



The Treasury Franchise Fund is one of the government's leading shared services providers. We provide common administrative support services on a competitive, fully cost-reimbursable basis, and enable our customers to focus on meeting their missions.

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Treasury Franchise Fund

October 1, 2009 – September 30, 2010

Message from the Commissioner

I am pleased to present the annual report of the Treasury Franchise Fund (Fund) for fiscal year 2010. Although each year presents a new set of challenges and opportunities, we continue to work toward our goal of providing responsible, effective administrative support services through our commitment to service, efficient operations, openness to change, and values-based behavior.

During 2010, we worked hard to meet the President's challenge to improve efficiencies and focus on programs that provide the greatest value. We were also impacted by the Office of Management and Budget's change in the strategic direction of shared services, as well as the new guidance issued and the transfer of responsibility for financial systems integration to Treasury.

Although the changes are significant, we are well positioned to meet them and to seize the new opportunities they provide. Our commitment to continual improvement and providing valuable and cost effective shared services will serve us well as agency budgets tighten. We are also excited about Treasury's new role in defining the strategic direction of federal financial management and look forward to supporting the Office of Financial Innovation and Transformation.

As we have worked to meet the external challenges presented, we also initiated or successfully completed several high priority internal projects. We initiated a "Fiscal IT" initiative that combines data center operations for Public Debt and the Financial Management Service (FMS) and will provide both cost savings and improved capabilities. We completed the transition of Oracle E-Business Suite to a commercial host, and became a TICAP (Trusted Internet Connection Access Provider), establishing two Trusted Internet Connections. These and other initiatives allow us to continue to provide excellent service over a secure and reliable infrastructure.

Again this year, I want to give credit, along with my thanks, to our employees for the high quality service they provide to customers. Their dedication and hard work is the reason for our success. We take seriously our responsibility to provide a work environment conducive to success and are proud of our 6th place ranking in the *Best Places to Work in Federal Government 2010* survey.

We will continue to dedicate ourselves to improving efficiency, cost effectiveness, and accountability. The following pages provide a glimpse into our other major accomplishments, financial highlights, and plans for the upcoming year.

Van Zeck
Commissioner of the Public Debt

Our Services

ARC provides the following administrative support services:

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

ARC is a designated Federal Shared Service Provider in the Financial Management, Human Resources, Public Key Infrastructure, and Information Systems Security Lines of Business.

Accomplishments

System Upgrades and Enhancements

Successful Upgrade to PRISM 6.5

We upgraded our automated procurement system, PRISM, to version 6.5 in 2010. Included in the upgrade was the required tracking of procurement actions issued in support of the Recovery Act. This change improves the accuracy of reports of procurement spending to Congress through the Federal Procurement Data System - Next Generation. PRISM 6.5 also provides functionality for electronic signatures for contracting officers, which supports the "go green" initiative.

Completion of Migration to Commercial Hosting Provider

The final instance of the Oracle e-Business Suite was migrated to a commercial hosting provider early in 2010. This provides flexibility in system scalability, structured system maintenance, and improves our ability to provide customers with stable, predictable prices.

Authorization to Operate Two Trusted Internet Connections

Our Office of Information Technology received approval from the Department of Homeland Security in 2010 to operate two Trusted Internet Connections (TICs). The migration of all external connections and platforms to the new TIC infrastructure was completed on time and within budget and we now operate two of only 64 TICs government-wide. The effort improved security and allows for easier monitoring of our external network connectivity to hosted applications. This significant effort was accomplished through the collaborative efforts of our staff, Treasury CIO staff, and our customers, who helped engineer, deploy, secure, and test.

webTA Upgrade

To improve support for customers and provide greater data reliability, the underlying database of webTA, an automated time and attendance system, was upgraded from Oracle 9i to Oracle 11g in July. The upgrade significantly improved the reliability and performance of the system, and provided more efficient data return times, a reduction of manual administrator intervention, and additional ability for performance measurement.

Other News

Provided Essential Support for Government-Wide Initiatives

During FY 2010, we supported Treasury as they established the Office of Financial Innovation and Transformation and the Consumer Financial Protection Bureau. We provided administrative support including staff acquisition and classification, as well as procurement services to support these agencies. We like to think that by providing timely and valuable services, ARC is supporting federal priorities and assisting Treasury in meeting regulatory commitments.

Customer Satisfaction

Our goal is to consistently provide excellent service, high quality deliverables, and unmatched value to our customers.

In order to understand how well we achieve these objectives, as well as what we can do to further improve our services, we conducted a survey of all of our customer agencies in FY 2010.

We have considered the feedback that we received, and are working to continue to improve our service and better meet the needs of our customers.

Finances

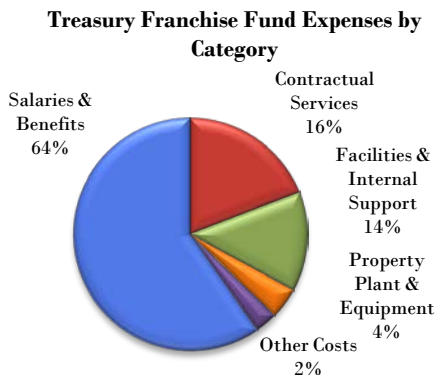
We prepare annual financial statements for the Treasury Franchise Fund in accordance with OMB Circular A-136, Financial Reporting Requirements. These statements are used to ensure financial accountability, assess performance, and determine overall financial position. We share our financial status annually with stakeholders and customers to provide evidence of stability as a Federal shared services provider.

In 2010, total revenues increased to \$166 million, up 8% from FY 2009. Administrative Services accounted for 57% of the total revenues while Information Technology Services represented 41%. The remaining 2% of revenue was a result of residual activity from FedSource, a business activity that was discontinued in 2009. The increase in total revenue was a direct result of pricing adjustments that reflect increased services provided to the customer base.

Overall, we ended FY 2010 with net results of operations of \$20.3 million. An increased capitalized purchases resulting from a new information technology service model, decreased internal costs due to efficiencies, and a favorable outcome of pricing uncertainties such as FedSource closeout, contributed to this gain.

Results of Operations

(in thousands)	2010	2009
Earned Revenue	\$165,531	\$154,032
Less: Expenses/Imputed Costs	<u>152,539</u>	<u>\$154,488</u>
Net Cost of Operations	\$ 12,992	\$ (456)
Add: Imputed Financing Sources	<u>7,266</u>	<u>5,555</u>
Net Results of Operations	\$ 20,258	\$ 5,099



Balance Sheet

(in thousands)	2010	2009
Assets	\$ 94,847	\$ 70,334
Liabilities	\$ 17,647	\$ 13,392
Operating Reserves		
Invested Capital	\$ 7,490	\$ 7,490
Cumulative Results of Operations	<u>69,710</u>	<u>49,452</u>
Total Operating Reserves	\$ 77,200	\$ 56,942
Total Liabilities & Reserves	\$ 94,847	\$ 70,334

The above balance sheet provides insight into our longstanding commitment to customers and staff. Assets are comprised primarily of fund balance with Treasury. Payroll and funded leave liabilities account for over 50% of total liabilities. The remainder represents realization of our goal of building a reasonable operating reserve. These efforts resulted in an operating reserve balance of \$77.2 million as of September 30, 2010, which satisfies current projected investment requirements and risk mitigation needs.

We were also successful in implementing process improvement initiatives during FY 2010. Examples include completion of our external hosting effort, clarification of service options through standard service descriptions, and development of a reliable pricing model that leverages quantitative data.

Another great success story is our continuing record of audit results. Again in FY 2010, we contracted for a fund-wide financial statement audit and a Type II SAS-70 review of internal controls in the Accounting, Travel, and Procurement service lines. These audits resulted in unqualified opinions for the 14th consecutive year on our financial statement audit and for the 8th consecutive year on the SAS-70 review. In addition, no instances of non-compliance or material internal control weaknesses were identified. We are proud of our commitment to financial data integrity, compliance with laws and regulations, and effective internal controls.

What's Next

System Upgrades and Enhancements

Oracle Release 12 update

The Requirements Phase of the Oracle Release 12 Migration Project is nearing completion and is scheduled to conclude in January, 2011. Planning for the remainder of the project is underway, beginning with the Design & Development Phase through Deployment.

During the Requirements Phase, an evaluation was conducted to determine whether to upgrade the existing version of software or to re-implement a new version. After carefully considering the pros and cons of both options, we decided to re-implement. While re-implementation is more difficult, it provides the ability to maintain existing capabilities, incorporate desired configuration enhancements, comply with the Common Government-wide Accounting Classification, and add new functionality with significant business value.

The projected roll out of the new Oracle Release 12 environment is expected in calendar year 2012.

Internet Payment Platform (IPP)

The IPP is a secure web-based electronic invoicing and payment information service made available to all Federal agencies and their suppliers by the U.S. Treasury's Financial Management Service. This initiative presents an opportunity to service our customers more efficiently and effectively and is expected to lower our processing costs. In 2010, we collaborated with FMS to pilot IPP and assess overall readiness, validate processes and procedures, and test our vendor registration strategy. We are pleased to be a part of the IPP project team and the pilots, and will continue to strongly support this government-wide initiative.

We would like to hear from you! Please let us know what you think about this report by emailing ARCCommunicationsMailbox@bpd.treas.gov.

The Next Generation Contract Writing

Our current agreement with CompuSearch Software Systems Inc., for the contract writing system PRISM, is due to expire in August 2012. We have already begun conducting market research to identify options and gauge interest and capability in providing our next generation contract writing system. This lead time is necessary to provide sufficient time for necessary market research, evaluation, selection, and transition to the replacement system. Because of the complexity of a new procurement system and the need to integrate this effort with the upgrade of our accounting software, we plan careful communication and briefings for all customer organizations.

Treasury's Fiscal Service IT Initiative

We are excited about the Fiscal Service IT initiative, which includes consolidating five data centers and restructuring the way we conduct our IT operations. IT infrastructure and operations will be consolidated to two data centers, one in West Virginia and one in Missouri.

Results of the project include enhanced connectivity between the two data centers, bandwidth expansion, mainframe upgrades, increased storage capacity at both data centers, and a fully redundant backup Trusted Internet Connection (TIC) infrastructure at the Kansas City location. These modifications provide the necessary "ground work" to support increased efficiency, capacity, and availability of services to our customers.

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