



Treasury Franchise Fund

October 1, 2007 – September 30, 2008

Message from the Commissioner

I'm proud to provide the fiscal year 2008 annual report of the Treasury Franchise Fund (the Fund). Although this has been a year of extraordinary change for the Fund, we have continued to successfully provide essential shared services under the now well-established franchise fund model. Treasury entities have been a part of franchising since the pilot program was begun in 1996. When the program was made permanent in 2005, four Treasury entities offered reimbursable services in three separate business lines – Financial Management and Administrative Services, Assisted Acquisition, and Consulting Services.

In 2007, an evaluation of organizations and business lines within the Fund was conducted to assess compatibility with Treasury's core missions. This evaluation led to decisions to discontinue offering two business lines under the Fund, resulting in closing one organization, and transitioning two organizations to other hosts. These changes strategically positioned the Fund to provide Financial Management and Administrative Services under a single business entity – Public Debt's Administrative Resource Center (ARC). To further this approach, Treasury's Fiscal Service was assigned responsibility for the Fund, and Public Debt given responsibility for day-to-day management. Within Public Debt, a Franchise Program Manager has been assigned program and coordination responsibilities.

As we settle into our new model, we expect revenues to decrease and expenses to increase. In the long run, however, we will remain self-sufficient and financially sound while strengthening our core services and business model.

Given the events of the year, this report will focus primarily on ARC, including accomplishments, strategic goals, and our efforts to realize our vision of providing high-quality services to customers, supporting the standards of good government, and maintaining a rewarding and values-based work environment.

Van Zeck
Commissioner of the Public Debt

Treasury Franchise Fund at a Glance

The Treasury Franchise Fund is one of the government's leading shared services providers. We were established as an entrepreneurial government enterprise and provide common administrative support services on a competitive, fully cost-reimbursable basis. We foster innovation in the delivery of administrative services enabling our customers to focus on what matters to them – serving the taxpayer through successful completion of their missions.

ARC Service Lines

We provide the following common administrative support services:

- Financial Management
- Travel
- Procurement
- Human Resources
- Information Technology

ARC was designated as a Federal Shared Service Provider (SSP) in the Financial Management Line of Business. Additionally, our Human Resources and Identity Management service lines are vital components of Treasury's Human Resources and Public Key Infrastructure SSP programs.

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Accomplishments

In FY 2008, we developed our Franchising Strategic Plan for fiscal years 2008 through 2012. It provides direction for our franchise program, identifies our operational plans and projects, and expands upon our commitment to values-based relationships with our customers. During FY 2008, we focused on improving our internal operations and customer relations, as well as increasing our Identity Management market share. Several highlights are discussed below.

➤ **Single Face of Franchising to the Market**

To eliminate duplication of effort and gain efficiency, we began consolidating common functions across all Public Debt franchise service organizations. The primary areas of interest include administrative operations, such as interagency contracting and billing, project management, and marketing. During FY 2008, we successfully consolidated the customer web portal, financial reporting, and FY 2009 customer agreements.

➤ **Customer Communication Plan Implemented**

As our customer base grew, we recognized the importance of reaching out to customers and keeping them consistently informed. While our goals and objectives are documented in our five-year strategic plan, we also began sending important tactical information to customers through a monthly bulletin, as well as posting valuable information on our recently redesigned website. We will continue to look for ways to improve communications, and ensure that timely and relevant information is consistently provided to all of our customers.

➤ **Customer Implementation Approach Plans Documented and Deployed**

We conducted a cross-organization initiative to improve our standard new customer implementation approach by evaluating and documenting several of our service lines. Our goals for this initiative are to improve our performance and ensure that potential customers understand our standard approach, the roles and responsibilities of each participant, and the overall value to be gained if they choose to use our services. This not only enables potential customers to make informed decisions, but also sets realistic expectations for all parties. We have found that integrated project, technical, and business plans support cost effective, repeatable, and ultimately, low risk implementations. In addition to our implementation approaches, we also improved the documentation surrounding ongoing operational aspects common to all customers.

➤ **Identity Management - Quickly Becoming Market Leader**

During FY 2008, we successfully implemented and began hosting Public Key Infrastructure (PKI) for the Department of Homeland Security (DHS) - marking the third major federal agency customer to build and host their PKI with us under Treasury's Shared Service Authority. DHS will use this service to issue and manage more than 300,000 credentials. With the addition of DHS, we are currently hosting nearly 40 percent of the federal civilian PKI market. Under this program, we also provide essential enterprise directory services. In FY 2008, we consolidated the information and credentials for all Treasury employees and contractors into one central repository, as well as information on non-Treasury HRConnect users. In total, we provide authentication service for more than 110,000 HRConnect users.

Customer Satisfaction

As a competitive business, assessing our performance in meeting customers' needs is critical.

In FY 2008, the Financial Management Line of Business (FMLoB) administered independent customer satisfaction surveys of the four federal shared service providers. Our overall satisfaction rate was greater than 90%, well above the SSP average.

In addition to the FMLoB survey, we piloted a service line specific survey in FY 2008. Our Human Resources service line was selected for the pilot and also received results of over 90% overall satisfaction.

We are using suggestions received from the survey to evaluate and improve our processes, and plan to continue to seek feedback from our customers.

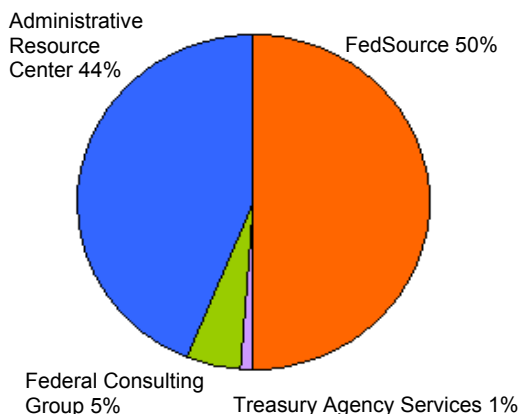
2008 Financial Highlights

The Treasury Franchise Fund reorganization resulted in a 56% reduction in revenue and a net loss of \$17.3 million in FY 2008 (see results of operations below). Decreased revenues and increased administrative costs due to the FedSource shutdown and transfer of Treasury Agency Services were the primary drivers of these losses, amounting to \$22.7 million. This was offset by a combined \$5.4 million in results of operations for ARC and the Federal Consulting Group.

Results of Operations

(in thousands)	2008	2007
Earned Revenue	\$ 219,808	\$500,341
Imputed Financing Sources	4,174	4,592
Total Revenue/Financing Sources	\$ 223,982	\$504,933
Less: Expenses/Imputed Costs	241,268	498,492
Net Results of Operations	\$ (17,286)	\$ 6,441

2008 Consolidated Revenue by Entity



As our balance sheet shows, we have worked hard to achieve fiscal responsibility and stability, and plan to continue this trend through appropriate processes, procedures, and governance. We are building a reasonable operating reserve to be used for operational needs, capital improvements, and to sustain us during downturns in business (see balance sheet at right). As decisions related to the Fund's organizational structure have been made, the operating reserves of the impacted organizations

are being used to close or transfer those business lines.

As a Federal shared service provider, we realize the importance of independent validation of both our financial data and our internal controls. We also take seriously our responsibility to monitor and strengthen the effectiveness of our internal control structure. In FY 2008, we received an unqualified opinion on our financial statements for the 12th consecutive year. We also received an unqualified opinion for the sixth consecutive year on our Type II SAS-70 audit. We are proud that no instances of non-compliance or material internal control weaknesses were identified in the financial statements or SAS-70 audits.

In FY 2009, the impact of the Fund's reorganization will continue to be felt. Total revenues will again decrease as FedSource is closed out and the Federal Consulting Group and Treasury Agency Services are completely transitioned out of the Fund. We have projected and planned for the FedSource business line to operate at a net loss again in FY 2009. We plan to manage the FedSource operating reserves conservatively, and expect that they will be sufficient to fund all closeout activities. Our first priority, however, is to meet the needs of our customers, and minimize the effect of this change on our customers and staff. While these decisions may appear to be financial setbacks, we have chosen to view them instead as opportunities to concentrate our efforts and re-focus our attention to Treasury's mission and priorities.

Balance Sheet

What We Own (in thousands)	2008	2007
Assets	\$ 73,892	\$ 148,948
What We Owe		
(in thousands)	2008	2007
Intra-Governmental Liabilities	\$ 1,990	\$ 1,308
Liabilities With the Public	\$ 23,807	\$ 82,258
Total Liabilities	\$ 25,797	\$ 83,566
Where We Stand		
(in thousands)	2008	2007
Invested Capital	\$ 3,742	\$ 3,742
Results of Operations	44,353	61,639
Total Operating Reserves	\$ 48,095	\$ 65,381

On the Horizon

Improve and Deliver Valuable and Cost Effective Services to Customers

The decisions to reorganize the Fund provided direction and clarity that we will use to chart our path forward. We will use the opportunity to ensure that the services we offer meet the needs of our customers today and in the future. In FY 2009, our business leaders will review our service lines from a new perspective and develop recommendations for improvements. During the past year, our focus was on improving our cost and pricing techniques, organizational structure, and position management. While work remains to be done in those areas, our focus this year will be on evaluating opportunities for productivity gains through improved processing methods. We will also continue to work on improvements to our customer service strategy – consolidating our efforts across all franchise business lines and using a proactive approach to customer communication and service.

Transition of IT Hosting and Infrastructure Support to Commercial Service Provider

In July 2008, we entered into a 10-year fixed-price contract for external hosting services and infrastructure support for Oracle E-Business Suite, PRISM, and legacy data storage. This was a carefully thought-out decision that we believe brings both immediate and on-going benefits to our customers.

Of significant importance is the opportunity for cost stability and pricing predictability for customers. In addition, our ability to offer a certified configuration for all E-Business Suite applications will benefit customers through simpler upgrades and patching. Our transition plan will be largely transparent to customers – much the way an upgrade occurs today. We will handle all the details and will provide all necessary instructions and training, as well as the opportunity to perform user acceptance testing, prior to going live.

Information Systems Security Line of Business - Growing Service Line

With the intense focus on IT Security, providing highly qualified staff to assist our federal customers with a variety of complex, security-related services continues to be an important and growing component of our administrative services. Last year, we provided security services to 19 different federal agencies through 37 different projects. Services provided include Certification & Accreditation, Security Gap Analysis, FISMA Review, Security Testing, Continuous Monitoring, and Security Consulting. Through Treasury, we have applied to become a shared services provider under the Information Systems Security (ISS) LoB.

SmartPay 2 - Gearing Up for a New Beginning

GSA renegotiated the federal commercial charge card-based procurement and payment solutions contracts (referred to as SmartPay 2) that require agency implementation in November 2008. To ensure a seamless transition for all Franchise customers, ARC led a Department of the Treasury technical evaluation team that selected Treasury's new charge card program vendor. In addition, the transition team successfully implemented a SmartPay 2 pilot in September and is on target to ensure cutover readiness of all customers in FY 2009.

For more information about ARC, go to:
<https://arc.publicdebt.treas.gov/fshome.htm>

Administrative Resource Center
Bureau of the Public Debt
200 3rd Street Avery 5-I
Parkersburg, WV 26106