



Department of Veterans Affairs FRANCHISE FUND

FY 2006 Annual Report

**Celebrating the
Success
of a Thriving
Government Business**

Celebrating the Success of a Thriving Government Business

Thank you for your interest in the VA Franchise Fund FY 2006 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 the information and the manner in which it is presented.

Please e-mail your comments to vafund@va.gov or write to:

Department of Veterans Affairs
Enterprise Fund Office
Attention: Loleisa Davis
810 Vermont Avenue, NW (047F)
Washington, DC 20420

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Loleisa Davis



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Robert J. Henke
Assistant Secretary for
Management

All of the employees of the VA Franchise Fund are to be commended for another successful year! You have successfully combined best business practices and state-of-the-art technology to improve service delivery.

Letter to Stakeholders

The franchising concept promotes efficiency and conserves resources by reducing administrative costs, enhancing financial management practices, and expanding competition.

I am pleased to present the Fiscal Year (FY) 2006 Department of Veterans Affairs (VA) Franchise Fund Annual Report, which celebrates our success as a thriving government business. Over the years, we have emerged as a leader by embracing business practices that promote efficiency and responsiveness.

The VA Franchise Fund functioned as a pilot subject to annual reauthorization during our first 9 years of operations. At the beginning of FY 2006, both the Congress and the Administration acknowledged our success and leadership by conferring permanent status to the VA Franchise Fund (Public Law 109-114).

Becoming permanent has not made us complacent. As a Franchise Fund, we must provide the highest level of service to VA and other government agency (OGA) customers. The substantial growth in revenue over the past 3 years clearly demonstrates distinctive achievement in meeting the demands of a diverse customer base. By the end of FY 2006, total revenue grew to more than \$297 million—an increase of 43 percent over FY 2004 levels (\$208 million).

Some of our significant FY 2006 accomplishments include:

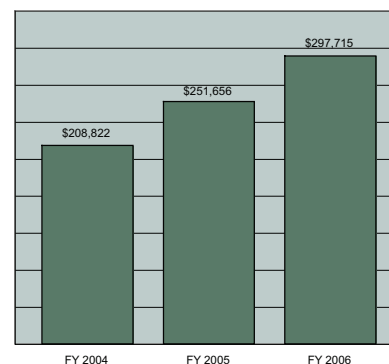
- Received the ninth consecutive unqualified “clean” audit opinion, which caps our extensive efforts to produce timely, reliable, and auditable financial statements.
- Achieved a ranking in the top 8 percent (4.15 out of 5.0) in an information technology customer survey among 232 public and private sector organizations in Gartner’s database.
- Increased debt collections from \$439 million in FY 2005 to \$550 million in FY 2006 by taking advantage of all available collection tools.
- Increased rebates from \$35 million in FY 2005 to \$37 million in FY 2006 as a result of aggressively using the commercial purchase card program for micro-purchases, fee basis, and travel.

- Launched several Web-enabled applications that greatly simplified workflow and drastically improved operations and service delivery:
 - Added enhancements to Pay.va.gov, which offers a simple, convenient payment option for veterans. As a result of this virtual payment mechanism, \$7.4 million was collected in FY 2006—57 percent over FY 2005 levels (\$4.7 million).
 - Rolled out an online interactive Web application for all continuing education, which provides law enforcement professionals with an online learning experience and enables them to monitor VA stations' progress and provide status reports to senior management.
 - Implemented a new database for managing and tracking background investigations.
 - Completed the development of Financial Accounting Service—Federal, which will improve intragovernmental payment and collection transactions by providing customers with a mechanism to obtain documentation of transactions processed, expedite clearing suspense items, and offset outstanding advances.
- Obtained additional space from the VA Medical Center in North Little Rock, Arkansas, to accommodate the advanced investigative training course.
- Completed development of the 80-hour refresher training course specifically designed for 700 VA police officers. The goal of this major 2-year initiative was to bring all VA police officers up to the same level of training.
- Took possession of the Records Center and Vault's newest records storage area (50,912-square-foot build-out), which has over 3,200 13- and 14-shelf steel shelving units that will accommodate the anticipated new records storage growth through FY 2009.

After reading this report, you will see how six vibrant lines of business helped VA leverage its resources in support of our Nation's veterans. Clearly, we are positioned to support VA's noble mission far into the future.



VA Franchise Fund Revenue Trend
(Dollars In Thousands)



Total revenue has steadily increased each year. By the end of FY 2006, our total revenue grew to more than \$297 million—an increase of 43 percent over FY 2004 levels (\$208 million) and 18 percent over FY 2005 levels (\$251 million). This additional business benefits all of our customers because it allows us to spread our overhead cost to a wider customer base.

VA's Mission

To fulfill President Lincoln's promise—"To care for him who shall have borne the battle, and for his widow, and his orphan"—by serving and honoring the men and women who are America's veterans.

Franchise Fund's Mission

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 own mission as well as VA's mission, our employees strive to uphold core values that are consistent and closely aligned with those of VA. These values include: compassion, commitment, excellence, professionalism, integrity, accountability, and stewardship.

Mission, Vision, and Values

■ Compassion

We will treat all veterans and their families with the utmost dignity and compassion. We will provide services in a caring manner, with a sympathetic consciousness of others' distress together with a desire to alleviate it.

■ Commitment

Veterans have earned our gratitude and respect. Their health care, benefits, and memorial service needs drive our actions.

■ Excellence

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

■ Professionalism

Our success depends on maintaining a highly-skilled, diverse, and compassionate workforce. We foster a culture that values equal opportunity, innovation, and accountability.

■ Integrity

We recognize the importance of accurate information. We practice open, truthful, and timely communication with veterans, employees, and external stakeholders. By carefully listening and responding to their concerns, we seek continuous improvement in our programs and services.

■ Accountability

We will perform in a manner at all times that makes us accountable, responsible, and answerable to veterans and their families, our leaders and other employees, as well as external stakeholders.

■ Stewardship

We will ensure responsible stewardship and natural resources as well as data and information entrusted to us. We will improve performance through the use of innovative technologies, evidence-based medical practices, and sound business principles.

Governance



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 provides oversight to ensure sound business principles, financial accountability, and goal attainment.

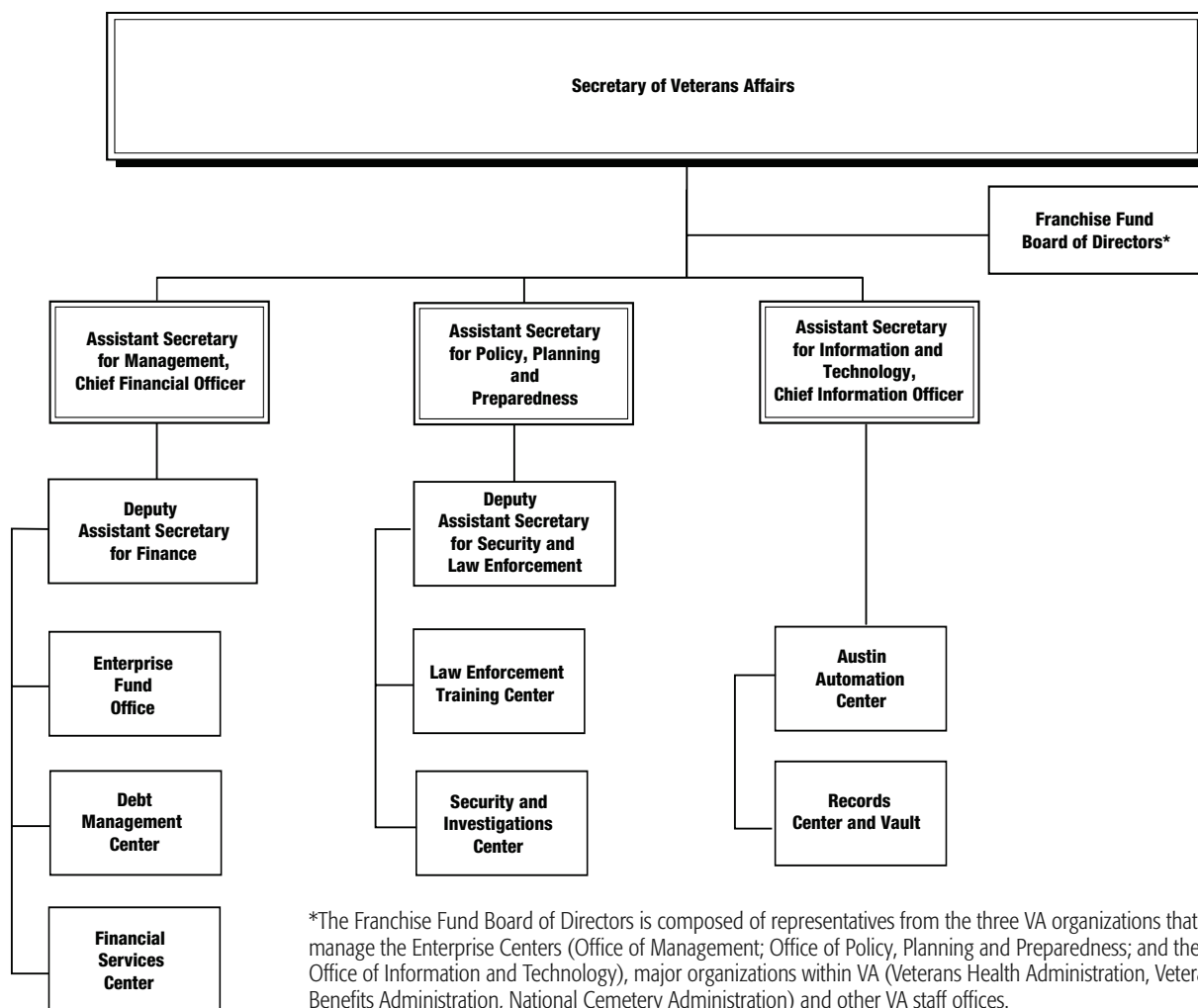
Members of the VA Franchise Fund Network

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 (OMB) in 1996 as one of six executive branch agencies to establish a franchise fund pilot program. Created as a revolving fund, the VA Franchise Fund began providing common administrative support services to VA and other government agencies in 1997 on a fee-for-service basis. In 2006, under Public Law 109-114, permanent status was conferred upon the VA Franchise Fund.

The VA Franchise Fund is composed 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.

Franchising Concept

The franchising concept promotes efficiency and conserves resources by reducing administrative costs, enhancing financial management practices, and expanding competition.



Members of the VA Franchise Fund Network

The VA Franchise Fund is divided into three major segments: information technology, financial management, and security and law enforcement. In FY 2006, the VA Franchise Fund generated \$297 million in revenue. The information technology segment generated \$215 million, accounting for 72 percent of the total revenue. Twenty-five percent of the total revenue was generated by the financial management segment, which accounts for \$73 million of the total revenue, and the security and law enforcement segment generated the remaining \$8 million, representing 3 percent of the total revenue.



*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

Austin Automation Center (AAC).

Located in Austin, TX, the AAC provides comprehensive e-government solutions to match the critical needs of 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.

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 for official Federal records. The facility is certified by the National Archives and Records Administration to operate as an agency records center. The RC&V can store records in any medium. This includes general and vital records on paper, film, and electronic media.

Financial Management

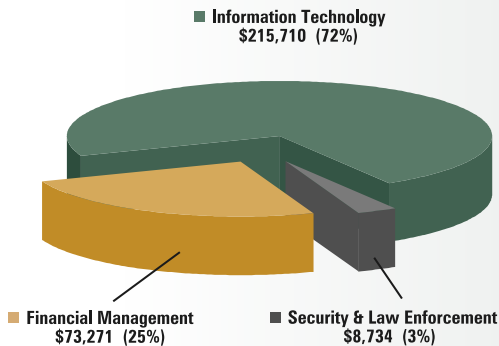
Enterprise Fund Office (EFO).

Located in Washington, DC, the EFO functions as the business office for the VA Franchise Fund. As such, the EFO is responsible for providing administrative support to the Enterprise Centers by directing and analyzing budget formulation and execution processes, administering financial resources, overseeing business planning activities, preparing the annual reports, coordinating marketing activities, and serving as the liaison between the Enterprise Centers, their customers, and the VA Franchise Fund Board of Directors.

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, 2006
(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, TX, the FSC provides a full range of financial and accounting services. These services include financial reports and accounting, invoice payments, credit card payments, medical claims adjudication and payment processing, vendor file maintenance, discount subsistence purchases, and payroll processing. The FSC also provides customer support help desks for travel and payment processing, electronic commerce/electronic data interchange, automated document management, audit recovery, permanent change of station and temporary duty travel pay processing, common administrative services, accounting training, and consulting.

Security and Law Enforcement

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 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.

The success of the Fund can be attributed to over 688 people who play an integral role in the customer liaison, coordination, business planning and development, staffing, and execution of the day-to-day business activities.

By working together, our Enterprise Centers leverage technology and apply innovative solutions to meet a wide range of customer requirements. Our commitment to continuous improvement and customer service has proven to be a very successful business model.



Members of the VA Franchise Fund Network

Entrepreneurial Network

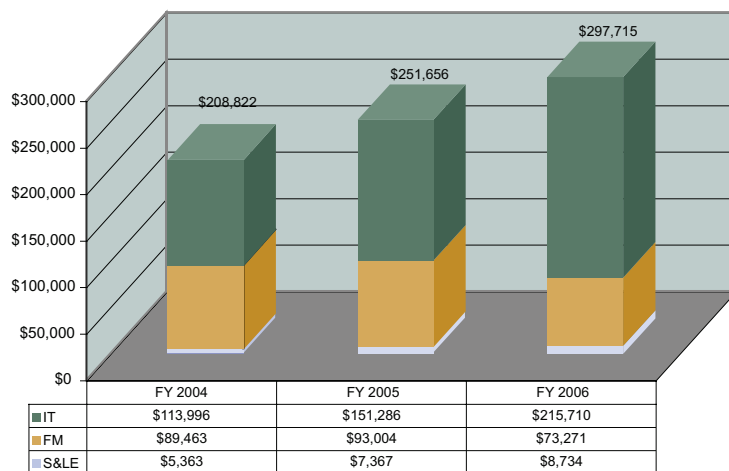
We are one of the leading fee-for-service operations in government. By employing people nationwide to execute our day-to-day business activities, we provide our customers with services that save resources and allow them to concentrate their attention on mission-critical functions within their organization. We have positioned ourselves to meet the needs of any Federal agency at competitive prices.

Business Segments

Historically, the information technology (IT) segment has generated the most revenue. The IT segment ended FY 2006 with \$215 million—an 89 percent increase over FY 2004 levels (\$113 million) and a 30 percent increase over FY 2005 levels (\$151 million) as a result of increased acquisition sales. The Financial Management (FM) segment ended FY 2006 with \$73 million—an 18 percent decrease under FY 2004 levels (\$89 million) and a 27 percent decrease under FY 2005 levels (\$93 million) as a result of the loss of the Cooperative Administrative Support Unit's business.

In recent years, heightened security measures have been put in place throughout the Federal government to protect the homeland. As a result, the security and law enforcement (S&LE) segment revenue dramatically increased to \$8.7 million in FY 2006, resulting in a 63 percent increase over FY 2004 levels (\$5.3 million) and a 66 percent increase over FY 2005 levels (\$7.3 million).

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



Information Technology

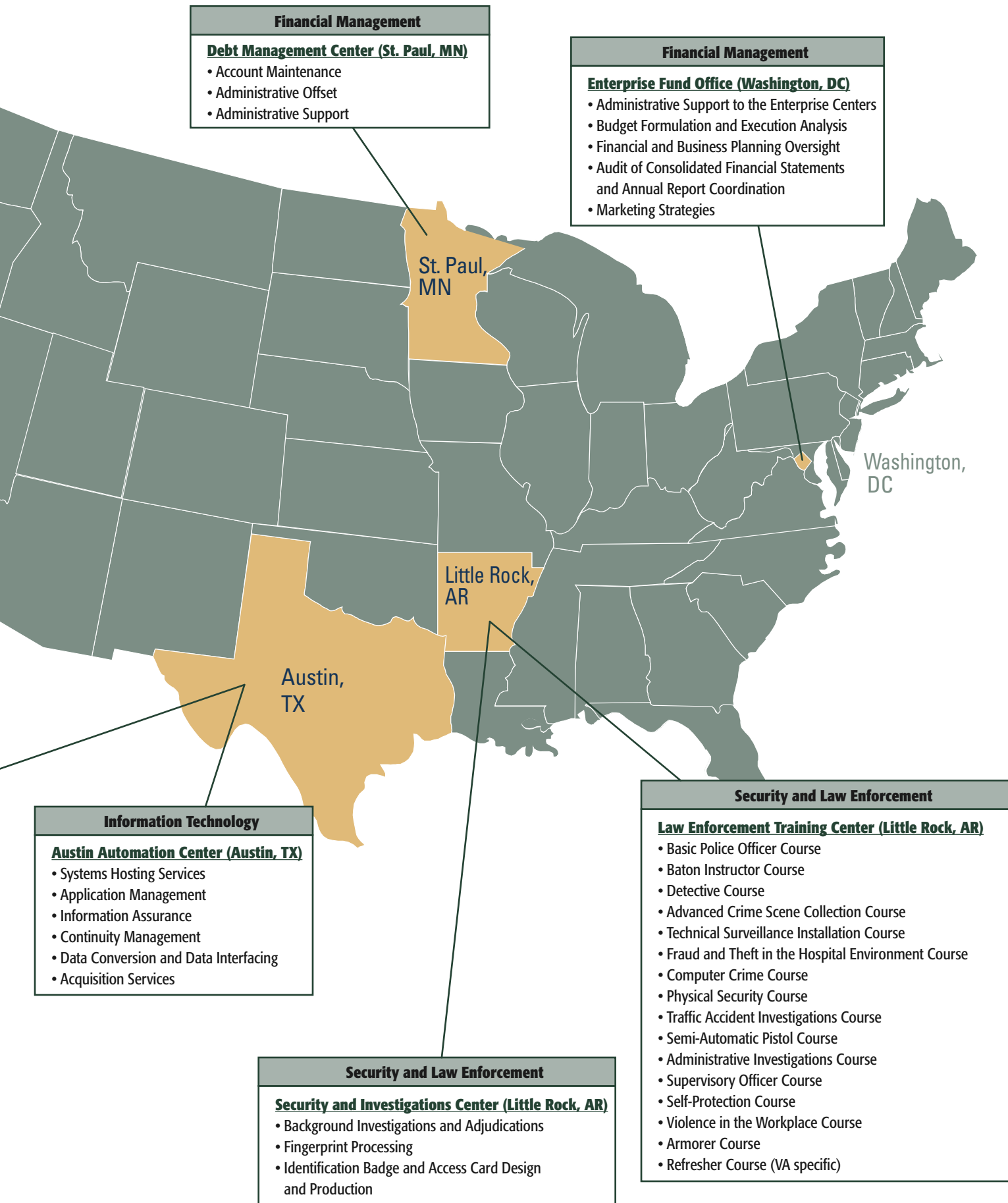
Records Center and Vault (Midwest)

- Records Storage
- Records Management

Financial Management

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
- 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



External Stakeholders

- Veterans and their families
- Office of Management and Budget
- Congressional authorization and appropriations committees and subcommittees
- Veterans service organizations
- Private sector vendors
- Department of Agriculture
- 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 Transportation
- Department of the Treasury
- Department of State
- Denali Commission
- Export/Import Bank
- Food and Drug Administration
- General Services Administration
- Government Accountability Office
- Internal Revenue Service
- National Aeronautics and Space Administration
- National Archives and Records Administration
- Office of Federal Housing Enterprise Oversight
- Office of Personnel Management
- Postal Rate Commission
- United States Capitol Police
- White House Commission of the National Remembrance

Internal Stakeholders

- Veterans Benefits Administration (VBA)
- Veterans Health Administration (VHA)
- National Cemetery Administration (NCA)
- VA Staff Offices

Our Stakeholders

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 authorization and appropriations committees and subcommittees, and veterans service organizations.

As knowledgeable government professionals, we provide our stakeholders with creative, cost-effective, and practical solutions to help them 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 we understand unique requirements and financial constraints. We realize that we must compete for business every day and we thank our new and repeat customers for their trust and confidence.

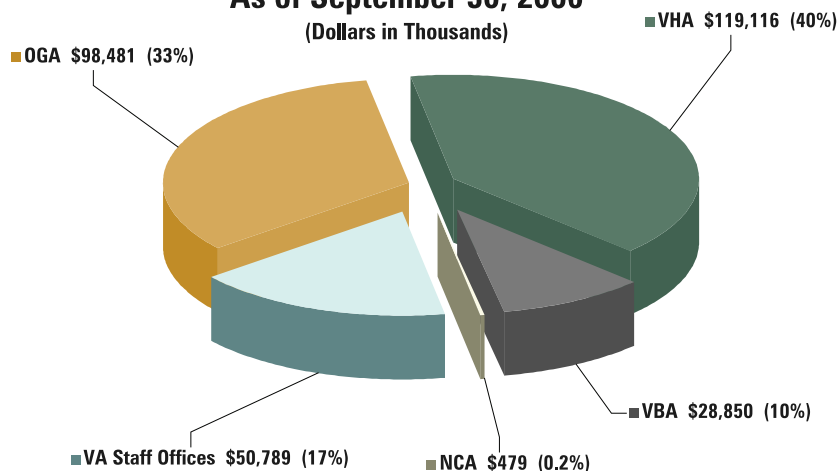
The American public also holds us accountable to high standards as we spend their tax dollars to administer government programs. Expensive and wasteful practices are not acceptable. We embrace resilience and resourcefulness, which are hallmarks of a small business, as we adopt business practices that enable us to become more efficient, responsive, and cost conscious.



Our efforts to exceed expectations related to financial results, customer satisfaction, and performance objectives have achieved efficiencies and generated value not only to our parent agency but also to other Federal agencies that we serve.

VA Franchise Fund Revenue by Customer As of September 30, 2006

(Dollars in Thousands)

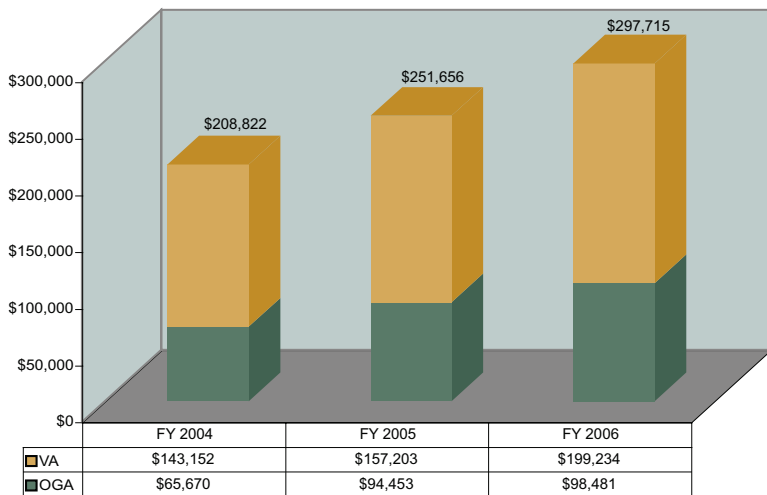


Our parent agency, VA, accounts for \$199 (67 percent) of our FY 2006 total revenue (\$297 million). Of our FY 2006 total revenue:

- \$119 million (40 percent) came from VHA, our largest customer
- \$50 million (17 percent) came from VA Staff Offices
- \$28 million (10 percent) came from VBA
- \$479,000 (less than 1 percent) came from NCA
- \$98 million (33 percent) came from OGA

VA Franchise Fund Revenue Sources – VA vs. OGA

(Dollars in Thousands)



Our total revenue has increased steadily over the last three years. Historically, VA has accounted for the majority of our total revenue. In FY 2006 our VA revenue reached an unprecedented level of \$199 million resulting in:

- 39 percent over FY 2004 levels (\$143 million)
- 27 percent over FY 2005 levels (\$157 million)

We have made great strides in acquiring business from outside VA. We ended FY 2006 with \$98 million in OGA revenue:

- 50 percent over FY 2004 levels (\$65 million)
- 4 percent over FY 2005 levels (\$94 million)

This additional business benefits all of our customers because it allows us to spread our overhead costs to a wider customer base.

FY 2006 Accomplishments

Receipt of Unqualified "Clean" Audit Opinion

The VA Franchise Fund received its ninth consecutive unqualified "clean" audit opinion. This achievement caps our extensive efforts to produce timely, reliable, and auditable financial statements.



Information Technology

■ Acquisition Center of Excellence

Through a partnership with VA's Office of Acquisition and Materiel Management, the Austin Automation Center (AAC) became a VA Center of Excellence in FY 2006 for solicitation, award, and administration of VA-wide contracts.

■ Federal Achievement Award for AAC

As a result of awarding \$2.5 million (more than 4 percent of procurement dollars) toward veteran and service-connected disabled veteran-owned small business (SDVOSB), the AAC earned the Federal Achievement Award from the VA Center for Veterans Enterprise for significant contributions to expand business opportunities for SDVOSBs. The catalyst for the award was the success of the AAC's Acquisition Center of Excellence, which exceeded Secretary Nicholson's goal of awarding 3 percent of total procurement dollars to SDVOSBs.

■ Largest Contract Award to SDVOSB

The AAC's Acquisition Center of Excellence awarded a contract to an SDVOSB for approximately 250,000 workstations and 9,000 servers. This award was one of the largest single awards ever made by the Federal government to an SDVOSB.

■ "Best in Class" Rating in Gartner Customer Satisfaction Survey

For the seventh consecutive year, the AAC contracted with Gartner Consulting, a division of Gartner, to conduct an independent satisfaction survey of 500 VA and OGA customers. The AAC scored in the top 8 percent of Gartner's Information Technology Customer Satisfaction database, with an overall satisfaction rating of 4.15 out of 5.0, earning a prestigious "best in class" rating, and greatly surpassing the database average score of 3.73 for all 232 private and public sector organizations in Gartner's database.

■ Completion of Records Center Expansion

The Records Center and Vault took possession of its newest records storage area, Bay G, in June 2006. The 50,912-square-foot build-out is adjacent to the existing facility and is critical to its future success as a records storage and management services entity. With the acquisition of over 3,200 13- and 14-shelf steel shelving units in FY 2006, we anticipate meeting new records storage growth through FY 2009.

Financial Management

■ Increase in Collections

Collections have grown consistently since FY 2003—showing a 44 percent increase from \$382 million to an estimated \$550 million in FY 2006. By taking advantage of all available collection tools, the Debt Management Center (DMC) strives to maximize the return on their dollar while reducing the Department's delinquent benefit debt portfolio.

■ Launch of Web-Enabled Applications

The DMC continues to make improvements to its Web-based payment application (Pay.va.gov), which offers a simple, convenient payment option for beneficiaries to use credit cards, debit cards, and electronic fund transfers to pay debts online. The DMC's Web-based collections reached \$7.4 million in FY 2006, resulting in a 57 percent increase from the prior year (\$4.7 million).

The Financial Services Center (FSC) completed the rollout of its new Web-based Standard Form (SF) 224 Report of Transaction application, which facilitates the process for stations to report corrections to unmatched SF-224 transactions, greatly simplifying workflow and dramatically improving operations and audit trail and service delivery.

The FSC completed the development and testing of Financial Accounting Service—Federal (FASFED), a Web-based application to expedite

and improve intragovernmental payment and collection transactions processed by other government agencies. Access to FASFED will provide customers with a mechanism to obtain documentation of transactions processed, expedite clearing suspense items, and offset outstanding advances.

The FSC also completed the rollout of its Medical Care Collections Fund lockbox portal to replace the manual processing of lockbox credit card coupons to field stations.

■ Instrumental in E-Gov Initiatives

The FSC led VA's implementation of the E-Gov Travel Service and provided support to VA's legacy travel systems. This role included coordinating with the managing partner (General Services Administration) and the vendor (Electronic Data Systems), and overseeing the deployment tasks. In addition, the FSC supported local payroll stations (approximately 1,500 employees) in Austin, TX, who were first to migrate the Defense Finance and Accounting Service e-Payroll application in August 2006. This transition was successful and transparent to the employees.

■ Increase in Rebates

As a result of aggressively using the commercial purchase card program for micro-purchases, fee basis, and travel, rebates increased from \$35 million in FY 2005 to \$37 million in FY 2006.

Attainment of Permanent Legislative Authority to Operate

In 2006, under Public Law 109-114, permanent legislative authority was conferred upon the VA Franchise Fund. This permanent footing will enable us to make a long-term commitment to improve the quality and lower the cost of services that we provide our customers.



Unprecedented Growth in Revenue

The unprecedented growth of total revenue demonstrates the continuing customer demand for our common administrative support services. By the end of FY 2006, total revenue grew to more than \$297 million. This growth was a direct result of an increase in VA business, which ended in record sales of \$199 million—39 percent over FY 2004 levels (\$143 million) and 27 percent over FY 2005 levels (\$157 million).



- **Centralization Efforts**

The payments of most certified and matched invoices for goods and services were centralized at the FSC. The benefits of this centralization included a reduction in the Department's interest penalty payments and an increase in discounts earned. Centralization of construction payments began in FY 2006 and is scheduled for completion in FY 2007.

In addition, permanent change of station (PCS) services were centralized to take advantage of the FSC's resources and relocation expertise in order to improve services to VA travelers and provide better capability to handle the periodic PCS surge periods.

- **Launch of Online Interactive Web Application**

All continuing education for VA police officers has been moved to an online interactive Web application, which enables the LETC to monitor VA stations' progress, and provide status reports to senior management.

- **Completion of 80-hour Refresher Training Course**

The LETC completed the development of its 80-hour refresher training course. As a result, 700 VA police officers were trained over a span of 2 years. These police officers will be required to take the refresher every 4 to 5 years. The goal of this major initiative was to bring all VA police officers up to the same level of training.

Security and Law Enforcement

- **New Training Facility**

The Law Enforcement Training Center (LETC) obtained additional space for its training facilities from the VA Medical Center in North Little Rock, Arkansas, to accommodate its advanced investigative training course offerings.

- **Increase in DoD Business**

The LETC successfully implemented a concentrated marketing plan to increase business with Department of Defense (DoD) law enforcement agencies. During the fourth quarter of FY 2006, five DoD components visited the training site and were impressed with the program. As a result, the curriculum was expanded to accommodate additional DoD requirements.

Performance Measures

VA's Strategic Enabling Goal and Objective

Enabling Goal. Deliver world-class service to veterans and their families through effective communication and management of people, technology, business processes, and financial resources.

Objective. Improve the overall governance and performance of VA by applying sound business principles; ensuring accountability; employing resources effectively through enhanced capital asset management, acquisition practices, and competitive sourcing; and linking strategic planning to budgeting and performance.

The Franchise Fund goals tie to the VA goals by:

- Ensuring that all applications processing support and general support are of the highest quality.
- Ensuring that debt management collection services for delinquent consumer debt meet customer needs and requirements.
- Ensuring that payroll and financial services meet customer needs and requirements.
- Ensuring that VA's work environment is recognized by employees as conducive to productivity and achievement, and fosters respect among all.
- Ensuring high quality and timely background investigations and adjudications for employees in national security and public trust positions and issuing and managing 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 16 and 17 accurately represents the performance during FY 2003–2006. 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 of the VA Franchise Fund is committed to achieving its performance goals to ensure that we remain a performance-based organization. Out of 8 performance goals, 6 were met and 2 were not met. Process improvements have been implemented for the 2 unmet goals to improve future performance.

Performance Summary Table

Performance Measure	Actuals				Plan	Were 2006 Goals Achieved?	
	2003	2004	2005	2006	2006	Yes	No
Austin Automation Center							
Ranking in the Information Technology Customer Satisfaction peer database	10%	6%	12%	8%	15%	✓	
Availability rate of online systems ^{1,2}	99.8%	99.8%	99.9%	99.9%	99.8%	✓	
Debt Management Center							
Rate of return (Collections versus Expenses)	\$63	\$63	\$67	\$80	\$66	✓	
Financial Services Center							
Payment processing accuracy rate ³	98.9%	98.4%	99%	97.9%	98.4%		✓

¹ The industry standard is 99 percent and best practice is 99.5 percent.

² Goal will be 99.9 percent for mission critical systems architected for high availability.

³ The payment processing accuracy rate will be improved as a result of implementing Optical Character Recognition and E-Invoicing. These solutions will reduce errors associated with manual keying of invoice data and eliminate the need for human intervention.

Performance Summary Table

Performance Measure	Actuals				Plan	Were 2006 Goals Achieved?	
	2003	2004	2005	2006	2006	Yes	No
Law Enforcement Training Center							
Class graduation rate	95%	95.6%	95%	96.5%	95%	✓	
Security and Investigations Center							
Percentage of background investigations completed within the established timeframes	98%	98%	89%	96%	98%		✓
Records Center and Vault							
Percentage of shipment (accession) numbers assigned within the established timeframes ⁴	N/A	99.7%	100%	100%	98%	✓	
Enterprise Fund Office							
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	✓	

⁴ This is a new measure. Results were tracked in FY 2004.

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 that 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 ninth consecutive year (1998-2006), 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.

Financial Statement Analysis

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 2006 and FY 2005. 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 that the Fund had total assets of \$222.5 million at the end of FY 2006—an increase of \$28.5 million (15 percent over the previous year's total assets of \$194.0 million). The increase is primarily the result of an increase of \$36.9 million in Fund Balance with Treasury, which is offset by decreases in Accounts Receivable of \$6.3 million and Other Assets of \$4.8 million. The increase in Fund Balance with Treasury is primarily driven by the 18 percent increase in the Fund's revenue of \$297.7 million. Other Assets decreased to nearly a third of its FY 2005 level primarily due to the amount of federal advances outstanding at the close of the fiscal year, which were greatly reduced. (Note 3)

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

(Dollars in Thousands)

	2006	2005
Fund Balance with Treasury	\$147,785	\$110,805
Property, Plant and Equipment, Net	24,039	21,247
Accounts Receivable, Net	48,415	54,765
Other Assets	2,326	7,197
Total Assets	\$222,564	\$194,014

Liabilities

The Fund had total liabilities of \$112.6 million at the end of FY 2006—an increase of \$18 million (19 percent over the previous year's total liabilities of \$94 million). The increase is largely due to Other Liabilities (\$18 million increase in Accrued Payables). The increase in Accrued Payables is mostly due to additional activity with acquisition services in the IT segment.

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

(Dollars in Thousands)

	2006	2005
Other Liabilities	\$77,932	\$59,702
Intragovernmental Liabilities	24,179	31,789
Accounts Payable	10,565	3,147
Total Liabilities	\$112,676	\$94,638

Management Assurances

The financial and performance data presented in this report are complete and reliable. Throughout the year, the VA Franchise Fund senior managers assess the efficiency and effectiveness of their organizations by analyzing financial and performance data. Management relies on this data to identify material inadequacies in the financial and program performance areas and to identify corrective tasks needed to resolve them.

As a part of a VA Departmentwide initiative, Department managers were tasked with the responsibility for establishing and maintaining effective internal controls over financial integrity and financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations. Based on statements of Written Assurance provided by the Under Secretaries, Assistant Secretaries, and other key officials, the Secretary of Veterans Affairs can provide reasonable assurance that the internal controls as described in the Federal Managers' Financial Integrity Act and Revisions to OMB Circular A-123, Management's Responsibility for Internal Control were operating effectively and no material weaknesses were found. The Secretary of Veterans Affairs' signed certification on internal controls may be found on page 81 in the 2006 Department of Veterans Affairs Performance and Accountability Report (<http://www.va.gov/budget/report/PartI.pdf>)

Net Position

The Fund's net position increased by \$10.5 million in FY 2006 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was \$109.8 million in FY 2006—a 10 percent increase over the prior year's ending net position of \$99.3 million. Net position is the sum of unexpended funds and cumulative results of operations.

Cumulative Results of Operations

The cumulative results of operation of the Fund had a net income of \$3.9 million in FY 2006—nearly the same level as the previous year of \$4.1 million, as reflected in the Consolidated Statement of Net Cost.

Financing Operations

The Consolidated Statement of Financing reconciles the resources available to finance the Fund's operations with the net costs of providing services. Direct financing resources are not required for some operating cost such as depreciation. The FY 2006 spending authority from offsetting collections and adjustments for the Fund totaled \$352.2 million—a 29 percent increase from the FY 2005 level of \$272.5 million.

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 \$441.2 million—a 26 percent increase over the FY 2005 level of \$348.2 million.

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

(Dollars in Thousands)

	2006	2005
Beginning Unobligated Balance	\$88,930	\$75,722
Spending Authority Earned and Collected	311,095	239,659
Receivable from Federal Sources	(6,233)	26,709
Change in Unfilled Customer Orders	47,432	6,182
Total Budgetary Resources	\$441,223	\$348,272



When customers experience problems in their daily computing activities that require immediate assistance, one avenue open to them is to contact our certified help desk professionals. Having a centralized unit within the organization to handle and manage incidents has proven to be an extremely effective way of supporting the customer and delivering better service.



In response to the increasing need for faster restoration times following emergencies, electronic data vaulting is utilized to provide 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

The **Austin Automation Center (AAC)** provides the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), and National Cemetery Administration (NCA) with IT hosting services for many of the key systems that directly support veterans.

- **MyHealthVet** is a Web-based application designed specifically for veterans and their families. The tools help veterans partner with healthcare providers to achieve their best possible health. Veterans add information to their personal health journal about over-the-counter medications, allergies, military health histories, medical events, and tests. Veterans can also keep a log of personal health readings, such as blood pressure, blood sugar, cholesterol, weight, heart rate, and pain level, and can securely request refills for their prescriptions online.
- **HomeTelehealth** is an innovative program that enables veterans to self-report recurring health monitors to VA medical centers and receive health assessments without physically going to clinics, which can be difficult for elderly or chronically ill patients.
- The **Scheduling Replacement Project** will provide a re-engineered and redesigned outpatient appointment scheduling system to better meet the needs of staff and patients. The system is based on the Institute for Health Care Improvement guidelines for open and advance access to care models.
- The **Health Data Repository** is a repository of clinical information that can be used by clinicians and other personnel to facilitate longitudinal, patient-centric care.
- The **Enrollment System Redesign (ESR)** will be used by VHA to integrate the Administrative Data Repository with a centralized application for registering patients for VA health care and facilitating the decisions involved in the enrollment process. ESR will connect the local VA health care facility with the centralized database to provide a single view of the enrollment status for any individual veteran.
- **VBA's Corporate Applications** are being automated to improve benefits delivery processes. As a result, a major effort is under way to migrate VBA's legacy systems into an integrated information system, VETSNET.
- **Loan Guaranty System** allows online processing of applications for VA loans.
- **VBA's Architecture for Common Services (ACS) System**, together with the Administrative Data Repository, provides infrastructure for VHA applications processing at the AAC. The ACS provides a standard set of peripheral services required by any centralized HealthVet (HeV) application. Typical services include common access to the centralized database, a centralized personal identity management function, and messaging services. The ACS is the backbone of the HeV architecture employed by VHA.
- 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.

- **National Change of Address (NCOA)** and address-cleansing services provide standardized United States Postal Service (USPS) deliverable addresses for VA mail delivery. In addition to improving the success rate of mail delivery, this service enables VA to receive USPS postage discounts. Through a partnership with the USPS and third-party software, the AAC provides address-cleansing and NCOA services for the VA community.

The AAC hosts several important sharing projects between DoD and VA.

- The **Consolidated Mail Out Pharmacy (CMOP)** allows DoD patients to receive prescription refills using VA CMOP facilities, resulting 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 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-ray, CAT scan, and other digitized medical data to VA medical centers for analysis. Such telemedicine projects have already been effective within VA.
- The **DoD-VA Bidirectional Health Information Exchange (BHIE)** 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 that government health care providers can use to access and provide pertinent medical information about an individual across the continuum of care while protecting the individual's privacy.

The Records Center and Vault (RC&V) indirectly supports the veteran population by providing a climate controlled, highly secure facility for storage of their vital records. Prompt service is given through its Web-enabled Records Retrieval System. The RC&V stores approximately 1.2 million boxes of records and receives approximately 75,000 additional boxes of newly archived records, mainly from VHA, each year.

Our OGA customers have unique requirements necessitating higher levels of service. Our customized storage environment meets their security and access needs, and the RC&V staff servicing OGA records possess elevated levels of security clearance.



Plans for 2007 and Beyond



- **Implementation of Industry Best Practices**

To provide increasing value to our customers, the AAC uses a continuous process improvement approach to managing the delivery of services. The AAC is instituting several management initiatives considered to be industry best practices. These include improving service management/service delivery processes through the implementation of Information Technology Infrastructure Library guidelines, pursuing a Capability Maturity Model Integration Level III accreditation in FY 2007, and evaluating projects using Earned Value Measurement to control project risk by measuring project progress in terms of cost and schedule. The AAC is focusing on the complementary strengths of each of the models to develop and document process assets.

- **Relocation of Vault's Inventory**

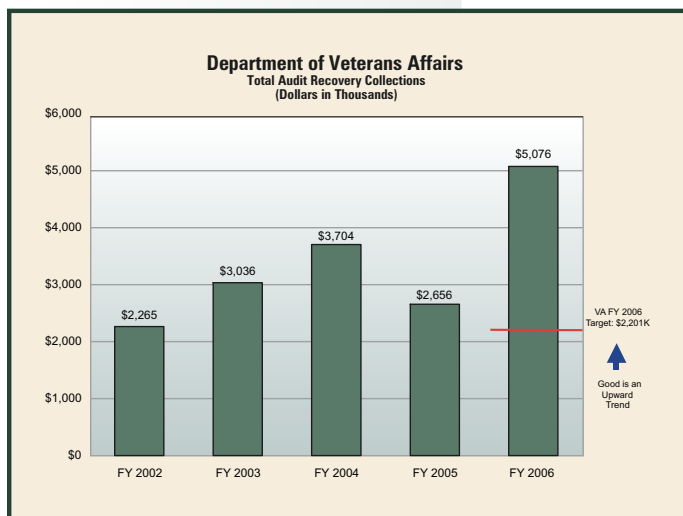
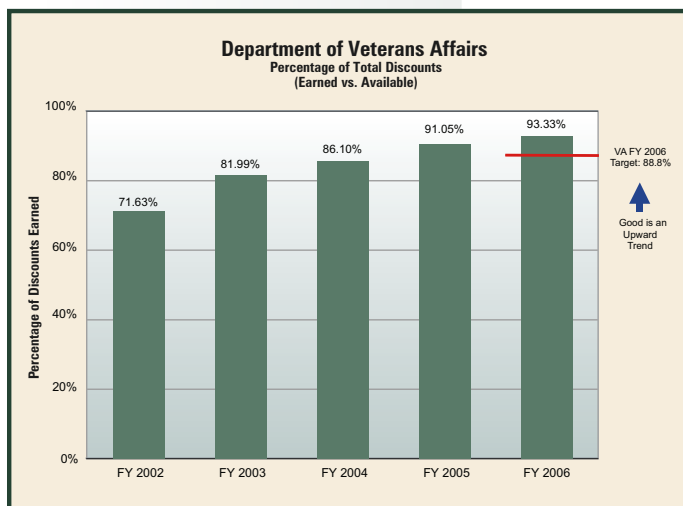
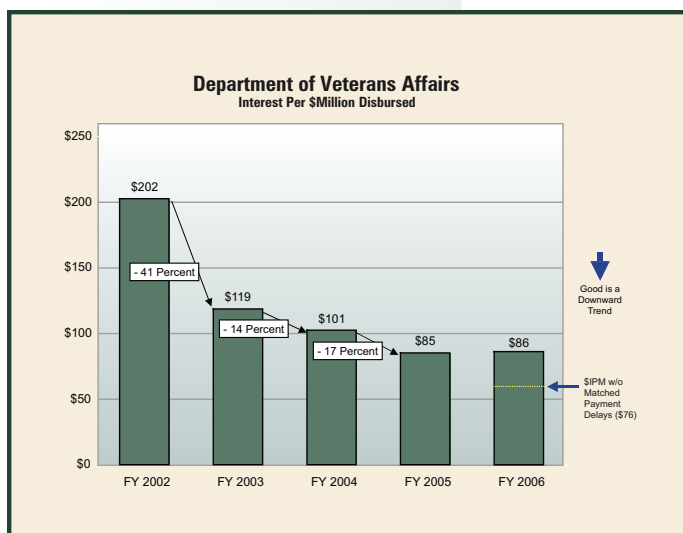
The RC&V will close the Vault when the 10-year lease expires in FY 2007. A business case analysis concluded that a considerable financial investment would be required to bring the Vault and its equipment up to acceptable operating standards. The Vault's inventory will be relocated to its nearby Records Center; the move will take place over several months to avoid disruption in customer service.

Financial Management

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

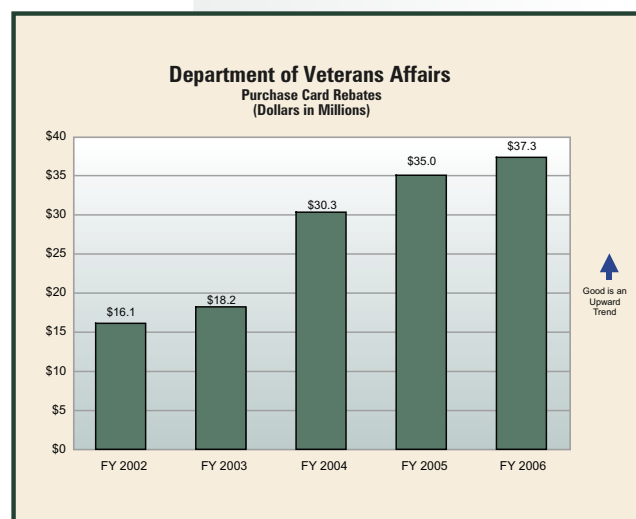
- Compliance with the **Prompt Payment Act** continues to enhance the Department's vendor payment processes. The Department processed over 5.6 million Prompt Payment Act-eligible invoices worth over \$9.7 billion, with over 99 percent paid on time. In FY 2006, interest payments VA-wide increased by \$113,000 (from \$746,000 to \$858,000—a 15.2 percent increase over FY 2005 levels), largely attributable to an increase in interest on payments for the delivery of goods, and subsequently corrected through a process improvement. Further FY 2006 interest paid as a percentage of total payments remained unchanged from FY 2005 levels. At the same time, discounts earned declined by \$1.4 million to \$4.8 million, a 22.7 percent decrease over FY 2005 levels due to fewer available discounts. VA's percentage of discounts actually earned improved from 91.1 percent in FY 2005 to 93.3 percent in FY 2006. The improvement in discount processing saved VA \$116,000 million in FY 2006.

VA also continued to gain efficiencies and better results through an initiative completed in FY 2006 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 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 \$277,000 during FY 2006 for reuse by VA entities.



Overall, during FY 2006, collections of improper payments and the recovery of unapplied vendor statement credits totaled over \$5.1 million. Improved payment oversight also enabled VA to identify and cancel nearly \$7.9 million in potential improper payments prior to disbursement. Since the FSC audit recovery effort's inception in FY 2001, VA has recovered over \$18.3 million in improper payments and prevented the improper payment of another \$21.1 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 **Micro-Purchase Card** transactions were processed, representing over \$2.1 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned VA \$37 million in credit card refunds, compared with \$35 million during the same period in FY 2005. These refunds are returned to VA entities for use in veterans programs.
 - The **Fee Basis Program** automates health care fee basis payments, eliminates paper checks, and earns VA additional credit card refunds. In FY 2006, VA's Fee Basis credit card program processed over 200,000 transactions, representing \$50 million in payments, and generating over \$824,000 in refunds compared with \$414,000 during FY 2005.
 - **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 Secure Payment System. In FY 2006, the travel management program processed over 127,000 transactions, disbursed payments of over \$22 million, and earned over \$274,000 in refunds.
- **VA's Prime Vendor Payment System** automates payments under a nationwide prime vendor centralized purchasing contract. In FY 2006, 126 VA medical centers used the Prime Vendor System to electronically process over 430,000 transactions with over \$3.6 billion compared with over \$3.7 billion during FY 2005. The FSC ensures that 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 **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 21,355 registered vendors who have made over 427,755 requests in FY 2006 and a total of over 1.1 million requests since VIS's 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 the customer service efficiency of the FSC staff by handling many routine inquiries and freeing staff to work the more difficult issues for customers.



- 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. In FY 2006, the FSC completed most of the centralization of certified and matched payments throughout VA and implemented OLCS at all VA medical facilities. This brings the number of OLCS users to 9,000.
- The **Electronic Commerce (EC)/Electronic Data Interchange (EDI) System** is used to process invoices, purchase orders, and payments for the Veterans Canteen Service, Denver Acquisition and Logistics Center, and the VA subsistence prime vendor program. The Veterans Benefits Administration (VBA) benefits from EC service in the FSC's handling of loan processing, identifying the status of loan defaults, and processing loan guaranty certificates. In addition, the FSC supports Veterans Health Administration (VHA) initiatives (e-Claims enhancements, e-Insurance Verification, e-Medicare Remittance Advice, e-Payments, and e-Pharmacy) as well as the National Provider Identifier and Patient Financial Services System projects by complying with EC/EDI mandates identified in the Health Insurance Portability and Accountability Act of 1996 to electronically ensure the validity of data. The FSC implemented EC/EDI for its first non-VA customer (Department of Agriculture) in FY 2006.
- 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 storing requests for supplemental vendor information, Federal accounts information, and other Federal agencies' grants and scheduling documents. Additionally, the DMS has shown potential for storing and retrieving finance records, payroll folder data, contract files, and legal documents.

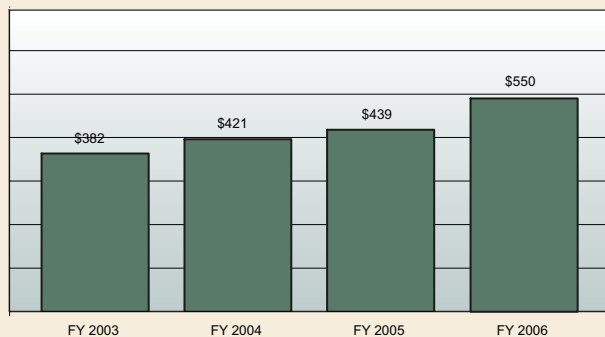
The **Debt Management Center (DMC)** continues its role as a leader in the Federal debt management community. By providing a complete accounts receivable program, the DMC continues to service both VBA and VHA by collecting benefit program debts and implementing administrative offsets on delinquent medical debts.

The DMC continued to increase collections/administrative offsets as more effort was placed on maximizing the use of our collection tools. This major accomplishment is a direct result of several improved business practices: elimination of second collection notices, shortening collection timeframes before issuing the mandatory referral to Treasury for offset under the Treasury Offset Program, and the implementation of a Web-based application that allows

debtors to use a credit card to pay their debt online. Online collections reached \$7.4 million in FY 2006—a 57 percent increase from FY 2005 levels (\$4.7 million).

The Department's collections have grown consistently since FY 2003—showing a 44 percent increase from \$382 million to an estimated \$550 million in FY 2006. By taking advantage of all available collection tools, the DMC strives to maximize return on the dollar while reducing the Department's delinquent benefit debt portfolio.

Department of Veterans Affairs Collections/Administrative Offsets (Includes benefit offsets for medical debts) (Dollars in Millions)



Plans for 2007 and Beyond



■ Support Service for E-Gov Initiatives

E-Travel is an e-Gov initiative in which the FSC has been integrally involved. The FSC will continue to provide VA-wide support during the pre- and post-implementation phases to FedTraveler.com. E-Travel help desk support will be provided to travelers who are currently using other travel solutions until they are migrated to FedTraveler.com. This migration is scheduled to be completed in FY 2008. At this time, Electronic Data Systems, Inc. will begin to provide help desk support to VA travelers.

The FSC will also continue to support the e-Payroll initiative, which is a part of the e-Gov strategy to simplify and standardize Federal payroll processes. Under this initiative, VA was aligned with DoD's Defense Finance and Accounting Service (DFAS). The first phase of the DFAS payroll processing was completed in August 2006. It included approximately 1,500 employees serviced by the FSC's local payroll staff. The second phase is scheduled to begin in mid-2007, with the remainder of VA's payroll processing scheduled to be migrated to DFAS by the end of FY 2008.

■ Expansion of Great Plains® Accounting Package

The FSC will continue to expand its customer base for Great Plains® Accounting Package, Medical Claims Processing, and EC/EDI by pursuing small and mid-sized OGAs.

■ Support Service for VA's Financial Management Initiatives

The FSC will continue to provide support to VA's Financial and Logistics Integrated Technology Enterprise initiative and other financial system enhancement efforts in FY 2007 and beyond.

■ Centralization of Construction Payments

Centralization of construction payments at the FSC began in FY 2006 and is scheduled for completion by FY 2007.

Our residential training center provides an opportunity for police officers to train in an environment similar to the one in which they work. In FY 2006, we trained over 1,082 law enforcement professionals.



A Live Scan Classification Management System takes flawless fingerprint images and electronically transmits them to OPM. This device has decreased the rejection rates by the FBI and the wait time of our customers.



Security and Law Enforcement

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.). Approximately 2,700 VA law enforcement personnel work closely with the medical treatment teams at VA health care facilities throughout the country to resolve patient-related incidents in the most therapeutic manner. Students leave our training program with a more focused, detailed understanding of how to diffuse a potentially volatile situation.

Our unique training program has proven to be attractive to Federal law enforcement communities at healthcare facilities, parks, museums, military installations, and other special missions and limited jurisdiction settings nationwide that possess a customer-oriented vision similar to that of VA. The students receive practical and classroom instruction on the importance of ensuring the safety of all patients, customers, and staff while maintaining order.

The LETC has been very responsive in addressing the concerns of its customers by tailoring courses to meet specific law enforcement needs. A firearms course was introduced into the program to address the growing concern of encounters with armed patients and visitors. This well-attended course is physically and mentally challenging. It provides training in the proper deployment of firearms tactics and safety. At the request of customers, the LETC developed several specialty courses (such as Advanced Crime Scene Processing and Technical Surveillance Installation) geared toward detective and investigator disciplines to enhance abilities to conduct criminal and administrative investigations.

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 investigation by working closely with the Office of Personnel Management (OPM), VA Central Office staff, or VA regional offices. In addition, the SIC provides quality and timely background investigations and adjudications for national security and public trust positions, provides security checks for appointees and/or high-level award recipients centralized to the Secretary of VA, processes fingerprints, and issues identification cards.

Plans for 2007 and Beyond



- **Construction of New Dormitory**
 The LETC will continue to work with VA Central Office to obtain funding for the construction of a new dormitory that will be built adjacent to the existing training and housing units to accommodate the growing needs of the in-house residence program.
- **Development of a Centralized Records Management System**
 In an effort to better serve VA, the LETC worked with the AAC to develop a centralized records management system to house all VA police records. The system was beta-tested in FY 2006, and we anticipate it will be rolled out in FY 2007.
- **Implementation of the VA Police Automated System of Records**
 The VA Police Automated System of Records will give senior leadership enhanced management capability for all VA-related law enforcement activity and facilitate the reporting of criminal statistics to other Federal agencies.
- **Implementation of a 40-hour Patrol Officer Refresher Training Program**
 During FY 2006, at the direction of the VA Office of Security and Law Enforcement, the LETC developed a 40-hour patrol officer refresher training program for VA police officers. The program will begin in FY 2007.
- **Expansion of Specialty Courses**
 In FY 2007 and beyond, the LETC will continue the expansion of its specialty courses to enhance the professionalism of our VA officers and meet the demands of our OGA customers who are underserved by other Federal training facilities.
- **Implementation of E-Qip**
 The SIC plans to implement E-Qip, a secure Internet-based program used for the completion of all required background investigation forms, by the end of FY 2007. E-Qip is expected to reduce workload and administrative costs and to enhance the overall background investigation program for the Department.


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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 sheet of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2006 and 2005, 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, 2006 and 2005. These financial statements are the responsibility of the VA Franchise Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirement for Federal Financial Statements, as amended*. Those standards and OMB Bulletin No. 06-03 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, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 06-03, as amended, we have also issued a report dated November 17, 2006 on our consideration of the VA Franchise Fund's internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. 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 Circular No A-136, revised *Financial Reporting Requirements*. 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
November 17, 2006

LARGO
9200 BASIL COURT, SUITE 400
LARGO, MD 20774
(240) 492-1400 • FAX: (301) 636-6013
mail@brownco-cpas.com

RICHMOND
100 WEST FRANKLIN STREET, SUITE 102
RICHMOND, VA 23220
(804) 648-2017 • FAX: (804) 648-2018
tdbrowncoepas@aol.com


BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Director
VA Enterprise Fund Office

We have audited the financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2006, and have issued our report thereon dated November 17, 2006. 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 U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the VA Franchise Fund's internal control over financial reporting by obtaining an understanding of the VA Franchise Fund's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. 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 an opinion on internal control and therefore, we do not express 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 and OMB Bulletin No. 06-03, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control, which could adversely affect the VA Franchise Fund's ability to meet the objectives of internal control. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud or noncompliance in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregation of related performance measures, 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 no matters involving the internal control and its operation that are considered to be reportable conditions or material weaknesses, except as stated in the following paragraphs.

In Fiscal Year (FY) 2006, the Department of Veterans Affairs (VA) Office of Inspector General (OIG) engaged an independent public accounting firm to perform the audit of VA's consolidated financial statements for the years ending 2006 and 2005. The VA's consolidated financial statements include the Franchise Fund. The accounting firm issued the *Independent Auditor's Report* and *Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance with Government Auditing Standards* dated November 15, 2006, and identified three reportable conditions that include significant departures from certain requirements of OMB Circular A-127, Circular A-123, and Circular A-130: (1) Information Technology (IT) Security Controls – Material Weakness (Repeat Condition), (2) Integrated Financial Management System – Material Weakness (Repeat Condition); and (3) Operational Oversight – Material Weakness (Repeat Condition).

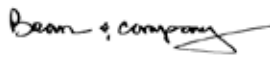
During the course of our audit we noted other matters involving internal control and its operation that we have reported to management of the VA Franchise Fund in a separate management letter dated December 1, 2006.

LARGO
9200 BASIL COURT, SUITE 400
LARGO, MD 20774
(240) 492-1400 • FAX: (301) 636-6013
mail@brownco-cpas.com

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

In addition, with respect to internal control objective related to the performance measures included in the "Management's Discussion & Analysis," we obtained an understanding of the design of internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation as required by OMB Bulletin No. 06-03. Our procedures were not designed to provide an opinion on internal control over reported performance measures, and accordingly, we do not express 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
November 17, 2006

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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, 2006, and have issued our report thereon dated November 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statement*.

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. 06-03, 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 U.S. Government Auditing Standards or OMB Bulletin No. 06-03.

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 reportable instances in which the VA Franchise Fund financial management systems did not substantially comply with the three requirements.

However, in Fiscal Year (FY) 2006, the Department of Veterans Affairs (VA) Office of Inspector General (OIG) engaged an independent public accounting firm to perform the audit of VA's consolidated financial statements for the years ending 2006 and 2005. The VA's consolidated financial statements include the Franchise Fund. The accounting firm issued the *Independent Auditor's Report and Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance with Government Auditing Standards* dated November 15, 2006, and identified three reportable conditions that include significant departures from certain requirements of OMB Circular A-127, Circular A-123, and Circular A-130: (1) Information Technology (IT) Security Controls – Material Weakness (Repeat Condition), (2) Integrated Financial Management System – Material Weakness (Repeat Condition); and (3) Operational Oversight – Material Weakness (Repeat Condition). These material weaknesses in internal control over financial reporting indicate that VA's financial management systems did not substantially comply with the Federal financial management systems requirements as required by FFMIA section 803(a).

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
November 17, 2006

**9200 BASIL COURT, SUITE 400
LARGO, MD 20774
(240) 492-1400 • FAX: (301) 636-6013
mail@brownco-cpas.com**

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

Consolidated Financial Statements

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2006 and 2005
(Dollars in Thousands)**

	<u>2006</u>	<u>2005</u>
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 147,785	\$ 110,805
Accounts Receivable	48,387	54,620
Other Assets (Note 3)	2,318	7,189
Total Intragovernmental	<u>198,489</u>	<u>172,614</u>
Accounts Receivable	28	145
Property, Plant and Equipment, Net (Note 4)	24,039	21,247
Other Assets (Note 3)	8	8
Total Assets	<u>\$ 222,564</u>	<u>\$ 194,014</u>
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable	\$ 0	\$ 7
Other Liabilities (Note 6)	24,179	31,789
Total Intragovernmental	<u>24,179</u>	<u>31,796</u>
Accounts Payable	10,565	3,140
Other Liabilities (Note 6)	77,932	59,702
Total Liabilities	<u>112,676</u>	<u>94,638</u>
NET POSITION	<u>\$ 109,888</u>	<u>\$ 99,376</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 222,564</u>	<u>\$ 194,014</u>

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

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2006 and 2005
(Dollars in Thousands)**

	<u>2006</u>	<u>2005</u>
PROGRAM COSTS:		
Program A:		
Gross Costs Intragovernmental	\$ 23,374	\$ 51,306
Less: Earned Revenue-Intragovernmental	(297,715)	(251,457)
Net Program Costs - Intragovernmental	<u>(274,340)</u>	<u>(200,151)</u>
Costs Not Assigned to Programs	270,390	196,223
Less: Earned Revenues Not Attributed to Programs (Note 7)	<u>0</u>	<u>(200)</u>
NET COST OF OPERATIONS	<u>\$ (3,950)</u>	<u>\$ (4,128)</u>

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2006 and 2005
(Dollars in Thousands)**

	<u>2006</u>	<u>2005</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	\$ 99,376	\$ 90,693
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	2,183	277
Imputed Financing	4,379	4,278
Total Financing Sources	<u>6,562</u>	<u>4,555</u>
Net Cost of Operations	<u>3,950</u>	<u>4,128</u>
Net Change	<u>10,512</u>	<u>8,683</u>
TOTAL NET POSITION	<u>\$ 109,888</u>	<u>\$ 99,376</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, 2006 and 2005
(Dollars in Thousands)**

	<u>2006</u>	<u>2005</u>
BUDGETARY RESOURCES		
Unobligated Balance at the Beginning of the Period	\$ 88,930	\$ 75,722
Spending Authority from Offsetting Collections Earned		
Collected	311,095	239,659
Receivable from Federal sources	(6,233)	26,709
Change in unfilled customer orders		
Advance Received	(20)	6,182
Without Advance from Federal Sources	47,452	
Total Budgetary Resources	<u><u>441,223</u></u>	<u><u>348,272</u></u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	290,872	259,343
Unobligated Balance Available (Note 2)	150,351	88,929
Unobligated Balance Not Available (Note 2)	0	0
Total Status of Budgetary Resources	<u><u>441,223</u></u>	<u><u>348,272</u></u>
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net - Beginning of the Period	21,875	20,202
Obligations Incurred	290,872	259,343
Less Gross Outlays	(274,095)	(230,960)
Less Recoveries of Prior Year Unpaid Obligations, Actual	-	-
Change in Uncollected Customer Payments from Federal Sources	(41,219)	(26,709)
Obligated Balance, Net End of Period	<u><u>\$ (2,566)</u></u>	<u><u>\$ 21,875</u></u>
NET OUTLAYS		
Gross Outlays - Disbursements	274,095	230,960
Less: Offsetting Collections	(311,075)	(245,841)
Net Outlays	<u><u>\$ (36,980)</u></u>	<u><u>\$ (14,881)</u></u>

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

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF FINANCING
FOR THE YEARS ENDED SEPTEMBER 30, 2006 and 2005
(Dollars in Thousands)**

	<u>2006</u>	<u>2005</u>
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$ 290,872	\$ 259,343
Less: Spending Authority from Offsetting Collections and Adjustments	(352,294)	(272,550)
Net Obligations	<u>(61,421)</u>	<u>(13,207)</u>
Other Resources		
Transfers-In	2,183	277
Financing Imputed for Cost Subsidies	4,379	4,277
Net Other Resources Used to Finance Activities	<u>6,562</u>	<u>4,554</u>
Total Resources Used to Finance Activities	<u>(54,859)</u>	<u>(8,653)</u>
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	53,694	4,120
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(9,433)	(7,956)
Resources that Fund Expenses Recognized in Prior Periods	117	(127)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	<u>44,378</u>	<u>(3,963)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>(10,481)</u>	<u>(12,616)</u>
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation and Amortization	6,901	8,406
Bad Debts	1	0
Gain/Loss on Disposition of Assets	(260)	82
Other	(111)	0
	<u>6,531</u>	<u>8,488</u>
NET COST OF OPERATIONS	<u>\$ (3,950)</u>	<u>\$ (4,128)</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, 2006 and 2005
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Created by Congress in 1996, as one of six Franchise Fund pilots operating within the Executive Branch of Government, the Department of Veterans Affairs' (VA) Franchise Fund supports VA's mission by supplying common administrative services at competitive prices. By law, the business lines within the Fund can only sell to Federal entities. This organization accounted for its funds in six activity centers (VA Enterprise Centers) and in one administrative organization: Austin Automation Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and the Enterprise Fund Office. The consolidated financial statements include the six individual activity centers of the Fund. All material intrafund transactions have been eliminated.

B. Basis of Presentation

The VA Franchise Fund consolidated financial statements report all activities of Franchise Fund components. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that the VA Franchise Fund is a component unit of the U.S. Government. The Franchise Fund's fiscal year (FY) 2006 and 2005 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements," as amended.

C. Basis of Accounting

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

D. Fund Balance with Treasury

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

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

E. Accounts Receivable

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

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

F. Property, Plant and Equipment

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

G. Other Liabilities

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

In order to prepare reliable financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated from Franchise Fund's consolidated financial statements.

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

J. 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.

K. 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.

L. 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>2006</u>	<u>2005</u>
Fund Balance with Treasury	\$147,785	\$110,805

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>2006</u>	<u>2005</u>
Unobligated Apportionment		
Available	\$150,351	\$ 88,929
Unavailable		
Obligated balance not yet Disbursed	(2,566)	21,875
Total Unexpended Apportionment	\$147,785	\$110,805

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

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, 2006:

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & Equipment	\$ 1,054	\$ (746)	\$ 308
Capital Leases	0	0	0
ADP Equipment	27,065	(17,483)	9,582
Software	11,073	(9,204)	1,868
Software - In Development	413	0	413
Leasehold Improvements	<u>22,814</u>	<u>(10,947)</u>	<u>11,867</u>
Total PP&E	<u>\$ 62,419</u>	<u>\$ (38,380)</u>	<u>\$ 24,039</u>

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

Note 4. Property, Plant and Equipment (Continued)

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	0	0	0
ADP Equipment	29,562	(20,908)	8,654
Software	10,913	(8,563)	2,350
Software - In Development	124	0	124
Leasehold Improvements	<u>19,463</u>	<u>(9,746)</u>	<u>9,717</u>
Total PP&E	<u>\$ 61,116</u>	<u>\$ (39,869)</u>	<u>\$ 21,247</u>

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 2006 operating lease costs were \$1,420,809 for real property rentals and \$48,672 for equipment rentals. The Franchise Fund's FY 2005 operating lease costs were \$1,355,599 for real property rentals and \$37,009 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 4.7 percent annual increases in cost.

OPERATING LEASES

<u>Fiscal Year</u>	<u>Percentage Increase</u>	<u>Real Property</u>	<u>Equipment</u>
2007	4.7	\$ 1,488	\$ 51
2008	4.3	1,552	53
2009	4.2	1,617	55
2010	4.2	1,685	58
2011	4.2	1,755	60

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

Note 6. Other Liabilities

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

	<u>2006</u>	<u>2005</u>
Intragovernmental		
Accrued Payables – Federal	\$ 4,603	\$ 12,193
Advances – Federal	<u>19,576</u>	<u>19,596</u>
Total Intragovernmental Liabilities	<u>\$ 24,179</u>	<u>\$ 31,789</u>
Public		
Accrued Payables	\$ 72,489	\$ 54,128
Accrued Salaries & Wages	1,878	2,162
Accrued Funded Annual Leave	<u>3,564</u>	<u>3,412</u>
Total Public Liabilities	<u>\$ 77,932</u>	<u>\$ 59,702</u>

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

Austin Automation Center

Enterprise Business Office
1615 Woodward Street
Austin, TX 78772
Phone: 512-326-6005
Fax: 512-326-6922
E-mail: dvac@va.gov
Internet: www.aac.va.gov

Law Enforcement Training Center

2200 Fort Roots Drive, Building 104
North Little Rock, AR 72114
Phone: 501-257-4160
Fax: 501-257-4145
E-mail: christopher.price@med.va.gov

Debt Management Center

P.O. Box 11930
St. Paul, MN 55111
Phone: 612-970-5700
Fax: 612-970-5687
E-mail: dmc.ops@va.gov
Internet: www.va.gov/debtman/default.html

Security and Investigations Center

2200 Fort Roots Drive, Building 104
North Little Rock, AR 72114
Phone: 501-257-4160
Fax: 501-257-4145
E-mail: christopher.price@med.va.gov

Financial Services Center

Business Development Division (104/00B)
P.O. Box 149975
Austin, TX 78714
Phone: 512-460-5011
Fax: 512-460-5117
E-mail: bso@va.gov
Internet: www.fsc.va.gov/fsc/index.htm

Records Center and Vault

1615 Woodward Street
Austin, TX 78772
Phone: 512-326-6576
Fax: 512-326-7442
E-mail: aacvarc&v@va.gov
Internet: www.aac.va.gov/vault/default.html



Contact the Department of Veterans Affairs
for additional copies of this report or download from the Web:
www.va.gov/fund/reports.html

Department of Veterans Affairs
Enterprise Fund Office
Attention: Loleisa Davis
810 Vermont Avenue, NW (047F)
Washington, DC 20420
vafund@va.gov