

Treasury Franchise Fund

October 1, 2010 – September 30, 2011

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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Message from the Commissioner

I am pleased to present the annual report of the Treasury Franchise Fund (Fund) for fiscal year 2011. This was a busy year for us, with many new challenges. Budget issues are front and center in the federal sector today and we plan to continue providing excellent service, while focusing on improving performance and accountability.

During the past year, we made good progress on several important initiatives that increased efficiency and lowered administrative and IT costs. Through the efficiencies realized in FY 2011, we were able to decrease our FY 2012 rates to administrative customers by an average of four percent.

This year saw an unprecedented number of new organizations established within Treasury that required stand-up services from our administrative business lines. While challenging, we also found it rewarding to provide quality services within a short time frame.

Looking forward, we believe that our commitment to excellence and proven track record will provide the foundation for measured and controlled growth. With a forecast of dramatic change in the federal government over the next few years, the time is right to look for opportunities to extend the benefits that shared services provide. We will do our part to gain the confidence of U.S. citizens in their government by making sound business decisions and delivering quality services.

As always, I want to thank our customers for their trust and loyalty, as well as their continued support of shared services. I would also like to acknowledge the hard work and outstanding service that our employees provide. We are thankful to have customers and staff that want to be part of making a difference through federal shared services.

The following pages provide a snapshot of our major endeavors, financial highlights, and plans for the upcoming fiscal year. We hope that this report provides a glimpse of our commitment to improve efficiency, cost effectiveness, and accountability in federal shared services.



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, Information Systems Security, and Budget Formulation and Execution Lines of Business.

What We Did

ARC Initiatives

Throughout FY 2011, we implemented or initiated projects to improve efficiency and standardize business processes. Through these and other initiatives, we were able to achieve sub-inflationary FY 2012 service rates for our administrative customers.

Oracle E-Business Suite Instance Consolidation

The project to consolidate two Oracle E-Business Suite environments has been completed. This resulted in annual government savings for systems hosting and maintenance in excess of \$1 million and additional cost sharing opportunities for agencies using the consolidated instance.

HR Efficiency Review

A Lean Six Sigma efficiency review was conducted in our human resources service line. Our focus was on the largest service areas (classification/acquisition and processing) and pilots in these areas were initiated. Through the pilots, we've experienced improved performance, and service delivery along with identifying areas of potential cost savings. We plan to expand the reviews to other services in FY 2012 using the blueprint created in these pilots.

Implementation of Internet Payment Platform

Internet Payment Platform (IPP) rollout has begun in a big way! This fully automated invoice processing system is integrated into our core accounting system. It provides a method to service customers more efficiently and pay vendors more easily. The use of IPP for electronic invoice processing supports paperless transactions, improves controls, and upon full adoption will result in significant processing cost savings.

New Customers

In 2011 we added three new customers, including the Consumer Financial Protection Bureau, a high priority government-wide financial reform organization. In addition, we also provided administrative support to Treasury for four new financial reform functions. We will continue to evaluate opportunities to offer shared services to new federal customers in FY 2012.

Budget Formulation, Execution and Performance Manager (BFEM)

The BFEM team was transferred to the Fund this fiscal year, bringing with them the system and services used to review and assess agency budgets and monitor and report performance. In addition to current users, we will be offering these services to our existing and potential customers in 2012.

IT Initiatives

In support of Financial Crimes Enforcement Network moderation efforts, we began hosting their production infrastructure in FY 2011.

Our IT operations became the first Treasury organization to establish a two-way trust with the Department's Enterprise Content Management platform. This enables us to implement a cloud based, enterprise version of Microsoft SharePoint and to facilitate a more collaborative work environment.

Government Wide Support

Data Center Consolidations

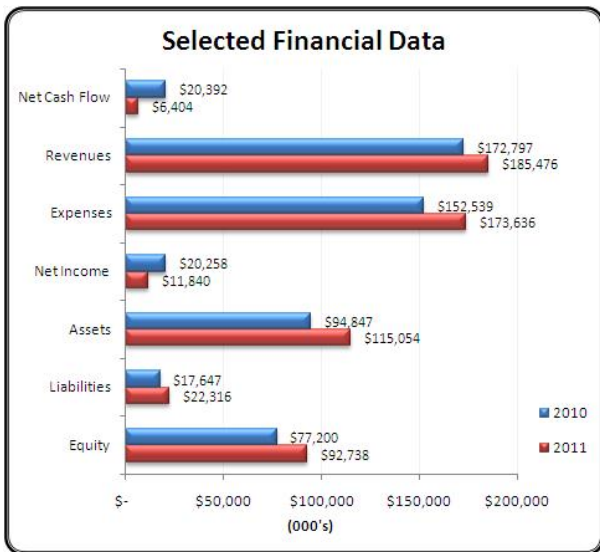
The collaborative Fiscal Service IT consolidation between Public Debt and Financial Management Services (FMS) resulted in closure of two data centers in 2011. This restructures IT operations through optimizing resources, improving organizational effectiveness. Combining common services presents opportunities for greater cost savings and enhanced operational support.

Improper Payments

We provided support to Public Debt's new program designed to decrease the amount of federal improper payments. The GOVerify portal continues to develop and we are actively working with Public Debt and other key agencies to learn more about the causes of improper payments and find ways to help agencies identify and prevent them.

What Came In/What Went Out

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.



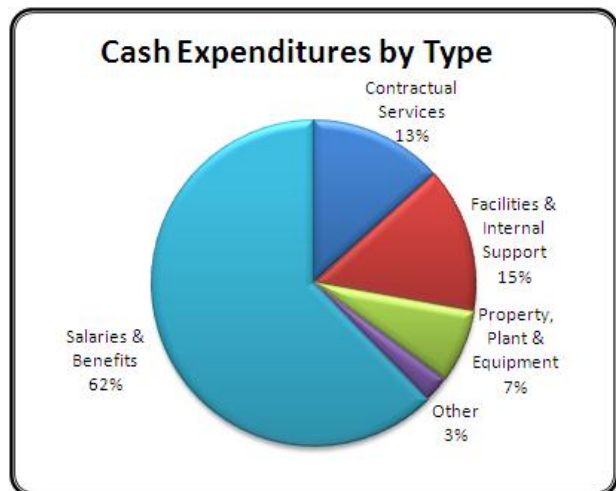
Cash flow is crucial to the financial health and continued viability of the Fund. In 2011, net cash flows were \$6.4 million, down 69 percent from FY 2010. This intentional decrease is the result of achieving our targeted cash reserve balance and improvements in our ability to forecast costs.

In 2011, revenues and expenses increased 6 percent and 14 percent, respectively. These increases are related to customer growth including the Consumer Financial Protection Bureau, Treasury Departmental Offices, and continued consolidation of Financial Management Service's data centers into the Fund.

The resulting net income of \$11.8 million consists primarily of the net cash inflows plus \$4 million of excess capital expenditures over depreciation expense as the Fund has accelerated asset acquisitions related to the data center consolidation efforts. As with cash flows, the change in net income was influenced both by the Fund's financial health and improvements in cost forecasting.

The Fund's balance sheet continues to reflect financial strength that corresponds to our longstanding commitment to customers and staff. Assets are comprised primarily of Fund Balance with Treasury (\$94 million) and payroll and funded leave liabilities account for over 50 percent of total liabilities. The \$15.5 million increase in equity is attributable to net income and a \$3.7 million asset transfer.

We are proud of our commitment to financial data integrity, compliance with laws and regulations, and effective internal controls. In FY 2011, we contracted for a fund-wide financial statement audit and a Type 2 SSAE 16 review of internal controls in the Financial Management, Travel, Procurement and Human Resource service lines. These audits resulted in unqualified opinions for the 15th consecutive year on our financial statement audit and for the 9th consecutive year on the internal control review. In addition, no instances of non-compliance or material internal control weaknesses were identified.



Where We Are Going

The Next Generation of Procurement Systems

To ensure that our new procurement system provider is in place prior to the expiration of our current contract, an evaluation team has been formed to explore procurement system alternatives. The team is focusing on alternatives that meet our functionality, integration and lifecycle cost requirements. Due to the complexity of a new procurement system and the need to seamlessly integrate this effort with the upgrade of our financial system, communication for all affected customers is underway.

Consolidation of Data Centers with Treasury's Fiscal Service

During FY 2012, our Fiscal IT initiative continues with the consolidation of the remaining data center operations with those of FMS. This will allow us to realize our goals of improved hardware and software utilization and efficiencies from combined IT assets. By continuing to consolidate common services cost savings and efficiencies will be achieved.

Efficiency Reviews

With our focus on savings we will continue our efficiency reviews in Human Resources and move forward using what we have learned to streamline our other service lines. Use of business process management practices to selectively automate and simplify internal processes will improve customer service, and further decrease costs.

Financial System Upgrade

The upgrade of our core financial system to Oracle Release 12 is expected to be fully deployed by the end of calendar year 2012. With the upgrade comes improved functionality in the areas of workflow, reporting, and compliance with the Common Government-Wide Accounting Code.

IPP Rollout Finalized

In Fiscal Year 2012 we will transition all customers to the new IPP Business process for eligible vendor invoices. This transition will position us to meet Treasury's FY 2013 vendor invoicing mandate and to pursue a similar policy for non-Treasury customers. In addition, we will continue to work with FMS to enhance the systems functionality and controls to enable realization of the full cost savings potential of IPP.

Our Priorities

- Maintain outstanding operational service to customer agencies.
- Identify and implement operational efficiencies with the goal of achieving sub-inflationary price increases.
- Promote and maximize shared services benefits in support of Treasury and government-wide initiatives.
- Assess and report our performance and provide timely feedback to customers.
- Enhance human capital strategies.

