury Offset Program
Treasury	Department of the Treasury
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
VETSNET	Veterans Services Network
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network
VPN	Virtual Private Network

**DEPARTMENT OF VETERANS AFFAIRS
FRANCHISE FUND**

**2003
ANNUAL REPORT**

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Records Center and Vault

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