

# DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND



## FY 2005 ANNUAL REPORT

CATALYST FOR GOOD GOVERNMENT AND  
FISCAL RESPONSIBILITY

# CATALYST FOR GOOD GOVERNMENT AND FISCAL RESPONSIBILITY



Thank you for your interest in the VA Franchise Fund FY 2005 Annual Report. We welcome your comments on how we can make this report more informative. We are particularly interested in your comments on the usefulness of this information and the manner in which it is presented.

Please send your comments to [vafund@mail.va.gov](mailto:vafund@mail.va.gov) or write to:  
Department of Veterans Affairs  
Enterprise Fund Office  
Attention: Loleisa Davis  
810 Vermont Avenue, NW (047F)  
Washington, DC 20420

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND  
FY 2005 ANNUAL REPORT**

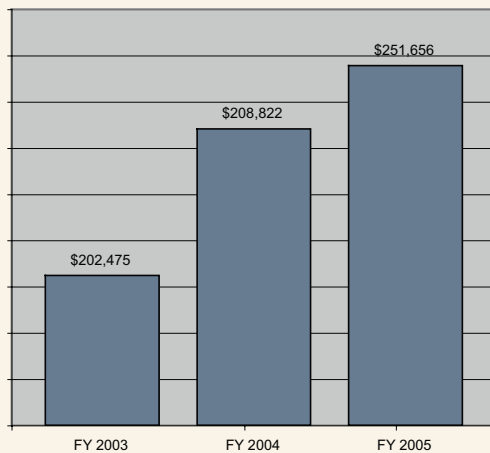
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## LETTER TO STAKEHOLDERS

### VA Franchise Fund Revenue Trend (Dollars In Thousands)



Total revenue has steadily increased each year. By the end of FY 2005, our total revenue grew to more than \$251 million—a 24 percent increase over FY 2003 (\$202 million) and a 21 percent increase over FY 2004 (\$208 million).

There has been a positive trend in our OGA revenue. We have made great strides in acquiring business from outside VA. We ended FY 2005 with record OGA sales—increasing our OGA sales by 103 percent over FY 2003 (\$46 million) and 44 percent over FY 2004 (\$65 million). This additional OGA business accrues benefits to all of our customers because it allows us to spread our overhead cost to a wider customer base.

### DEAR STAKEHOLDERS,

I am pleased to present the Fiscal Year (FY) 2005 Department of Veterans Affairs (VA) Franchise Fund Annual Report. This report illustrates how each of our six lines of business (Enterprise Centers) is serving as a Catalyst for Good Government and Fiscal Responsibility for a wide range of federal clients.

The Enterprise Centers are leveraging technology, applying innovative approaches and demonstrating sound financial stewardship. This approach ensures that all of our customers receive the highest level of service at a “best value” price.

Our customers hold us accountable for achieving high levels of performance through the service level agreements/franchise agreements that we have in place with them. We are not a “one size fits all” service provider. Our agreements are tailored to meet our clients’ unique requirements.

Thus, we have a professional obligation to our federal clients to maintain excellence and to adapt to ever-changing challenges by providing the right common administrative support services, at the right time, and in the right place. Thanks to our dedicated workforce, our federal clients reap the benefits of cost savings and improved service delivery to support their mission-critical program needs.

Some of our most noteworthy FY 2005 accomplishments include:

- Recognized as a “VA Champion” for achieving Service-Disabled Veteran-owned Small Business (SDVOSB) and Veteran-Owned Small Business (VOSB) procurement goals. Out of the 9 VA organizations being recognized, the Austin Automation Center (AAC) was ranked third highest on VOSBs and second highest on SDVOSB. This notable accomplishment demonstrates the AAC’s commitment to supporting veterans in business.
- Achieved a ranking in the top 12 percent (4.06 out of 5.0) in an information technology customer satisfaction survey among public and private sector organizations in Gartner’s database.
- Increased rebates by \$4.7 million—from \$30.3 million in FY 2004 to \$35 million in FY 2005 as a result of aggressively using the commercial purchase card program for micro purchases, fee basis, and travel.

- Transitioned 1,300 Federal Energy Regulatory Commission employees' payroll processing successfully to their new service provider (National Finance Center). In addition, began the transition of payroll processing for Stations 101 and 397 employees from VA Central Office (VACO) to the FSC and continued to work on E-Payroll efforts to transition VA payroll to the Defense Finance and Accounting Service, which is scheduled for FY 2008.
- Launched several Web-enabled applications that greatly simplified workflow and dramatically improved operations and service delivery:
  - Pay.va.gov disseminates information about debt collection programs and offers a simple, convenient payment option for veterans to use credit cards, debit cards and electronic fund transfers online. As a result of this new virtual payment mechanism, \$4.7 million was collected in FY 2005—42 percent over FY 2004 levels (\$3.3 million) before its implementation.
  - The Records Retrieval System provides customers with the ability to request accession numbers and recalls. Not only does this application result in faster and more accurate services, it affords savings in labor, postage, paper and telephone charges, as well as eliminates several manual recordkeeping steps.
  - Version 1 of the 224 Transaction Matching Web Application enables VA field offices to submit, review and process SF 224 transactions and retrieve a variety of reports online.
  - The Document Management System Web Application greatly simplifies the workflow associated with payment processing through its single logon, remote access, improved tracking and searching, status reporting, management reporting, queue counts, and embedded mainframe sessions.
  - The Vendor Inquiry Web site for Medical Claims provides access to medical claims information and provides information on the process and other items of interest that enable providers to do research on their claims to determine status and find payment information. This Web site has been a tremendous benefit to the FSC's customers and reduced the number of telephone inquiries received.

These accomplishments do not make us complacent. We recognize that our responsibilities and challenges will continue to grow in the years ahead. Sustaining this success will demand continuous innovation and the ability to offer high quality services at fair and reasonable prices. Through the dedicated efforts of our management, employees and contractors, we will meet or exceed the expectations of our federal clients. Please take the time to read this report to understand how the VA Franchise Fund is serving the interests of veterans and the American taxpayer.



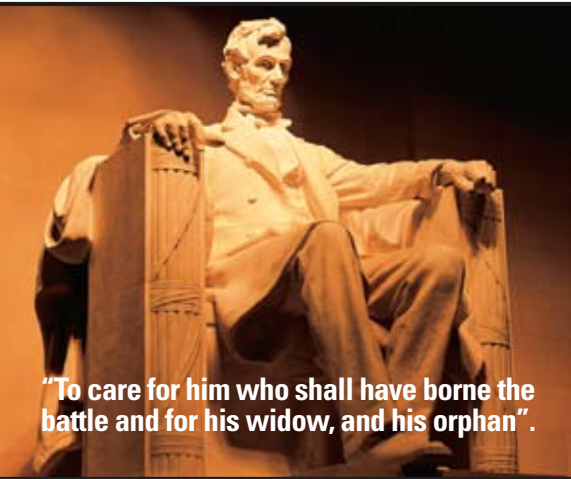
Tim S. McClain  
Chief Management Officer

Congratulations on receiving your eighth consecutive unqualified "clean" audit opinion. This achievement caps our extensive efforts to produce timely, reliable, and auditable financial statements.

I would like to acknowledge Brown & Company CPAs, PLLC for the professional manner in which they conducted the audit of the VA Franchise Fund FY 2005 Consolidated Financial Statements.

In addition, I commend the contributors to this report including our primary editor, Loleisa Davis, and the management and the employees at the 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.

*Tim S. McClain*



**"To care for him who shall have borne the battle and for his widow, and his orphan".**

**DEPARTMENT'S MISSION**

The Department's mission, *"To care for him who shall have borne the battle and for his widow and his orphan,"* are words taken from President Lincoln's Second Inaugural Address. VA is the veterans' principal advocate for promoting their health, welfare, and dignity in recognition of their service to the Nation. The VA Franchise Fund takes great pride in supporting VA's mission.

**FRANCHISE FUND'S MISSION STATEMENT**

To be the provider of choice of common administrative support services for VA and other government agency customers, enabling them to best meet their primary missions.

**VISION**

Comprehensive Business Solutions for Tomorrow's Government

**VALUES**

To guide us in fulfilling our mission as well as the Department's mission, our employees strive to uphold a set of core values that are consistent and closely aligned with VA's core values. These values include: commitment, excellence, people, communication and stewardship.

**COMMITMENT**

Veterans have earned our respect and commitment, and their health care, benefits, and memorial service needs drive our actions. We will value our commitment to veterans through all contingencies and remain fully prepared to achieve our mission.

**EXCELLENCE**

We strive to exceed the service delivery expectations of veterans and their families. We perform at the highest level of competence with pride in our accomplishments.

**PEOPLE**

We are committed to a highly skilled, diverse, and compassionate workforce. We foster a culture of respect, equal opportunity, innovation, and accountability.

**COMMUNICATION**

We practice open, accurate, and timely communication with veterans, employees, and external stakeholders, and seek continuous improvement in our programs and services by carefully listening to their concerns.

**STEWARDSHIP**

We will ensure responsible stewardship of the human, financial, information, and natural resources entrusted to us. We will improve performance through the use of innovative technologies and sound business principles.



*Within the Department's headquarters in Washington, DC, the respective Enterprise Centers are managed by three VA component organizations — the Office of Management, the Office of Policy, Planning and Preparedness, and the Office of Information and Technology.*

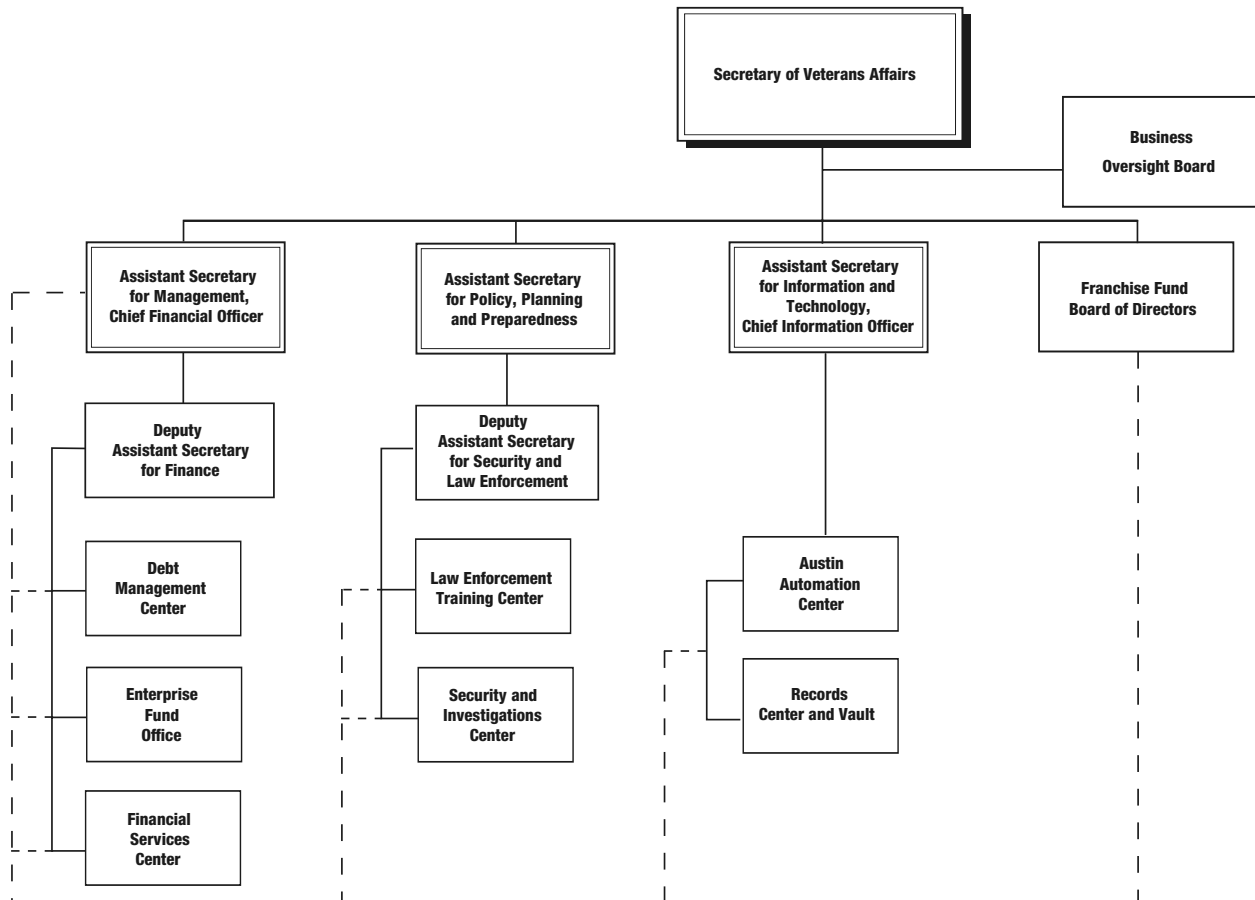
## WHO WE ARE

The VA Franchise Fund was established under the authority of the Government Management Reform Act of 1994 and the VA and Housing and Urban Development and Independent Agencies Appropriations Act of 1997. VA was selected by the Office of Management and Budget in 1996 as one of six executive branch agencies to establish a franchise fund pilot program. The VA Franchise Fund was created as a revolving fund and began providing common administrative support services to VA and other government agencies in 1997 on a fee-for-service basis.

The VA Franchise Fund is comprised of an administrative office (Enterprise Fund Office) and six self-supporting lines of business (Enterprise Centers). The directors of the individual Enterprise Centers and their staffs are responsible for customer liaison and coordination, business planning and development, staffing, and execution of day-to-day business activities consistent with their annual business plans. Within the Department's headquarters in Washington, DC, the respective Enterprise Centers are managed by three VA component organizations—the Office of Management, the Office of Policy, Planning and Preparedness, and the Office of Information and Technology. The Franchise Fund Board of Directors and the Business Oversight Board provide oversight to ensure sound business principles, financial accountability, and goal attainment.

## FRANCHISING CONCEPT

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



The VA Franchise Fund is divided into three major segments (information technology, financial management, and security and law enforcement). In FY 2005, the VA Franchise Fund generated \$251 million in revenue. The information technology segment generated \$151 million, accounting for 60 percent of the total revenue. Thirty-seven percent of the total revenue was generated by the financial management segment, which accounts for \$93 million. The security and law enforcement segment generated the remaining \$7 million, representing 3 percent of the total revenue.

## WHAT WE DO



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



*Steve Swanson, Director  
Enterprise Fund Office*



*Daniel Osendorf, Director  
Debt Management Center*

### INFORMATION TECHNOLOGY (IT) SEGMENT

#### **Austin Automation Center (AAC).**

Located in Austin, TX, the AAC provides comprehensive e-government solutions to match the critical needs of VA and other federal agency customers, from managing data to automating business processes. The AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits and supply functions. In addition, the AAC offers a full complement of technical solutions to best meet customer needs.

for official federal records. The facility has been certified by the National Archives and Records Administration to operate as an agency records center. The RC&V can store records in any type of medium. This includes offsite storage of systems backups as well as general, vital, and classified records on paper, film, and electronic media.

### FINANCIAL MANAGEMENT (FM) SEGMENT

#### **Enterprise Fund Office (EFO).**

Located in Washington, DC, the EFO functions as the Business Office for the VA Franchise Fund. As such, the EFO is responsible for overall operations including administering the financial resources, coordinating all business activities, and serving as the liaison between the Enterprise Centers, their customers, and the VA Franchise Fund Board of Directors.

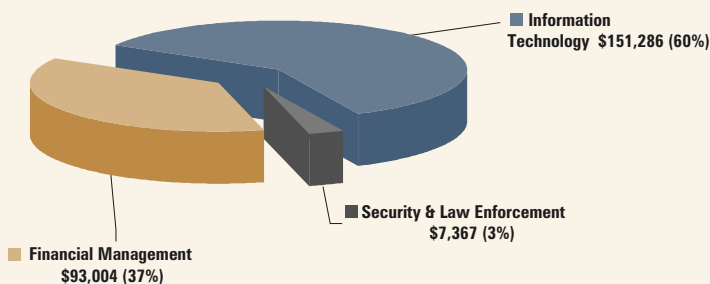
#### **Records Center and Vault (RC&V).**

Located in a subterranean, climate-controlled facility in a remote Midwestern part of the country, the RC&V provides records storage, protection, and retrieval services

#### **Debt Management Center (DMC).**

Located in St. Paul, MN, the DMC is a centralized facility that provides direct collection of delinquent consumer debt owed to VA.

**VA Franchise Fund Revenue by Major Segments As of September 30, 2005**  
(Dollars in Thousands)







Rodney Wood, Director  
Financial Services Center



Ronald Angel, Director  
Law Enforcement  
Training Center



Christopher Price  
Business Manager  
Security and  
Investigations Center

**Financial Services Center (FSC).**

Located in Austin and Waco, TX, the FSC provides a full range of financial and accounting services, which include financial reports and accounting, invoice payments, credit card payments, medical claims adjudication and payment processing, vendor file maintenance, discount subsistence purchases, payroll processing, customer support help desks for travel and payment processing, electronic commerce/electronic data interchange, automated document management, audit recovery, data matching and reconciliation, permanent change of station and temporary duty travel pay processing, common administrative services, accounting training, and consulting.

to approximately 2,700 law enforcement personnel working at VA health care facilities and to law enforcement professionals at other federal agencies.

**Security and Investigations Center (SIC).**

Located in Little Rock, AR, the SIC provides quality and timely background investigations and adjudications for employees and contractors in sensitive positions for all VA entities nationwide. The SIC also issues and manages employee identification badges and provides fingerprint processing.

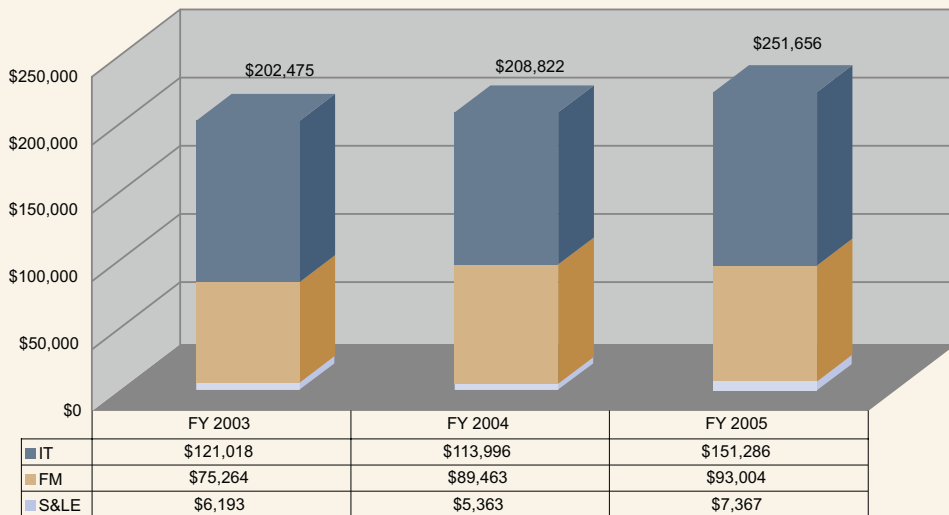
**SECURITY AND LAW ENFORCEMENT (S&LE) SEGMENT**

**Law Enforcement Training Center (LETC).** Located in Little Rock, AR, the LETC provides special training for police officers working in a health care or service-oriented environment. Emphasizing training in medical center patient situations, the LETC is available

Historically, the information technology and the financial management segments have generated the most revenue. The information technology segment ended FY 2005 with \$151 million—a 25 percent increase over FY 2003 and 33 percent increase over FY 2004, and the financial management segment ended FY 2005 with \$93 million—a 24 percent increase over FY 2003 and a 4 percent increase over FY 2004. The security and law enforcement segment ended FY 2005 with \$7 million—a 19 percent increase over FY 2003 and a 37 percent increase over FY 2004.

With the exception of the financial management segment, whose growth remained steady at 4 percent, the information technology and security and law enforcement segments had positive growth from FY 2004 to FY 2005. The driving force of this growth was to due to the increased demand for information technology services and specialized and advanced law enforcement course offerings.

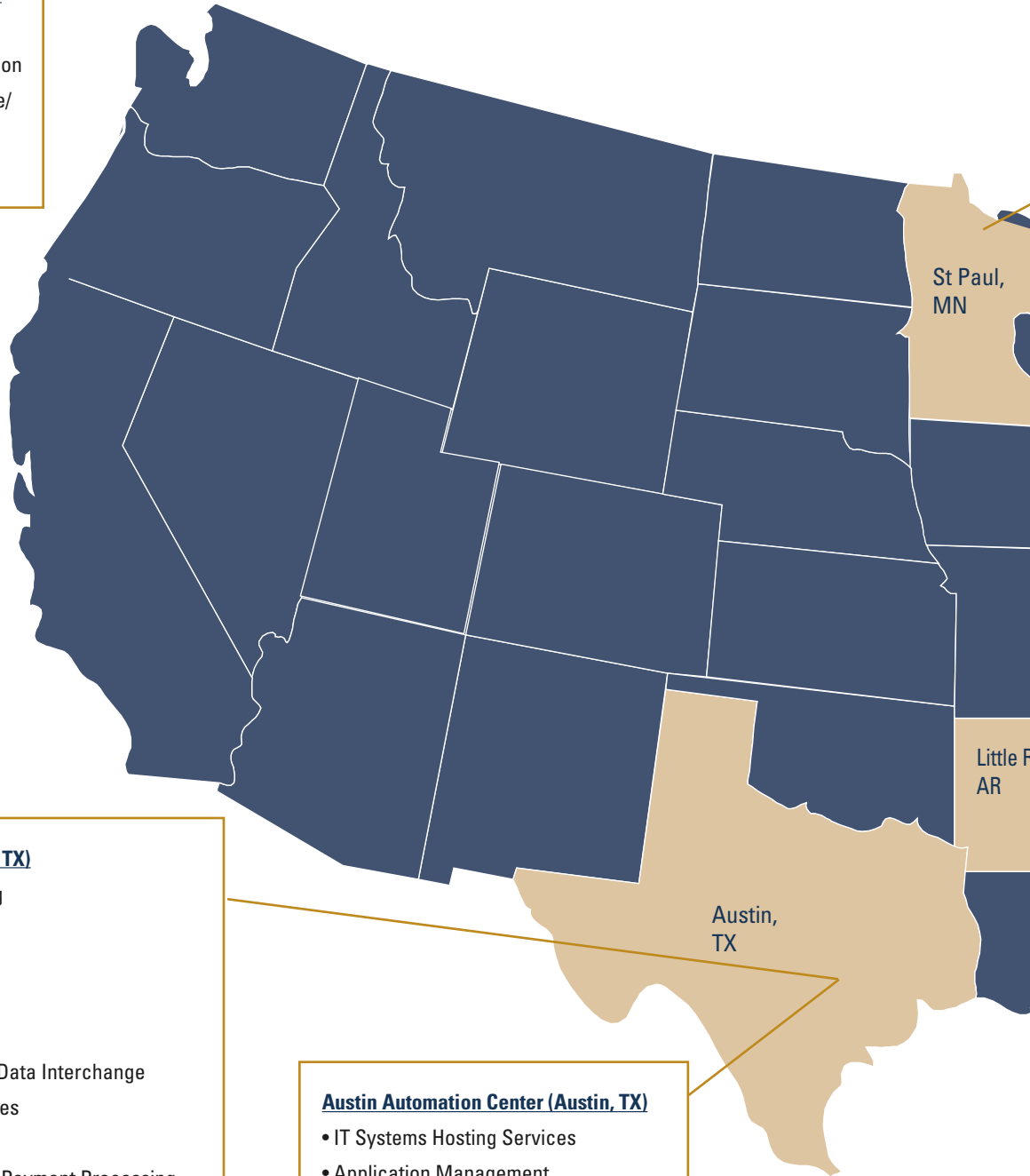
**VA Franchise Fund Revenue Trend by Major Segments**  
(Dollars in Thousands)



# COMMON ADMINISTRATIVE SUPPORT

## **Records Center and Vault (Midwest)**

- Records Storage and Management
- Related Records Services (Accession Numbers, Records Retrieval, Re-file/Interfile, and other non-standard services)



St Paul,  
MN

Little R  
AR

Austin,  
TX

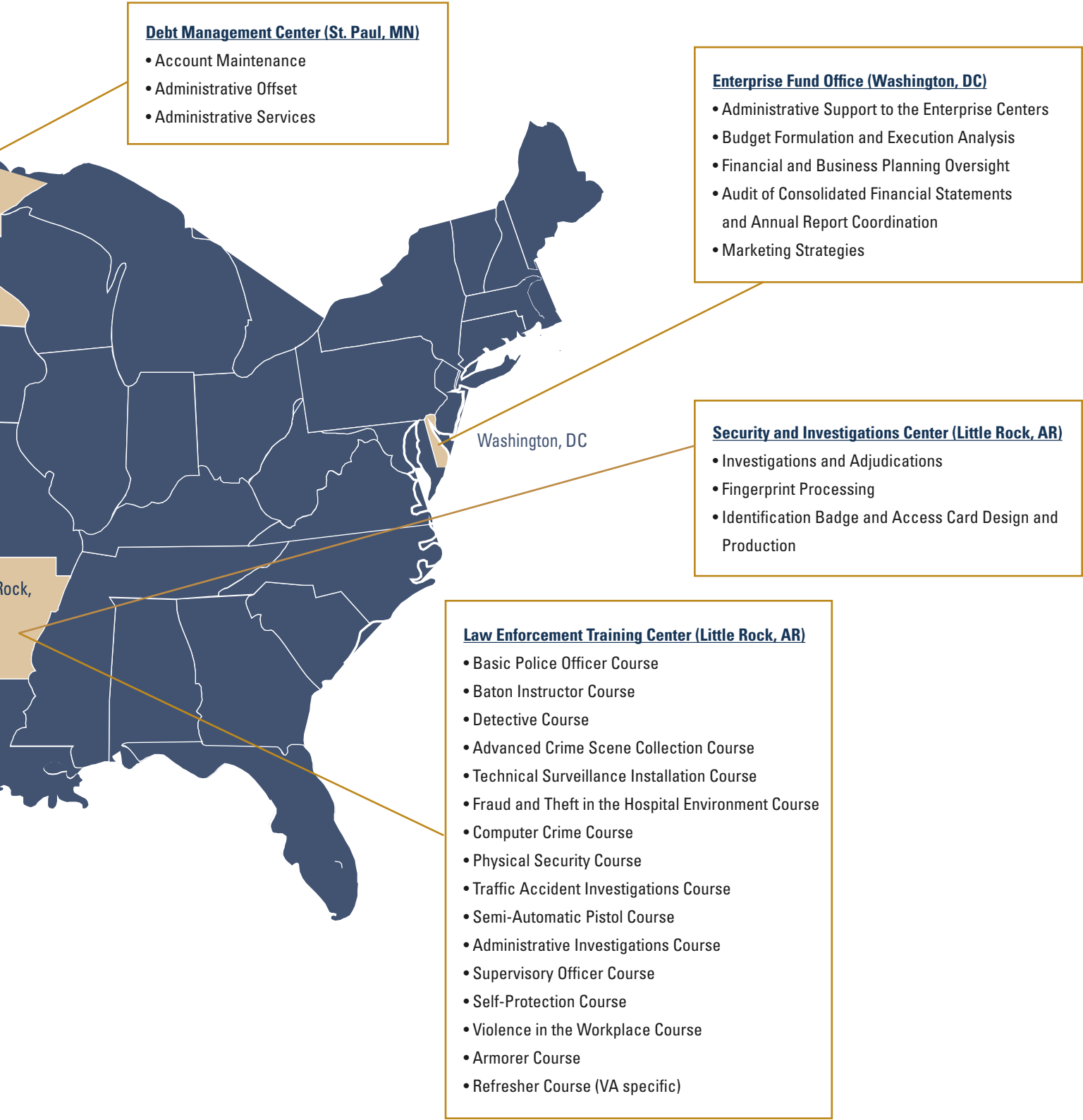
## **Financial Services Center (Austin, TX)**

- Financial Reports and Accounting
- Audit Recovery
- Credit Card Payments
- Discount Subsistence Purchases
- Document Management System
- Electronic Commerce/Electronic Data Interchange
- Great Plains ®Accounting Services
- Invoice Payments
- Medical Claims Adjudication and Payment Processing
- Customer Support Help Desks for Travel and Payments
- Payroll Processing
- Permanent Change of Station and Temporary Duty Travel
- Vendor File Maintenance
- Common Administrative Services
- Accounting Training
- Consulting

## **Austin Automation Center (Austin, TX)**

- IT Systems Hosting Services
- Application Management
- Information Assurance
- Customer Business Continuity
- Data Conversion and Data Interfacing
- IT Acquisition Services

# SERVICES AT-A-GLANCE



**EXTERNAL STAKEHOLDERS**

- Veterans and their families
- Office of Management and Budget
- Congressional authorizations and appropriations committees and subcommittees
- Veterans service organizations
- Private sector vendors
- Denali Commission
- Department of Defense
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of the Treasury
- Department of State
- Export/Import Bank
- General Services Administration
- Government Accountability Office
- National Aeronautics and Space Administration
- National Archives and Records Administration
- Office of Federal Housing Enterprise Oversight
- Postal Rate Commission
- United States Capitol Police

**INTERNAL STAKEHOLDERS**

- Veterans Health Administration
- Veterans Benefits Administration
- National Cemetery Administration
- Staff offices within VA

**WHO WE SERVE**

Our ultimate stakeholders are those who directly benefit from the services VA provides and those who carefully monitor the delivery of these services including the Office of Management and Budget, Congressional authorizations and appropriations committees and subcommittees, and veterans service organizations.

As knowledgeable government professionals, we provide our stakeholders with creative, cost-effective and practical solutions so they can accomplish their primary mission. Although federal agencies have unique missions, our collective experience enables us to give expert advice from an insider's point of view. As a federal agency, we understand unique requirements and financial constraints.

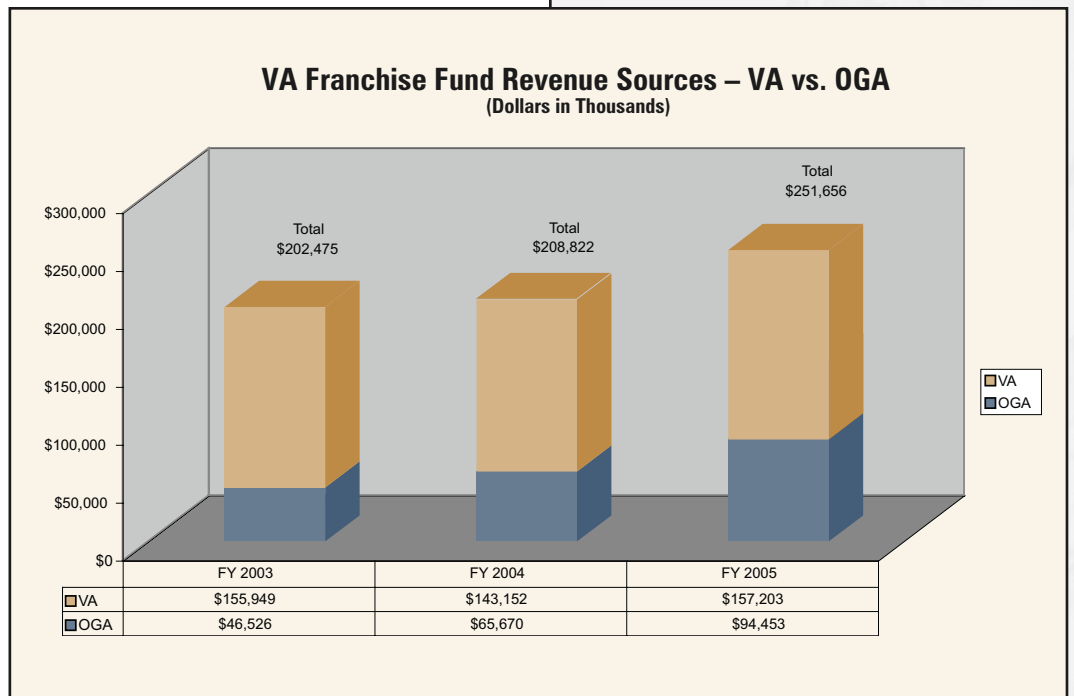
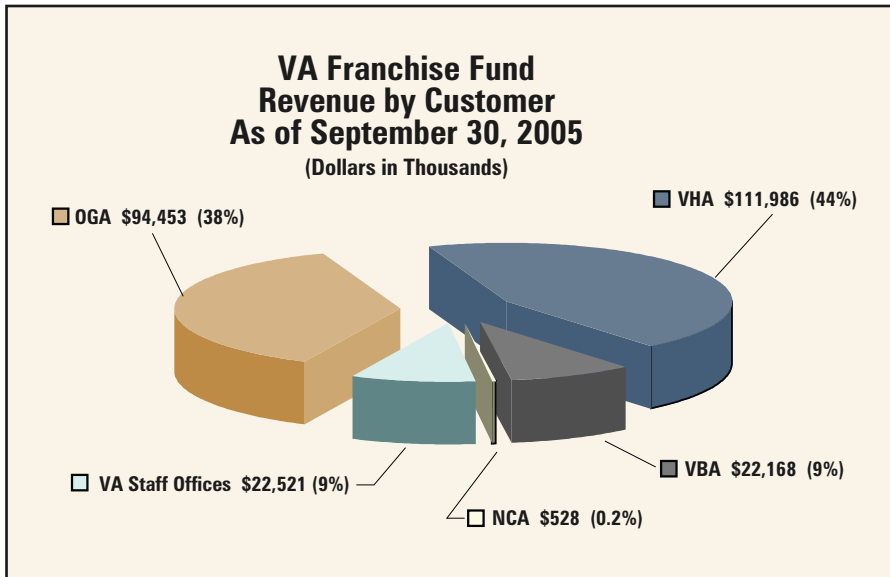
The American public also holds us accountable to high standards as we spend their tax dollars to administer government programs. Expensive and wasteful practices are not acceptable. Our stakeholders are looking for us to provide them with the right services, at the right time, and in the right place at competitive prices. We embrace resilience and resourcefulness, which are hallmarks of a small business, as we adopt businesslike practices that enable us to become more efficient, responsive, and cost conscious.



We primarily serve VA, our parent agency, which accounts for 62 percent (\$157 million) of our FY 2005 total revenue (\$251 million). Of our FY 2005 total revenue, \$111 million came from VHA (our largest VA customer), which accounts for 44 percent; \$22 million came from VA staff offices, which accounts for 9 percent; \$22 million came from VBA, which accounts for 9 percent; \$528,000 came from NCA, which accounts for less than 1 percent; and \$94 million came from OGA, which accounts for 38 percent of the total revenue.

There has been a positive growth trend in total revenue. This phenomenal growth demonstrates the continuing customer demand for our common administrative support services. By the end of FY 2005, our total revenue grew to more than \$251 million—a 24 percent increase over FY 2003 levels (\$202 million) and 21 percent increase over FY 2004 levels (\$208 million). This growth was a direct result of an increase in OGA business.

We have made great strides in acquiring business from outside VA. We ended FY 2005 with record OGA sales—increasing our OGA sales by 103 percent over FY 2003 levels (\$46 million) and 44 percent over FY 2004 levels (\$65 million). This additional OGA business accrues benefits to all of our customers because it allows us to spread our overhead cost to a wider customer base.





In FY 2005, the Enterprise Centers rallied together to help those that were affected by Hurricane Katrina. We banded together to do what we do best—providing financial, information technology and emergency response support to assist with the evacuation efforts.

We recognize that this was a situation that enabled us to use our resources effectively and efficiently to support our fellow Americans in their recovery efforts.

- The AAC supported the necessary modifications to the payroll cycle in order to minimize the impact to VA employee's pay. Because many stations were unable to transmit data timely, employees at affected sites were issued "normal pay" (based on normal tour of duty hours).

The FSC also coordinated with the VA stations' agent cashiers and authorized interim payroll payments (cash/check) for evacuated VA employees. Wire transfers totaling \$482,000 were processed.

- VHA, VBA and the DMC suspended the establishment of new administrative offsets to collect delinquent medical billings and VBA benefit debts in areas most affected, which included 31 parishes in Louisiana, 15 counties in Mississippi and 3 counties in Alabama. VBA authorized regional offices to pay convenience checks to beneficiaries who did not receive their monthly benefit check. As of September 30, 2005, a total of 2,014 convenience checks were issued valued at \$1.5 million. Collection action will not be initiated against persons who receive convenience checks until we are instructed to do so by the Under Secretary for Benefits.
- The VAMCs in New Orleans and Biloxi evacuated their patients to other VAMCs in the region; however, the receiving hospitals did not have patient information. The FSC provided support to the Microsoft Technology Center in Austin, to design, develop and deploy a new application for VISN 16 (Gulf States). This system tapped backup data residing in Oklahoma City and used a Web application so medical staff

treating the displaced patients could access key information concerning pharmacy, lab, and outpatient data.

- In the aftermath of Hurricane Katrina and with no more than 2 hours notice from VA Central Office, the LETC deployed its staff to the VAMC New Orleans VAMC to facilitate the evacuation of over 700 critically ill patients. Large military trucks were obtained to transport medical supplies and other equipment from the Arkansas National Guard to assist with the successful evacuation.
- During a 3-day period the LETC conducted 100 trips from the New Orleans airport, transporting critically ill patients, who were met by a military transport aircraft for evacuation. This was accomplished under extremely austere and hazardous conditions, including coming under small arms fire; however, the LETC protected the critically ill patients and safely transported them. After all personnel were evacuated from the New Orleans VAMC, the LETC opened its doors to house and feed over 75 employees, patients, and other displaced personnel.
- With the New Orleans VAMC closed, and the extensive damage caused by Hurricane Katrina at the Gulfport and Biloxi facilities, the SIC in Little Rock took on the task of having all background related mailings from OPM sent to Little Rock for processing and dissemination to VISN 16.

## HOW WE MEASURE OUR PERFORMANCE

VA's Strategic Enabling Goal and Objective are as follows:

**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; enhancing our management of resources through improved capital asset management, acquisition, and competitive sourcing; and linking strategic planning, budgeting, and performance planning.

The Franchise Fund goals tie to the VA goals by:

- Ensuring all applications processing support and general support are of the highest quality
- Ensuring debt management collection services for delinquent consumer debt meet customer needs and requirements
- Ensuring payroll and financial services meet customer needs and requirements
- Ensuring VA's work environment is recognized by employees as conducive to productivity and achievement, and fosters respect among all
- Ensuring high quality and timely investigations and adjudications for employees in national security and public trust positions and managing and issuing customer identification badges
- Ensuring accurate records management and secure archival storage, protection and retrieval services for veterans' records and for other stored federal records
- Establishing and managing the business aspects of the Fund

The performance information presented on pages 14 and 15 accurately represents the performance during FY 2002 – 2005. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we continually seek to improve our data collection and monitoring techniques.

Each component that makes up the VA Franchise Fund is committed to achieving its performance goals to ensure we remain a performance-based organization. Out of 18 performance goals, 16 were met, 1 was not met, and 1 is only applicable in the event of a natural disaster. Process improvements have been implemented for the 1 unmet goal to improve future performance.

## PERFORMANCE SUMMARY TABLE

Performance Measure	Actuals				Plan	Were 2005 Goals Achieved?	
	2002	2003	2004	2005	2005	Yes	No
<b>Austin Automation Center</b>							
Ranking in the Information Technology Customer Satisfaction peer database	12.5%	10%	6%	12%	15%	✓	
Availability rate of on-line systems <sup>1,2</sup>	99.9%	99.8%	99.8%	99.9%	99.8%	✓	
Service Desk First-Contact Resolution (Tier 1) rate <sup>3</sup>	67.4%	69.6%	73%	74%	74%	✓	
Service Desk Abandoned Call Rate <sup>4</sup>	4.1%	4%	3%	3%	3%	✓	
<b>Debt Management Center</b>							
Rate of Return (Collections versus Expenses)	N/A	\$63	\$63	\$67	\$66	✓	
<b>Financial Services Center</b>							
Percentage of W-2 release dates met (All W-2s must be mailed by January 31 <sup>st</sup> )	100%	100%	100%	100%	100%	✓	
Percentage of credit card transactions updated to FMS where the FSC receives the transactions from Citibank (calculated on a daily basis)	100%	100%	100%	100%	100%	✓	
Payment processing accuracy rate <sup>5</sup>	97.9%	98.9%	98.4%	99%	98.4%	✓	
Customer satisfaction rate (range 1-5) <sup>6</sup>	4.0	4.1	3.8	4.1	4.0	✓	

<sup>1</sup> The industry standard is 99 percent and best practice is 99.5 percent.

<sup>2</sup> Goal will be 99.9 percent for mission critical systems architected for high availability.

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

<sup>4</sup> The industry standard is 7 percent and best practice is 5 percent.

<sup>5</sup> Payment processing accuracy has been successfully maintained as a result of utilizing an automated solution, strong training, measuring and reporting accuracy on a daily basis, and continuous process improvements at the work center level.

<sup>6</sup> The FSC management responded to customer feedback by reducing rates and simplifying Service Level Agreements (SLAs) and Franchise Agreements (FAs). Using survey and benchmarking results, we will continue to implement process improvements to increase our customer satisfaction rating in FY 2006 and 2007.



## PERFORMANCE SUMMARY TABLE

Performance Measure	Actuals				Plan	Were 2005 Goals Achieved?	
	2002	2003	2004	2005	2005	Yes	No
<b>Law Enforcement Training Center</b>							
Class graduation rate	98%	95%	95.6%	95%	95%	✓	
<b>Security and Investigations Center</b>							
Percentage of investigations that are completed within the established timeframes <sup>7</sup>	95%	98%	98%	89%	98%		✓
Percentage of arrest records that are processed within 3 business days of receipt from OPM	100%	100%	100%	100%	100%	✓	
<b>VA Records Center and Vault</b>							
Percentage of routine recall requests that are processed within the established timeframes	99%	99.8%	99.8%	99.8%	97%	✓	
Percentage of emergency recall requests that are processed within the established timeframes	98%	99.9%	99.5%	99.7%	97%	✓	
Timeliness rate of rights and interests records that are available after a period of approximately 20 days in the event of a major national disaster <sup>8</sup>	N/A	N/A	N/A	N/A	97%	N/A	
Percentage of accession number assignments that are processed within the established timeframes <sup>9</sup>	N/A	N/A	99.7%	100%	98%	✓	
<b>Enterprise Fund Office</b>							
Percentage of operating reserves target attained	100%	100%	100%	100%	100%	✓	
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	✓	

<sup>7</sup> 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.

<sup>8</sup> National disaster record recalls will only occur in the event of a national disaster.

<sup>9</sup> This is a new measure. Results were tracked in FY 2004.

## FINANCIAL STATEMENT ANALYSIS

### LIMITATION STATEMENT

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Veterans Affairs Franchise Fund (VA Franchise Fund), pursuant to the requirements of 31 U.S.C. 3515 (b). Brown & Company CPAs, PLLC, performed the audit of the statements.

While the statements have been prepared from the books and records of the VA Franchise Fund, in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

### AUDIT OPINION

For the eighth consecutive year (1998-2005), we have received an unqualified "clean" audit opinion. This achievement caps our extensive efforts to produce timely, reliable, and auditable financial statements. Sound financial management is a basic building block for being a Catalyst for Good Government and Fiscal Responsibility for a wide range of federal clients.

The consolidated financial statements present the Franchise Fund's financial position, cumulative results of operations, and changes in net position, and provide information on budgetary resources and financing for FY 2005 and FY 2004. Highlights of the information contained in the consolidated financial statements are summarized in this section.

### OVERVIEW OF FINANCIAL POSITION

#### Assets

The Consolidated Balance Sheets show the Fund had total assets of \$194.0 million at the end of FY 2005. This represents an increase of \$41.9 million (28 percent over the previous year's total assets of \$152.1 million). This increase is primarily the result of an increase of \$14.9 million in Fund Balance with Treasury and the Accounts Receivable nearly doubling prior year levels of \$27.9 million. The increase in Accounts Receivable is largely the result of an increase in information technology services provided towards the end of FY 2005.

The Fund's assets reflected in the Consolidated Balance Sheets are summarized in the following table:

(Dollars in Thousands)

	2005	2004
Fund Balance with Treasury	\$110,805	\$95,924
Property, Plant and Equipment, Net	21,247	21,778
Accounts Receivable, Net	54,765	27,929
Other Assets	7,197	6,458
<b>Total Assets</b>	<b>\$194,014</b>	<b>\$152,089</b>

#### Liabilities

The Fund had total liabilities of \$94.6 million at the end of FY 2005. This represents an increase of \$33.2 million (54 percent over the previous year's total liabilities of \$61.4 million). This increase is reflected in Other Liabilities (\$30.7 million increase in Accrued Payables). The increase in Accrued Payables is largely the result of an increase in information technology services provided towards the end of FY 2005.

The Fund's liabilities reflected in the Consolidated Balance Sheet are summarized in the following table:

(Dollars in Thousands)

	2005	2004
Other Liabilities	\$59,702	\$28,821
Intragovernmental Liabilities	31,789	28,536
Accounts Payable	3,147	4,039
<b>Total Liabilities</b>	<b>\$94,638</b>	<b>\$61,396</b>

### Net Position

The Fund's net position increased by \$8.7 million in FY 2005 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was \$99.4 million in FY 2005, a 10 percent increase over the prior year's ending net position of \$90.7 million. Net position is the sum of unexpended funds and cumulative results of operations. The \$8.7 million increase in net position is comprised of results of operations net income of \$4.1 million and \$4.6 million from other financing sources.

### Cumulative Results of Operations

The cumulative results of operation of the Fund present a net income of \$4.1 million in FY 2005. This represents a \$25.9 million increase from the previous year which ended with a net loss of \$21.8 million, as reflected in the Consolidated Statement of Net Cost. The net loss in FY 2004 was incurred to align reserve balances with business requirements.

### Financing Operations

The Consolidated Statement of Financing reconciles the resources available to finance the Fund's operations with the net costs of providing services. The FY 2005 spending authority from offsetting collections and adjustments for the Fund totaled \$272.6 million, a 16 percent increase over FY 2004 levels of \$234.8 million. This increase is due to the strong growth in services that the Fund provided to its customers in FY 2005.

### Budgetary Resources

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Fund during the year and the status at the end of the year. The Fund does not receive an annual appropriation from Congress. The Fund is fully self-sustained by recovering all cost through reimbursements for the services we provide. The Fund had total budgetary resources of \$348.3 million, a 13 percent increase over FY 2004 levels of \$307.7 million. The driving factor for this increase was due to the strong growth in services that the Fund provided to its customers in FY 2005.

The Fund's Budgetary Resources reflected in the Combined Statement of Budgetary Resources are summarized in the following table:

(Dollars in Thousands)

	2005	2004
Beginning Unobligated Balance	\$75,722	\$72,856
Spending Authority Earned and Collected	239,659	222,579
Receivable from Federal Sources	26,709	(417)
Change in Unfilled Customer Orders	6,182	12,660
<b>Total Budgetary Resources</b>	<b>\$348,272</b>	<b>\$307,678</b>

### AUDITOR'S REPORTS

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The AAC supports enhanced continuity of operations for mission-critical applications utilizing electronic vaulting of data. Responding to the increasing need for more rapid restoration times following emergency situations, electronic data vaulting provides an automated, off-site backup archive and retrieval of customer data. Mission-critical applications run at the AAC can be recovered at an alternate VA site within 12 hours of a declared disaster.

## INFORMATION TECHNOLOGY SEGMENT

By working closely with its customers, the AAC develops, supports and/or hosts a variety of VA applications that provide mission-critical data. The AAC also provides the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), and National Cemetery Administration (NCA) with IT services that support many of the key systems that directly support veterans.

- **MyHealthVet** is an online environment whereby Web technology combines essential health record information with online health resources that enable and encourage patient/clinician collaboration.
- **HomeTelehealth** is an innovative program that enables veterans to self report recurring health monitors, such as blood pressure, to VA medical centers and receive health assessments without having to physically go to clinics.
- The **Health Data Repository (HDR)** project will establish a clinical data repository that will be used by clinicians and other personnel to facilitate longitudinal patient-centric care. The data in this repository will be retrieved from existing files and organized in a format that supports the delivery of care, regardless of the patient's location or where treatment has been provided in the past. The HDR project is being implemented in phases. The HDR-Interim Messaging Solution was made available in the fourth quarter of FY 2005.
- The **Scheduling Replacement Project (SRP)** will provide a re-engineered and redesigned outpatient appointment scheduling system to better meet the needs of staff and patients. The scheduling application is one component of the HealthePeople initiative. The SRP is designed for a phased nationwide rollout.
- **VETSNET** is an integrated information system that enhances claims processing and provides VBA capacity planning to ensure that adequate processing is available to support the needs of the regional offices. The AAC monitors the performance of the system to ensure that response times meet expectations.
- NCA initiates requests on a family's behalf and the AAC prints **Presidential Memorial certificates** that express, from the President, the Nation's gratitude for a veteran's honorable service to next-of-kin and other family members of a deceased veteran.

The AAC also hosts several important data sharing projects between VA and the Department of Defense (DoD).

- The **Consolidated Mail Outpatient 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.
- 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. DoD is also investigating the benefits of using the DoD-VA gateway at the AAC to transmit images, such as x-rays, CAT scans, and other digitized medical data to VA medical centers for analysis. Such telemedicine projects have been effective within VA.
- The **DoD-VA Bidirectional Health Information Exchange (BHIE) program**, formerly known as the Federal Health Information Exchange, is a federal health care initiative that facilitates the secure electronic two-way exchange of patient medical information between VA and DoD health organizations. The primary mission of BHIE is to provide an electronic communication system whereby government health care providers can access and provide pertinent medical information about an individual across the continuum of care in a way that protects his/her privacy.

Prime contributors to the Records Center and Vault's (RCV) success are staff members who are responsible for customer liaison and coordination, business planning and development, staffing, and execution of day-to-day business activities, as well as the AAC's development and implementation of a sophisticated Web-enabled application (Records Retrieval System) to request accession numbers and record recalls.

The Records Retrieval System application allows our customers the capability to electronically request accession numbers and request record recalls. In FY 2005, improvements were made to provide our customers better service and save them time and valuable resources. A package tracking enhancement was added that allows users to click on the package tracking number and be automatically directed to the FedEx tracking Web site. Another enhancement was added that allows users to print suspense copies of forms during login by executing only one command. At the end of FY 2005, there were over 700 registered users.

Our OGA customers have unique requirements; therefore, they need higher levels of service. These requirements are taken seriously, and customized services are used to meet their security and access needs. The RC&V's experienced archive technicians possess top secret DoD and Department of Energy security clearances to better serve our OGA customers.



The RC&V indirectly supports the veteran population by providing a climate-controlled, highly secure facility for storage of their vital records.



With the completion of the monumental project of relocating over a million cubic feet of VHA records from 14 facilities of the National Archives and Records Administration in a 2 ½ year period, the RC&V is now the home of over 1.2 million cubic feet of records.

Customer service has remained our top priority. 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 99.7 percent success rate for retrieving records within established timeframes.

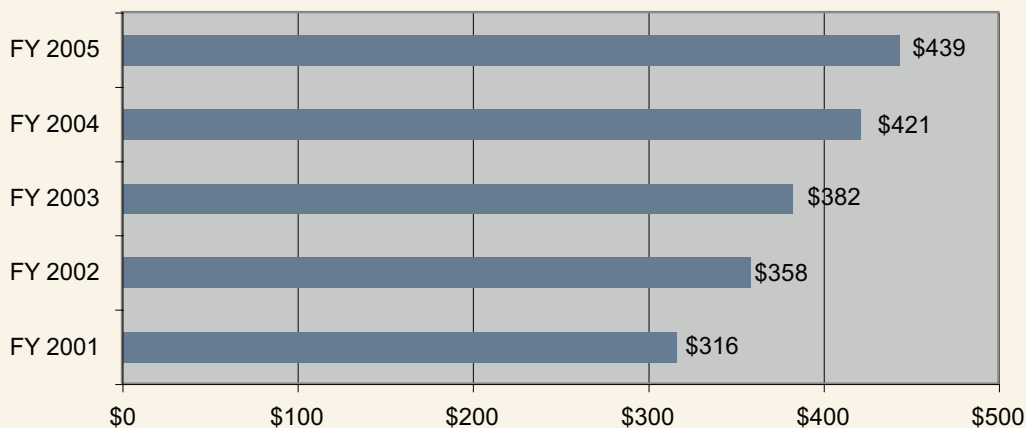
## INFORMATION TECHNOLOGY SEGMENT PLANS FOR 2006 AND BEYOND

- Through a partnership with VA's Office of Acquisition and Materiel Management, the AAC will become a VA Center of Excellence in FY 2006 for solicitation, award and administration for all VA-wide IT contracts. AAC contracting officers are experienced in conducting IT acquisitions specific to all hardware, software, and telecommunications products in conjunction with services needed to integrate a system, network, or other service delivery platform.
- With the completion of the major VHA Relocation Project, the RC&V's build-out for 50,912 square feet is underway and is expected to be completed in the third quarter of FY 2006. This expansion will accommodate new records storage growth through the third quarter of FY 2009.

## FINANCIAL MANAGEMENT SEGMENT

The Debt Management Center (DMC) is a leader in the federal debt management community and a complete accounts receivable resource, with responsibility for overseeing the entire collection process for the Veterans Benefits Administration (VBA). The DMC collects debts resulting from an individual's participation in VA programs (foreclosed home loans; compensation and pension debts; education allowances).

**Collections/Administrative Offsets**  
(Includes benefit offsets for medical debts)  
Dollars in Millions



The DMC also conducts administrative offsets for delinquent medical debts for the Veterans Health Administration (VHA). The collection rate has consistently grown each year, showing a 40 percent increase from FY 2001 to FY 2005. The DMC is taking full advantage of all available collection tools including Treasury's Offset Program (TOP) and Treasury's cross-servicing programs in an effort to reduce the Department's delinquent benefit debt portfolio.

The goal of debt management continues to be the reduction of the delinquent debt portfolio using an integrated approach of prevention and collection. Through continual enhancements to our automated data processing capability, we are reducing costs and increasing the efficiency of our collection operations. We will continue to automate our

debt collection operations and refine methods that assist debtors in making payments and submitting information that will help liquidate their debt.

The DMC worked with Treasury’s “Pay.gov” and VA Web Solutions to develop a Web-based application (pay.va.gov) that offers a simple, convenient payment option for veterans to use credit cards, debit cards and electronic fund transfers to pay debts online. As a result of the implementation of this new virtual payment mechanism in FY 2005, the DMC collected \$4.7 million, 42 percent over FY 2004 levels (\$3.3 million) before its implementation. The DMC will continue to refine its online collection application.

During FY 2005, the DMC began an initiative to reduce operating expenses by converting the online interface to its collection system from a proprietary software package, operating on a mainframe system, to a Windows Web-based program operating on a stand-alone server to enhance the user interface. The application was installed in August 2005. The DMC will save roughly \$425,000 a year in licensing and maintenance fees on the proprietary software.

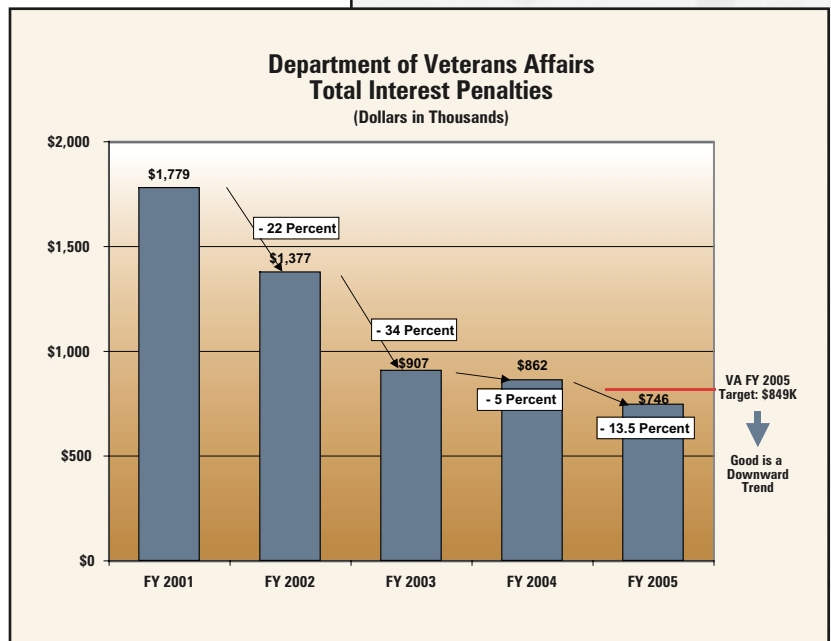
In addition, the DMC plans to Web-enable forms used in the debt collection process so veterans can transmit their information electronically. Currently, some forms can be downloaded at [www.va.gov/debtman](http://www.va.gov/debtman).

The Financial Services Center (FSC) provides a full range of financial and accounting services:

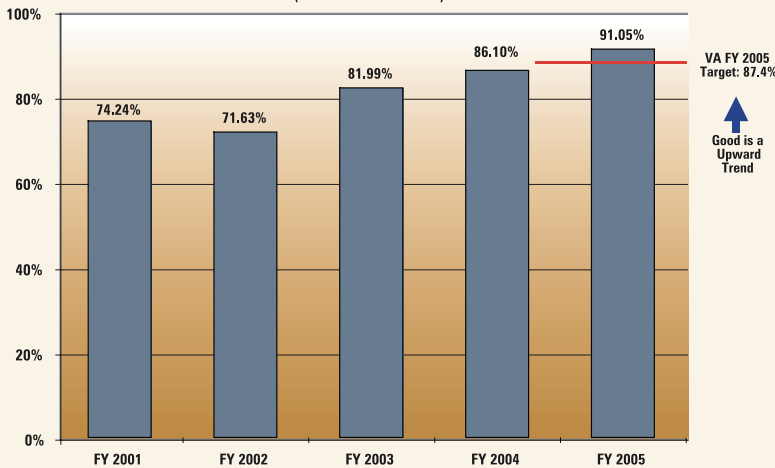
- The **Prompt Pay** initiative continues to enhance the Department’s vendor payment processes. The Department processed over 5.5 million Prompt Payment Act eligible invoices worth over \$8.7 billion, with over 99 percent paid on time. In FY 2005, interest payments VA-wide declined by \$116,000 (from \$862,000 to \$746,000)—a 13.5 percent improvement over FY 2004 levels. At the same time, discounts earned surged by \$3.4 million to over \$6.2 million, a 124 percent improvement over FY 2004 levels.



Pay.va.gov offers a simple, convenient payment option for veterans to use credit cards, debit cards and electronic fund transfers to pay debts online.

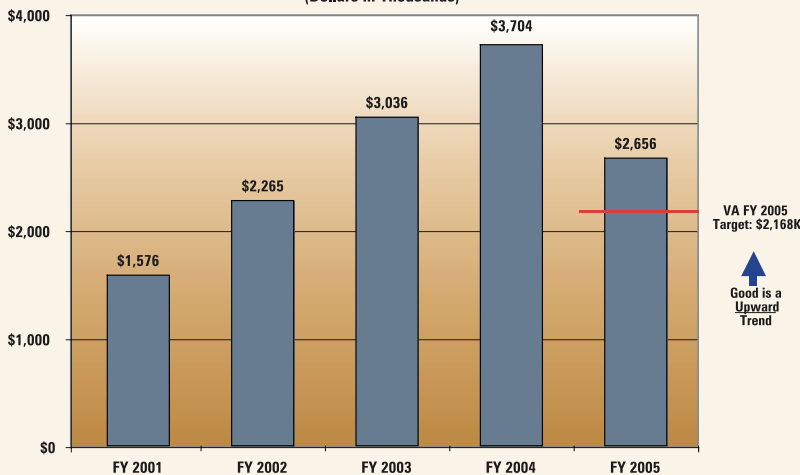


### Department of Veterans Affairs Percentage of Total Discounts (Earned vs. Available)



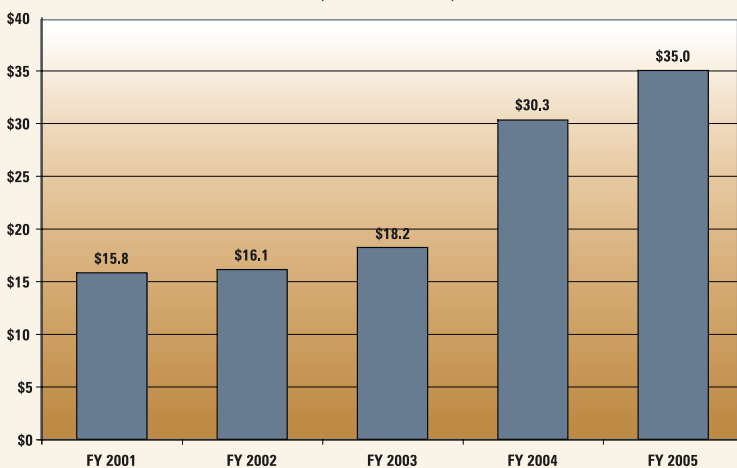
VA's percentage of discounts earned also improved from 86.10 percent in FY 2004 to 91.05 percent in FY 2005. Combined, these payment processing improvements saved VA \$3.5 million in FY 2005, which can be used to improve veterans' care.

### Department of Veterans Affairs Total Audit Recovery Collections (Dollars in Thousands)



VA also continued to gain efficiencies and better results through an initiative completed in FY 2004 to centralize vendor payment activities at the FSC. By centralizing vendor payment activities, VA strengthened its focus on identifying and preventing vendor payment errors. The FSC also enhanced audit recovery efforts of improper/duplicate vendor payments. The FSC routinely reviews VA vendor payments daily to systematically identify, prevent, and recover improper payments made to commercial vendors. Current payment files are matched to identify and, where possible, prevent duplicates prior to payment. Also, payments from prior fiscal years are matched to identify potential duplicate payments for further analysis, assessment and, as appropriate, collection. The FSC staff also reviews vendor payments to identify and collect improper payments such as erroneous interest penalties, service charges, and sales taxes that resulted from payment processing. This initiative recovered over \$124,000 during FY 2005 for reuse by VA entities.

### Department of Veterans Affairs Purchase Card Rebates (Dollars in Millions)



Overall, during FY 2005, collections of improper payments and the recovery of unapplied vendor statement credits totaled over \$2.7 million. Improved payment oversight also enabled VA to identify and cancel nearly \$3.5 million in potential improper payments prior to disbursement. Since the FSC audit recovery effort's inception in FY 2001, VA has recovered over \$13.2 million in improper payments and prevented the improper payment of another \$13.2 million.

■ The **Commercial Purchase Card Program**

- (e.g., micro purchase card, fee basis, and travel) is aggressively used in the Department.
- Over 3.7 million purchase card transactions were processed, representing over \$2 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned VA \$35 million in credit card refunds—compared



to \$30.3 million during the same period in FY 2004. These refunds are returned to VA entities for use in veterans programs.

- The **Fee Basis Program** automates Health Care Fee Basis payments, eliminates processing of paper checks, and earns VA additional credit card refunds. In FY 2005, VA's Fee Basis credit card program processed over 96,000 transactions representing \$25 million in payments, generating over \$414,000 in refunds. During the same period in FY 2004, the number of transactions exceeded 21,000 valued at \$5 million in payments, earning VA over \$82,000 in refunds. The growth of this program was attributed to additional Fee Basis medical providers agreeing to receive payment via the Fee Basis Purchase Card and more VA medical centers joining the program.
- **VA's Travel Management Centers (TMCs)** serve veterans and employees who travel frequently. The billings are transmitted electronically from each TMC, and payment is sent daily through the Department of the Treasury's Electronic Certification System. In FY 2005, the travel management program processed over 100,000 transactions, disbursed payments of over \$19 million, and earned over \$274,000 in refunds compared to over \$221,000 during FY 2004.
- **VA's Prime Vendor Payment System** automates payments under a nationwide prime vendor centralized purchasing contract. In FY 2005, 126 VA medical centers used the Prime Vendor System to electronically process over 468,000 transactions worth over \$3.7 billion compared to over \$3.5 billion during FY 2004. 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.
- The **OnLine Certification System (OLCS)** allows invoices to be certified electronically by VA facilities and scheduled for payment. The OLCS allows the FSC to notify certifying officials via e-mail of any invoice requiring payment certification. Through the Intranet, the certifying official can view, certify, and forward the invoice to the FSC for payment processing, reducing the processing time to hours rather than days. The FSC expanded the certified invoice capability throughout VHA in 2004, bringing the number of OLCS users to more than 10,000 VA employees.



The FSC's certified payment process represents a full life cycle of services performed from the time the FSC receives an invoice until the Department of the Treasury (Treasury) renders proper payment. These services include processing cancelled checks, check tracers, vendor recertifications, rejects and adjustments, inquiries, vendor reclaims, bills of collection, Treasury offsets, and tax levies. The FSC provides these services in compliance with applicable VA regulations and directives and the Prompt Payment Act.



The FSC provides EDI services to process VHA Medical Care Cost Recovery (MCCR) health care billings. The FSC also supports VHA initiatives such as electronic Insurance Identification and Verification (e-IIV), electronic Pharmacy (e-Pharmacy), electronic Medicare Remittance Advice (e-MRA), and the MCCR lockbox initiative for recording receipt of payments for third party medical claims.

To further assist VHA with e-claims reports, the FSC created a portal for management reports. This portal allows the managers to access up-to-date data when they need it. The portal will continue to be updated to include new reports as requested.

- The **Electronic Commerce (EC)/Electronic Data Interchange (EDI) System** uses commercially available, off-the-shelf software and national standards to move mission-critical information between VA and each of its trading partners—which includes vendors, mortgage service providers, and health care entities. EC/EDI also provides for internal exchange of information among VA application systems. Electronic data transfers enable program offices to restructure their work processes, take advantage of the accuracy and timeliness of electronic data, and concentrate on service objectives.

The FSC will continue to support VA's efforts to increase cost savings and program efficiencies through the expansion of electronic data transfers in VA applications. The FSC will also continue to support VHA's efforts to comply with EC/EDI mandates identified in the Health Insurance Portability and Accountability Act of 1996.

In addition to VHA, the FSC provides EC services to VA's Denver Distribution Center for invoices and payment vouchers. Commercial invoices, FMS payments, and the subsistence prime vendor program services are also provided to VA nationwide. Furthermore, VBA benefits from EC services in the FSC's handling of loan processing, identifying the status of loan defaults, and processing loan guaranty certificates. The FSC also provides EDI services to assist the Veterans Canteen Service in receiving and processing invoices.

- The **Document Management System (DMS)** allows the FSC to provide a paperless work environment, reduce physical storage needs, and process high volumes of documents. Documents are stored both magnetically and on optical platters and can be retrieved in seconds. Backups are stored offsite. Initially, the DMS was used to process commercial payments and inquiries. Subsequently, the FSC's use of DMS has been expanded to include other functions such as vendorizing requests, federal accounts, storing grant and scheduling documents for an OGA customer, and OnLine Certification System. Additionally, the DMS has shown potential for storing and retrieving finance records, payroll folder data, contract files, and legal documents.

The FSC provides the Department of Health and Human Services' Division of Immigration Health Services 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 to automate and Web-enable this application. 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 Health Insurance Portability and Accountability Act.

The FSC deployed the Division of Immigration Health Services Plexis money management system, an enhancement to the Healthcare Claims Processing System. The system is designed to review all claims prior to release to Treasury. Claims less than 23 days old are automatically pushed into the following day's batch, requiring no additional handling by the FSC staff. Additionally, the system calculates interest for claims over 30 days old. Benefits include saving money by having the system manage claims and fully comply with interest requirements.

- The **Customer Support Help Desk (CSHD)** offers a comprehensive one-stop response team to support inquiries from VA stations and vendors. The CSHD is organized to provide timely and accurate responses to questions ranging from how to navigate in FMS, to assisting a veteran with benefits information.
- The **e-Travel Help Desk** assists travelers and stations in processing travel requirements in the new eTS system. Because of the large volume of calls and inquiries, additional telephone lines and staff were added to handle the influx.
- The **Vendor Inquiry System (VIS)** stores over 3 years of information on invoices. Once vendors complete an authentication process, they can access a secure Web site to view payment information for their company. Currently there are 16,101 registered vendors who have made over 408,000 requests in FY 2005 and a total of over 1.1 million requests since VIS' inception in April 2003. The VIS provides FSC vendors an easy-to-use tool for immediate access to their payment information 24 hours a day without having to call and wait for a person to provide payment information. The VIS has also improved customer service efficiency of FSC staff by handling many routine inquiries and freeing staff to work the more difficult issues for customers.

Registered users of the VIS now have the ability to submit electronic invoices directly to the FSC. Vendors complete easy-to-use forms to create their invoices and can manage and track them. The online system provides the vendor with a list of its valid purchase orders, virtually eliminating the number one error that causes payment delays. Errors identified by the online system are immediately returned to the VIS user, who can instantly correct them prior to submission. This prevents payment delays and results in quicker and more accurate vendor payments.



The FSC offers a one-stop response team to support VA staff navigating FMS to provide information to vendors about their payments and to assist veterans with benefits information. In order to provide better customer service to all VA facilities for FMS inquiries, the CSHD created a toll-free number specifically for VA facilities. This new toll-free number enables our customers to receive priority handling on customer service inquiries from our Help Desk staff. By using the new toll-free number, VA facilities do not have to compete with vendors in the CSHD phone inquiry queue.

In addition, the e-Travel Help Desk provides timely and accurate responses to questions ranging from how to navigate in the e-Travel System, to assisting with reservation information and system administration or data integrity issues.

## FINANCIAL MANAGEMENT SEGMENT PLANS FOR 2006 AND BEYOND

- In November 2005, the FSC will begin its final phase of Centralization of VHA Certified Payments by transferring the remaining field stations' certified payments to the FSC for payment processing. The objective is to transition all VHA stations' certified and matched payments to the FSC by the end of March 2006. Additional payments will be centralized late in FY 2006 and in FY 2007.
- E-Travel is an e-Gov initiative in which the FSC is integrally involved. In January 2005, VA awarded a task order to Electronic Data Systems, Inc., from the General Services Administration's master contract to provide eTS services, which involves migrating VA to the FedTraveler.com eTS solution. The FSC will provide VA-wide support during the implementation phase to FedTraveler.com including pre- and post-implementation support. The FSC will continue to provide e-Travel Help Desk services for travelers who are currently using Zegato and Gelco travel solutions until they are migrated to FedTraveler.com. At that time, Electronic Data Systems, Inc. will begin to provide help desk support to VA travelers.
- E-Payroll is part of the President's e-Gov strategy to simplify and standardize federal payroll processes. The Office of Personnel Management (OPM) has aligned VA with DoD's Defense Finance and Accounting Service (DFAS) and has mandated that VA migrate to this new payroll service provider. The VA e-Payroll project will ensure that VA's entire payroll needs continue to be met post-conversion. The VA e-Payroll project will impact all fiscal and payroll operations. The FSC will serve as VA's first e-Payroll pilot site, scheduled to begin in August 2006. Departmentwide migration to DFAS is currently scheduled to be completed by late FY 2008.



In FY 2005 alone, the LETC trained 1,127 law enforcement officers.

## SECURITY AND LAW ENFORCEMENT SEGMENT

The Law Enforcement Training Center (LETC) is the only federal provider that offers specialized training dealing with assaultive patients and policing in a healthcare environment (mandated by Title 38 U.S.C.).

Federal law enforcement communities at healthcare facilities, parks, museums, military installations, and other special missions and limited jurisdiction settings nationwide that possess a similar customer-oriented vision as VA are provided with practical and classroom instruction on the importance of ensuring the safety of all patients, customers, and staff while maintaining order. Our residential training center provides an opportunity for police officers to train in an environment similar to one in which they work. During FY 2004 and FY 2005 additional space for classrooms was acquired in order to enhance our practical exercises and hands-on approach to training. At the request of customers, the LETC developed a tactical firearms instructor

course to address the growing concern of encounters with armed patients and visitors. In addition, several specialty courses (such as Advanced Crime Scene Processing and Technical Surveillance Installation) geared toward detective and investigator disciplines were added to the curriculum to enhance abilities to adequately conduct criminal and administrative investigations. The LETC has been very responsive in addressing the concerns of its customers by customizing courses to meet specific law enforcement needs.

Today, with the heightened security awareness in the federal workplace, the ability to properly screen personnel prior to employment and entry into federal agencies has become paramount. The Security and Investigations Center (SIC) ensures that employees who provide patient protection, process claims, have access to veterans' information, or provide medical care receive the appropriate level of background investigations by working closely with OPM, VA Central Office staff, or VA regional offices. In addition, identification badges/access cards processed by the SIC contribute to a safe and secure environment.



While the firearms course is both physically and mentally challenging, it provides training in the proper deployment of firearms tactics and officer safety and it is well attended.

## SECURITY AND LAW ENFORCEMENT SEGMENT PLANS FOR 2006 AND BEYOND

- With the growing focus on homeland security, the need for a highly trained law enforcement community is greater than ever. The LETC is working to develop its classroom curricula into dynamic courses that will provide students with an optimal online learning experience. In addition, plans are underway to expand our residential training program to include the construction of a 30-room dormitory that will be built adjacent to the existing training and housing facilities.
- The LETC will continue to play a vital role in helping VA's law enforcement community meet its training needs. As a result, an 80-hour refresher training course was implemented in FY 2004. To date 313 VA police officers completed the training program and 350 are expected to complete it over the next 2 years. The goal of this initiative is to bring all VA police officers up to the same level of training. After all VA police officers have completed the initial refresher training course, they will be required to take a refresher training course every 4 to 5 years.
- In an effort to better serve VA, the LETC is working with the AAC to develop a national records management system for all VA police records. The system will greatly enhance the overall administration of operational and training data and records for the agency. It is expected to be fully operational in FY 2006.
- The SIC will continue to participate in a pilot program with OPM for implementation of E-Qip, a secure Internet-based program for the completion of all required background investigation forms. The implementation will take approximately one year to complete for the entire VA. When fully implemented, the system will further eliminate manual processes such as the mailing of documents for personnel in the field and to OPM after review by the SIC staff.
- In FY 2005, the SIC conducted a complete review of the processes involved in initiating, adjudicating, and managing its background investigation products. As a result of this review, a new national database was developed to manage and track background investigations. In the near future, VA human resource specialists will be able to pull reports from a secure Web site, retrieve the status of pending investigations and current investigations, and obtain a listing of persons who are due for their 5 year updates.


**BROWN & COMPANY CPAs, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON 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, 2005 and 2004, 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 September 30, 2005 and 2004. 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 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 the requirements of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended. 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, 2005 and 2004, its net cost, changes in net position, financing and budgetary resources 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 our report dated December 2, 2005, on our consideration of the VA Franchise Fund's internal control over financial reporting and our report dated December 2, 2005 on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 audit.

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

Largo, Maryland  
December 2, 2005

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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 consolidated financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the years ended September 30, 2005, and have issued our report thereon dated December 2, 2005. 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*, as amended.

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 and not provide an opinion on the internal control over financial reporting. 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, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that are considered to be reportable conditions that are also considered to be material weaknesses.

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 affect 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) 2005, VA's program and financial data continue to be at risk due to serious weaknesses related to: 1) inadequate implementation and enforcement of access controls over access to financial management systems and data; 2) improper segregation of key duties and responsibilities of employees in operating and maintaining key systems; 3) underdeveloped IT service continuity planning; and 4) inconsistent development and implementation of system change controls. These weaknesses placed sensitive information, including financial data and veterans' medical and benefit information, at risk of inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, possibly occurring without detection.

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#### Recommendation

We reaffirm the recommendation contained in the VA's FY 2005 consolidated financial statements audit that the VA improve information systems access control, segregation of duties, service continuity, and change control.

During the course of our audit we noted other matters involving internal control and its operation that we have reported to management of the VA Franchise Fund in a separate management letter dated December 2, 2005.

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

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



Largo, Maryland  
December 2, 2005

**BROWN & COMPANY CPAS, PLLC**




**BROWN & COMPANY CPAs, PLLC**
**CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS**
**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

The Director  
VA Enterprise Fund Office

We have audited the consolidated financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2005, and have issued our report thereon dated December 2, 2005. 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*, as amended.

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 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 Department of Veterans Affairs 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.

Largo, Maryland  
December 2, 2005

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# CONSOLIDATED FINANCIAL STATEMENTS

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

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>Intragovernmental</b>		
Fund Balance with Treasury (Note 2)	\$ 110,805	\$ 95,924
Accounts Receivable	54,620	27,911
Other Assets (Note 3)	7,189	6,455
Total Intragovernmental	172,614	130,290
Accounts Receivable	145	18
Property, Plant and Equipment, Net (Note 4)	21,247	21,778
Other Assets (Note 3)	8	3
<b>Total Assets</b>	<b>\$ 194,014</b>	<b>\$ 152,089</b>
<b>LIABILITIES</b>		
<b>Intragovernmental Liabilities</b>		
Accounts Payable	\$ 7	\$ 95
Other Liabilities (Note 6)	31,789	28,536
Total Intragovernmental	31,796	28,631
Accounts Payable	3,140	3,944
Other Liabilities (Note 6)	59,702	28,821
<b>Total Liabilities</b>	<b>94,638</b>	<b>61,396</b>
<b>NET POSITION</b>	<b>\$ 99,376</b>	<b>\$ 90,693</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 194,014</b>	<b>\$ 152,089</b>

All liabilities are current.

*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>2005</u>	<u>2004</u>
<b>PROGRAM COSTS</b>		
Gross Costs Intragovernmental	\$ 51,306	\$ 35,929
Less: Intragovernmental Earned Revenue	<u>(251,457)</u>	<u>(208,785)</u>
Intragovernmental Net Costs	(200,151)	(172,856)
Gross Costs Public	196,223	194,692
Less: Public Earned Revenue (Note 7)	<u>(200)</u>	<u>(37)</u>
<b>NET COST OF OPERATIONS</b>	<u><b>\$ (4,128)</b></u>	<u><b>\$ 21,799</b></u>

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

	<u>2005</u>	<u>2004</u>
<b>NET POSITION</b>		
Beginning Balance	<u>\$ 90,693</u>	<u>\$ 107,896</u>
<b>OTHER FINANCING SOURCES:</b>		
Transfers-In	277	333
Imputed Financing	4,278	4,263
Total Financing Sources	<u>4,555</u>	<u>4,596</u>
<b>NET COST OF OPERATIONS</b>	4,128	(21,799)
Cumulative Effect of Change in Accounting Principle	<u>-</u>	<u>-</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ 99,376</b></u>	<u><b>\$ 90,693</b></u>

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

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

	<u>2005</u>	<u>2004</u>
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance at the Beginning of the Period	\$ 75,722	\$ 72,856
Spending Authority from Offsetting Collections		
Earned		
Collected	239,659	222,579
Receivable from Federal sources	26,709	(417)
Change in unfilled customer orders		
Advance received	6,182	12,660
<b>Total Budgetary Resources</b>	<b><u>348,272</u></b>	<b><u>307,678</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred	259,343	231,956
Unobligated Balance Available (Note 2)	88,929	48,055
Unobligated Balance Not Available (Note 2)	-	27,667
<b>Total Status of Budgetary Resources</b>	<b><u>348,272</u></b>	<b><u>307,678</u></b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>		
Obligated Balance, Net - Beginning of the Period	20,202	17,536
Less: Obligated Balance, Net - End of the Period (Note 2)		
Accounts Receivable	(54,620)	(27,911)
Undelivered Orders	1,697	375
Accounts Payable	74,798	47,738
Outlays:		
Disbursements	230,960	229,707
Collections	(245,841)	(235,239)
Net Outlays	<b><u>\$ (14,881)</u></b>	<b><u>\$ (5,532)</u></b>

*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>2005</u>	<u>2004</u>
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 259,343	\$ 231,956
Less: Spending Authority from Offsetting Collections and Adjustments	(272,550)	(234,822)
Net Obligations	<u>(13,207)</u>	<u>(2,866)</u>
<b>Other Resources</b>		
Transfers-In	277	333
Financing Imputed for Cost Subsidies	4,277	4,263
Net Other Resources Used to Finance Activities	<u>4,554</u>	<u>4,596</u>
<b>Total Resources Used to Finance Activities</b>	<u>(8,653)</u>	<u>1,730</u>
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	4,120	17,431
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(7,956)	(6,752)
Resources that Fund Expenses Recognized in Prior Periods	(127)	22
<b>Total Resources Used to Finance Items Not Part of Net Cost of Operations</b>	<u>(3,963)</u>	<u>10,701</u>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<u>(12,616)</u>	<u>12,431</u>
<b>COMPONENTS NOT REQUIRING OR GENERATING RESOURCES</b>		
Depreciation and Amortization	8,406	9,248
Gain/Loss on Disposition of Assets	82	115
Other	0	5
	<u>8,488</u>	<u>9,368</u>
<b>NET COST OF OPERATIONS</b>	<u>\$ (4,128)</u>	<u>\$ 21,799</u>

*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, 2005 and 2004  
(Dollars in Thousands)

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### 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) 2005 and 2004 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.

**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. All liabilities are current.

**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 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.

**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,

	<u>2005</u>	<u>2004</u>
<b>Fund Balance with Treasury</b>	\$ 110,805	\$ 95,924

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.

	<u>2005</u>	<u>2004</u>
<b>Unobligated Apportionment</b>		
Available	\$ 88,929	\$ 48,055
Unavailable		27,667
<b>Obligated balance not yet Disbursed</b>	<u>21,875</u>	<u>20,202</u>
<b>Total Unexpended Apportionment</b>	<u>\$ 110,805</u>	<u>\$ 95,924</u>

**Note 3. Other Assets**

Other assets are generally made up of advances. There are two types of advances handled by the Franchise Fund. The first is when Treasury processes charges from other agencies to the Franchise Fund via the IPAC system. Charges are recorded as an advance until the applicable obligation is located and the charges can be transferred. These charges are for GSA rent, GPO printing services, FTS, and motor pool.

One of the product lines available to other government agencies is the handling of the purchase card activity. When the purchase credit card payments are scheduled, an advance is set up. Charges are then IPACed to the applicable agency to offset the advances.



#### Note 4. Property, Plant and Equipment

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, 2005:

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & Equipment	\$ 1,054	\$ (652)	\$ 402
Capital Leases	-	-	-
ADP Equipment	29,562	(20,908)	8,654
Software	10,913	(8,563)	2,350
Software - In Development	124	-	124
Leasehold Improvements	<u>19,463</u>	<u>(9,746)</u>	<u>9,717</u>
<b>Total PP&amp;E</b>	<b><u>\$ 61,116</u></b>	<b><u>\$ (39,869)</u></b>	<b><u>\$ 21,247</u></b>

PP&E As of September 30, 2004:

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & Equipment	\$ 1,421	\$ (837)	\$ 584
Capital Leases	-	-	-
ADP Equipment	24,276	(15,186)	9,090
Software	9,026	(7,569)	1,457
Software – In Development	165	-	165
Leasehold Improvements	<u>19,121</u>	<u>(8,639)</u>	<u>10,482</u>
<b>Total PP&amp;E</b>	<b><u>\$ 54,009</u></b>	<b><u>\$ (32,231)</u></b>	<b><u>\$ 21,778</u></b>

**Note 5. Leases**

The Franchise Fund has operating leases. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund's FY 2005 operating lease costs were \$1,355,599 for real property rentals and \$37,009 for equipment rentals. The Franchise Fund's FY 2004 operating lease costs were \$1,293,809 for real property rentals and \$83,308 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 4.2 to 4.4 percent annual increase in cost.

**OPERATING LEASES**

<u>Fiscal Year</u>	<u>Percentage Increase</u>	<u>Real Property</u>	<u>Equipment</u>
2006	4.4	\$ 1,415	\$ 39
2007	4.2	1,475	40
2008	4.2	1,537	42
2009	4.2	1,601	44
2010	4.2	1,668	46

**Note 6. Other Liabilities**

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

	<u>2005</u>	<u>2004</u>
<b>Intragovernmental</b>		
Accrued Payables – Federal	\$ 12,193	\$ 15,121
Advances – Federal	<u>19,596</u>	<u>13,415</u>
<b>Total Intragovernmental Liabilities</b>	<b><u>\$ 31,789</u></b>	<b><u>\$ 28,536</u></b>
<b>Public</b>		
Accrued Payables	\$ 54,128	\$ 23,476
Accrued Salaries & Wages	2,162	1,932
Accrued Funded Annual Leave	<u>3,412</u>	<u>3,413</u>
<b>Total Public Liabilities</b>	<b><u>\$ 59,702</u></b>	<b><u>\$ 28,821</u></b>

## **Note 7. Public Earned Revenue**

In 1987, the General Services Administration (GSA) issued regulations providing guidelines for the establishment and installation of physical fitness facilities in government-owned space. GSA coordinates the Cooperative Administrative Support Unit (CASU) program. This program establishes the legal and administrative framework for agencies in multi-tenant buildings to share common services, including health and fitness centers. The Financial Services Center is the sponsor agency for the Mid-Atlantic CASU. The Mid-Atlantic CASU manages a health and fitness center in a Federal building in New York City. Federal employees are members and the revenue for their fees is considered public revenue.

# DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND

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