

# Department of Veterans Affairs Franchise Fund FY 2008 Annual Report

Promoting Excellence through Quality  
Government Business Solutions



*A veteran, whether active duty, retired, national guard or reserve, is someone who, at one point in their life, wrote a blank check made payable to "The United States of America" for an amount of "up to and including my life."*

– anonymous

# Promoting Excellence through Quality Government Business Solutions



Thank you for your interest in the VA Franchise Fund FY 2008 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.

Write to:

Department of Veterans Affairs  
Franchise and Trust Fund Oversight Office  
810 Vermont Avenue, NW (047F)  
Washington, DC 20420

# Department of Veterans Affairs

## Franchise Fund FY 2008 Annual Report

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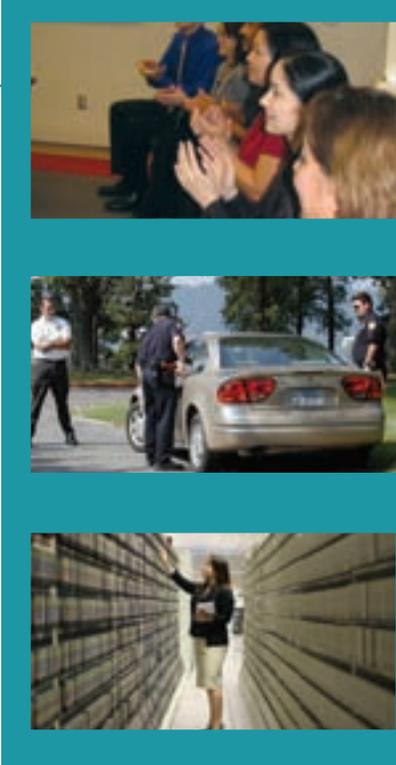
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**Robert J. Henke**  
**Assistant Secretary**  
**for Management**

All of the employees of the VA Franchise Fund are to be commended for another successful year! Eleven years of unqualified “clean” audit opinions is truly outstanding!

## Letter to Stakeholders

I am pleased to report that the Department of Veterans Affairs Franchise Fund has completed another successful year of operations. This annual report highlights how each of the six Enterprise Centers is **“Promoting Excellence through Quality Government Business Solutions.”** It was a year in which good governance, effective risk management, and sound strategic planning played a vital part in continuing the success and growth of the Franchise Fund.

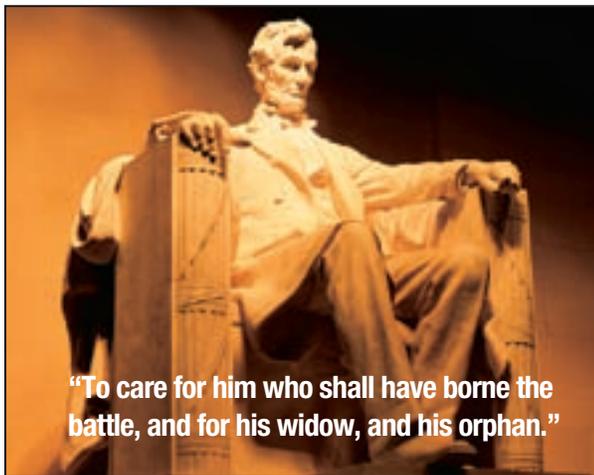
The Franchise Fund recorded another year of outstanding performance during FY 2008. Some of our most noteworthy accomplishments include:

- Received our 11th consecutive unqualified “clean” audit opinion, which clearly demonstrates good financial stewardship.
- Scored in the top 10 percent of Gartner’s Information Technology Customer Satisfaction database with an overall satisfaction rating of 4.22 out of 5.00, well surpassing the average of 3.72 for all 297 private and public sector organizations (AIRC).
- Demonstrated efficiencies in debt collection services with a rate of return of over \$84 collected for every dollar spent (DMC).
- Centralized payment of 98 percent of VA commercial invoices (FSC).
- Completed the development stage of VA’s Automated Systems of Records (LETC).
- Achieved an accuracy rate of 99.9 percent in the safe and accurate shipment of recalled records (RCV).
- Initiated full-scale implementation of E-QIP software for the electronic processing of investigative paperwork (SIC).

We are extremely proud of the results we have achieved during the past year, but are not complacent. The success achieved by the Franchise Fund is a testament to the abilities of the Enterprise Centers and staff to actively listen to customers' current needs, involve them in the development of future business activities, and deliver quality administrative support services. It is also a reflection of the commitment of the Board of Directors and their leadership in helping ensure that past successes continue into the future. Our collective goal is to maintain excellence and provide the best services to our customers, which will ultimately benefit our Nation's veterans.

I invite you to examine our FY 2008 Annual Report outlining the VA Enterprise Centers' accomplishments and plans for next year, and the Franchise Fund's audited financial statements. We look forward to the coming year and are confident of our ability to meet the challenges that lie ahead.





## Mission, Vision, and Values

### 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.

### VA 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.

### VA Franchise Fund's Vision

Comprehensive Business Solutions for Tomorrow's Government

### VA Franchise Fund's 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.

## 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 of 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.

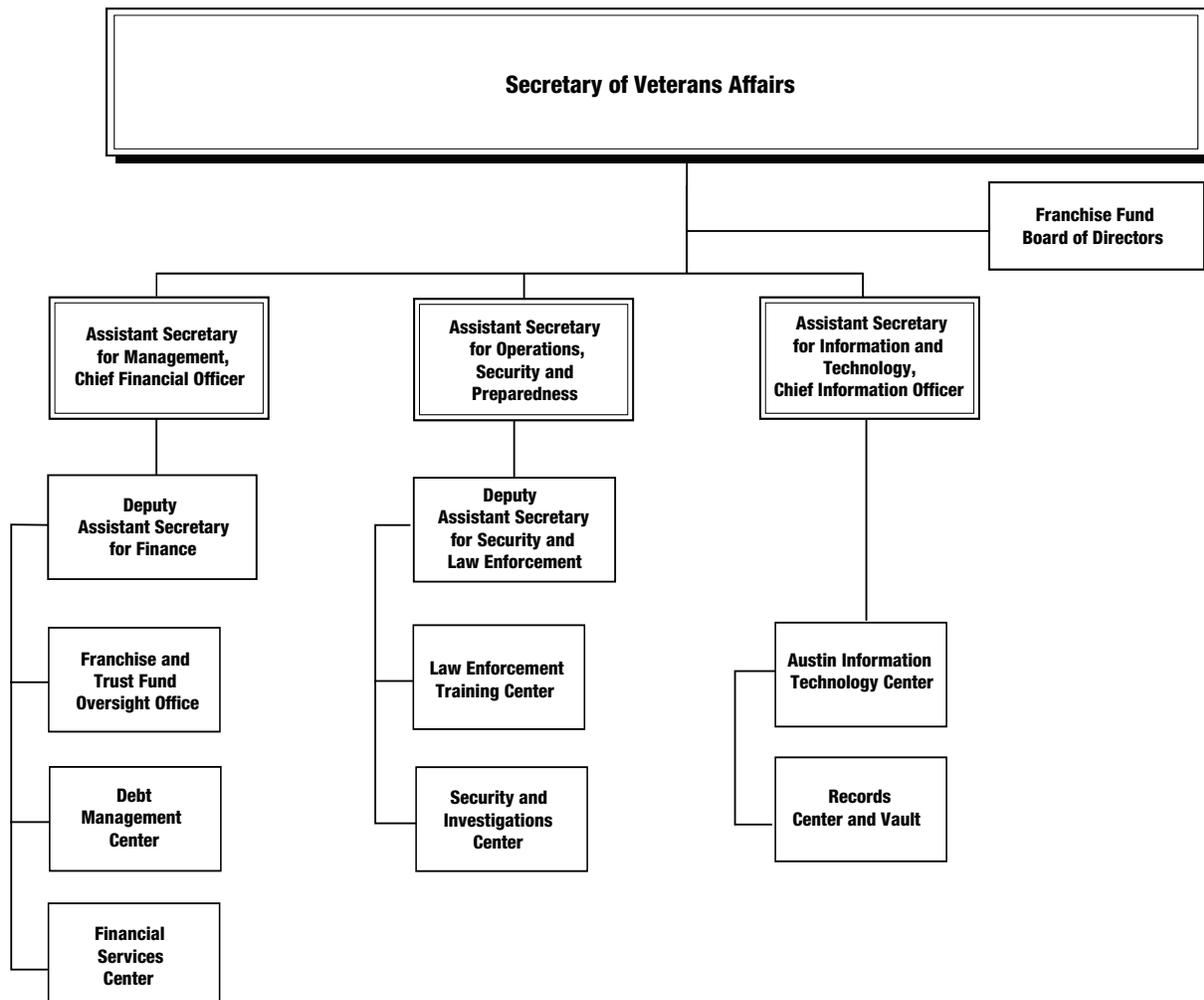
# Members of the VA Franchise Fund Network

## Origin of the VA Franchise Fund

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 the Military Quality of Life and Veterans Affairs Appropriations Act, Public Law 109-114, permanent status was conferred upon the VA Franchise Fund.

## Organizational Structure

The VA Franchise Fund is composed of an administrative office (Franchise and Trust Fund Oversight 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. The Franchise Fund Board of Directors is composed of representatives from the three VA organizations that manage the Enterprise Centers (the Office of Management; Office of Operations, Security and Preparedness; and Office of Information and Technology), major organizations within VA, i.e., Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), and National Cemetery Administration (NCA), and pertinent VA staff offices.



# 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

The VA Franchise Fund comprises three major segments: information technology (IT), financial management (FM), and security and law enforcement (S&LE). The chart below shows the revenue among our segments for FY 2006 through FY 2008.

The IT segment ended FY 2008 with \$107 million in revenue, compared to \$161 million in FY 2007. Most of this decrease was due largely to the issuance of a billing holiday during the year.

The FM segment generated \$112 million in revenue in FY 2008, far exceeding FY 2007 revenue of \$83 million.

Finally, the S&LE segment experienced a reduction in revenue of approximately 24 percent. Revenue in FY 2008 was \$11 million compared to revenue in FY 2007 of \$14 million. This decrease is due to fewer background investigation cases being completed, leading to a decrease in revenue.

**Information Technology (IT)**

**Records Center and Vault (Midwest)**

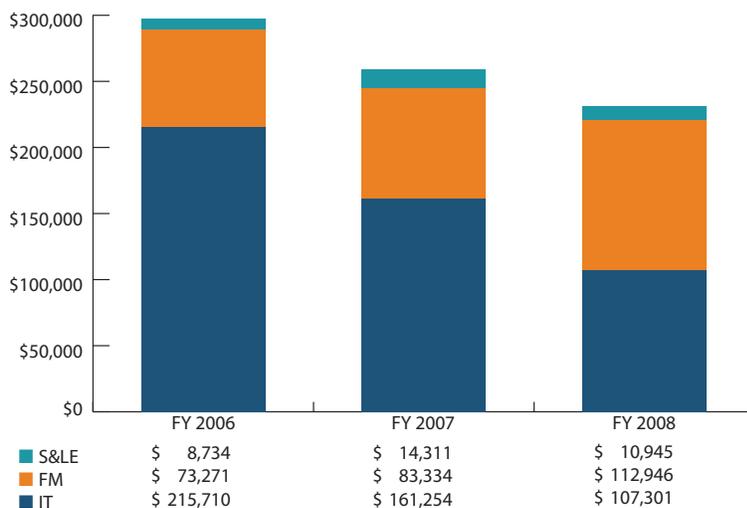
- Records Storage
- Records Management

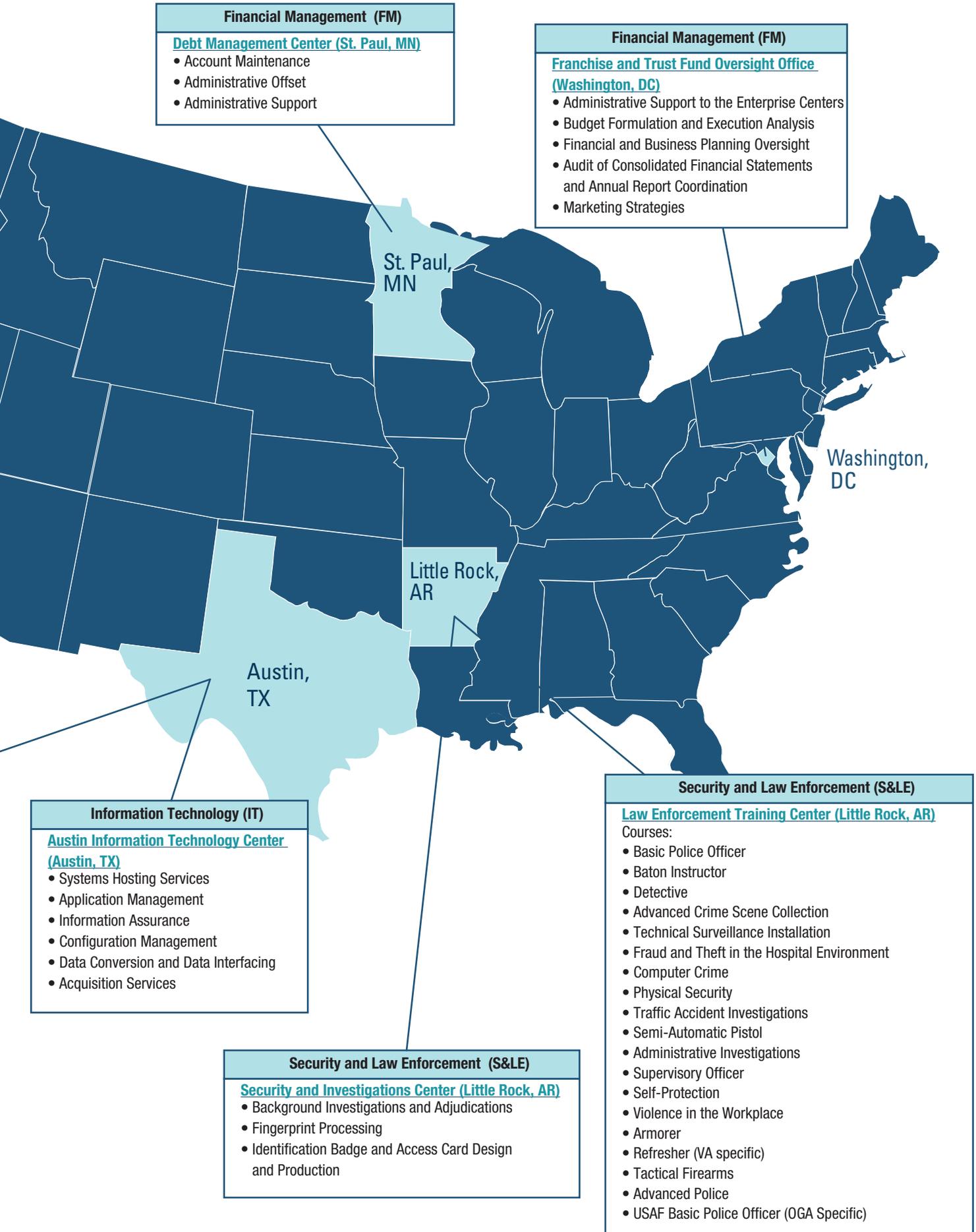
**Financial Management (FM)**

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

- Financial Reports and Accounting
- Audit Recovery
- Credit Card Payments
- Data Matching and Reconciliation
- 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

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





# Members of the VA Franchise Fund Network



*John Rucker, Acting Director Austin Information Technology Center and the Records Center and Vault*



*Daniel Osendorf, Director Debt Management Center*



*Rodney Wood, Director Financial Services Center*



*Marianne Condon, Director Franchise and Trust Fund Oversight Office*



*Robert Cagle, Acting Director Law Enforcement Training Center and Security and Investigations Center*

## Information Technology

**Austin Information Technology Center (AITC)** (formerly known as the Corporate Franchise Data Center). Located in Austin, TX, the AITC provides comprehensive e-government solutions to match the critical needs of VA and other federal agency customers, from managing data to automating business processes. The AITC 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 AITC 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 mid-western part of the country, the RC&V provides records storage, protection, and retrieval services for official federal records for VA and other government agencies. The facility is certified by the National Archives and Records Administration to operate as an agency records center and meets NARA's October 2009 records storage facility standards. The RC&V can store records in any type of medium. This includes general, vital, unscheduled, and frozen records in paper or film media.

## Financial Management

**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.

**Financial Services Center (FSC).** Located in Austin, TX, the FSC provides a full range of financial and accounting services including 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.

**Franchise and Trust Fund Oversight Office (FTO).** Located in Washington, DC, the FTO functions as the business office for the VA Franchise Fund. As such, the FTO 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, managing the annual financial statement audit for the Fund, 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.

## 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 maintains a comprehensive database of national security clearances within VA including users' access level to classified information.

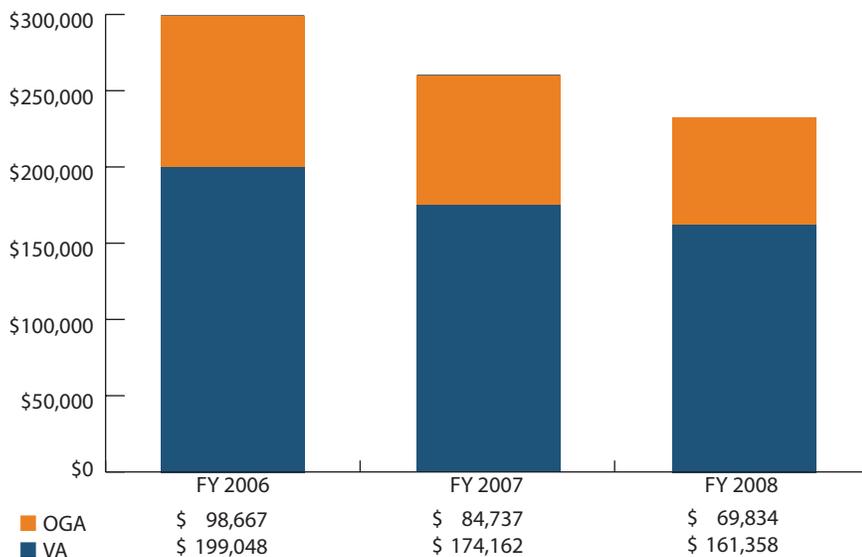
# Our Stakeholders

Our ultimate stakeholders are veterans and their families 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. Other stakeholders include VA and other government agencies.

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 to retain our customers’ 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, as we adopt business practices that enable us to become more efficient and responsive.

**VA Franchise Fund  
Revenue Sources – VA vs. OGA  
(Dollars in Thousands)**



## 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
- National Geospatial-Intelligence Center
- Office of Federal Housing Enterprise Oversight
- Office of Personnel Management
- Postal Regulatory Commission
- United States Capitol Police
- United States Postal Service
- White House Commission on the National Moment of Remembrance

## Internal Stakeholders

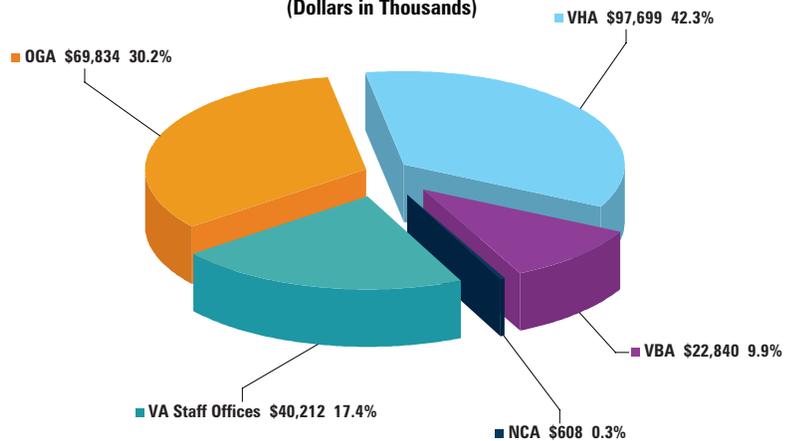
- Veterans Benefits Administration (VBA)
- Veterans Health Administration (VHA)
- National Cemetery Administration (NCA)
- VA Staff Offices

Although our total revenue has decreased over the past 3 years, these charts show consistent trends with respect to VA Franchise Fund customers. Approximately two-thirds of our revenue comes from VA customers. The remaining revenue comes from a wide variety of OGA customers. Within VA, VHA programs provide the most revenue to the Enterprise Centers.

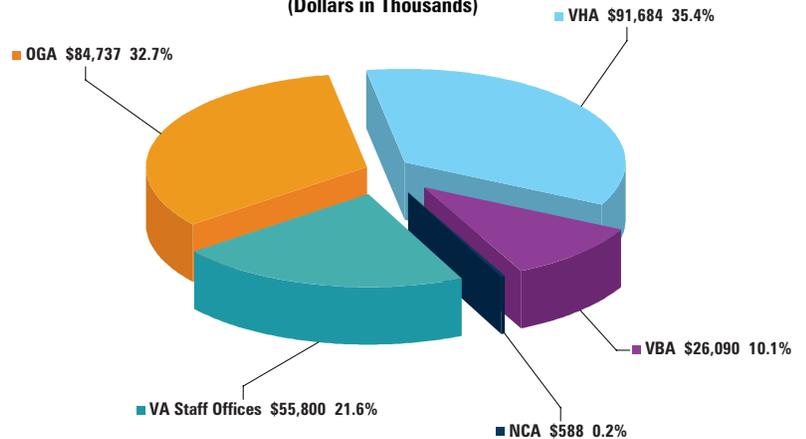
The relative share from VA and OGA organizations has been fairly stable over the past 3 years. However, there was a decrease in revenue from OGA customers. This decline is the result of decreased demand for IT acquisition services offered by the Austin Information Technology Center. In addition, total FY 2008 revenue declined with respect to FY 2007. This is the result of the issuance of two billing holidays totaling approximately \$29 million and the decrease in demand for IT acquisition services.

## Comparison of Customer Revenue from FY 2006-2008

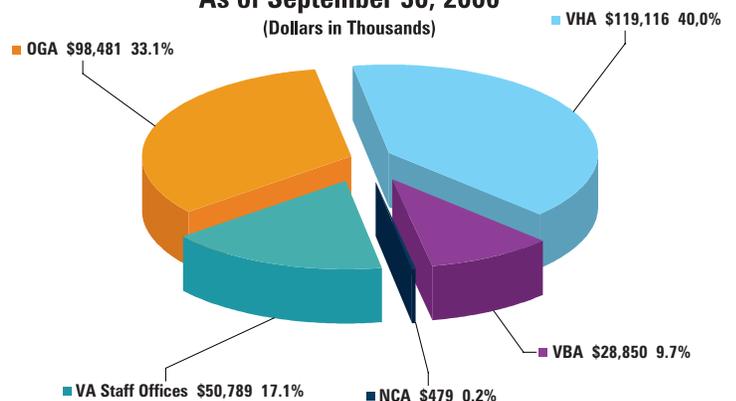
**VA Franchise Fund Revenue by Customer As of September 30, 2008**  
(Dollars in Thousands)



**VA Franchise Fund Revenue by Customer As of September 30, 2007**  
(Dollars in Thousands)

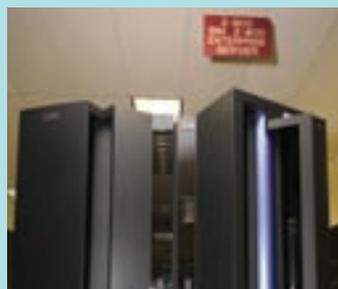


**VA Franchise Fund Revenue by Customer As of September 30, 2006**  
(Dollars in Thousands)



## Meeting VA Franchise Fund Objectives

The franchising concept has added value to the government by empowering self-supporting federal government business entities to promote efficiencies in common administrative services and to maintain customer satisfaction. This section provides a brief overview of how we are meeting these objectives.



### Objective: Promoting Efficiencies in the Delivery of Common Administrative Support Services

The Enterprise Centers leverage a motivated workforce with technology to be responsive to a wide range of Federal customers. We actively seek opportunities to foster partnerships that enhance the programs administered by both VA and OGAs. Our efficiencies in service delivery allow customers to focus on their own missions.

- **The Austin Information Technology Center (AITC)** supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits and supply functions for VA and OGA customers.
- **MyHealtheVet (HeV)** is a Web-based application designed specifically for veterans and their families. The tools available 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 history, medical events, tests and allergies. Veterans can also keep a log of personal health readings, such as blood pressure, blood sugar, cholesterol, weight, heart rate, and pain level. Veterans can also securely request refills for their prescriptions online.
- **HomeTelehealth** is an innovative program that enables veterans to self-report recurring health monitors, such as blood pressure, to VA medical centers and receive health assessments without physically going to clinics, which can be hard for elderly or chronically ill patients.
- **Health Data Repository (HDR)**, a clinical repository, is a collection of clinical information that resides on one or more independent platforms and can be used by clinicians and other personnel to facilitate longitudinal, patient-centric care.
- **Scheduling Replacement Project (SRP)** will provide a re-engineered and redesigned outpatient appointment scheduling system to better meet the needs of staff and patients based on the Institute for Health Care Improvement guidelines for open and advance access to care models.
- **VBA's corporate applications** are automating VBA's benefits delivery process: The AITC provides hosting support for a variety of applications. A large effort is underway to migrate VBA's legacy systems into an integrated information system, VETSNET.
- **VBA's Loan Guaranty System** allows on-line processing of applications for VA loans.
- **Enrollment System Redesign (ESR)** is the system VHA will use to integrate the Administrative Data Repository (ADR) with a centralized application for registering patients for VA health care and facilitating the decisions involved in the enrollment process. The AITC serves as the operational center for the development and subsequent production processing of the ESR. The ESR will connect a local VA health care facility with the centralized database to provide a single view of the enrollment status for each individual veteran.
- **Architecture for Common Services (ACS)** system, together with the ADR, provide infrastructure for VHA applications processing at the AITC. The ACS provides

a standard set of peripheral services required by any centralized HealtheVet (HeV) application. Typical of the services provided are a common access to the centralized database, a centralized person identity management function, and messaging services. The ACS is the backbone of the HeV architecture employed by VHA.

■ **National Change of Address (NCOA)** and address cleansing services provide standardized United States Postal Service (USPS) deliverable addresses for VA mail delivery. This service ensures that any communication that is sent out is sent to a deliverable location. In addition to the greater 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 AITC provides address cleansing and NCOA services for VA.

### OMB Exhibit 300 Project Support

The AITC provides support to the following OMB Exhibit 300 level investment projects:

■ **Decision Support System (DSS)**, a legacy application, enables hospitals to compute their costs for treating individual patients and providing specific services, view corporate data for management and quality improvement purposes, and conduct clinical studies.

■ **Financial Management System (FMS)** is a standardized, integrated, VA-wide system that interfaces externally with the Department of the Treasury, the General Services Administration, the Internal Revenue Service, the Defense Logistics Agency, and various commercial vendors and banks for electronic billing and payment purposes, and supports the collection, processing, and dissemination of several billion dollars of financial information and transactions each fiscal year.

■ **VETSNET** will provide system support for claims processing from establishment, development, and rating, to award and payment. VETSNET will provide for more streamlined, accurate processing of claims and availability of veteran data, including claims history. This translates into better, more timely service to veterans through improved access to veteran and claim data, on-time updates, and immediate status on pay.

■ **Vista Legacy** applications include Dental Encounter System, Debt Management System, Lab Sharing and Interoperability, Data Translation, Environmental Agents Systems, Environmental Epidemiology Service, Emerging Pathogens Initiative, Essence, Functional Status and Outcomes Database, Financial Management Information System, Home Based Primary Care, KLF Menu System Server Support, Hospital Laboratory, Lockbox, Medical SAS files, Mailserver Mumps Farm, Master Patient Index, National Item File, National Patient Care Database, Non-VA Hospital System, Patient Assessment File, Program Cost Reporting, Purchase Order Management System, Prisoner of War, Residential Home Care, Spinal Cord Injury, Treasury Offset Program, Veterans Canteen Application, Vitria/Vista Interface Engines, VHA Work Measurement, and Workers Compensation Information System.

■ **Enrollment and Income Verification** applications include Architecture for Common Services, Administrative Data Repository, Enrollment Database, Enrollment System Redesign, Health Eligibility Center, and Health Eligibility Reports.

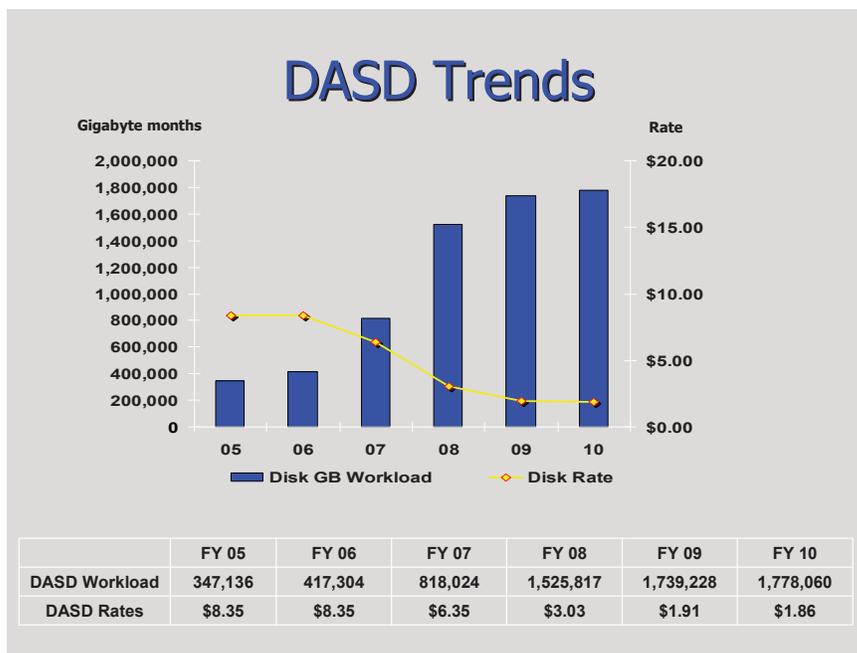
■ **IT Infrastructure** applications include Automated Customer Registration System, Delegation of Authority, Electronic Data Interchange, Freedom of Information Act Reporting, Information Collection Budget, Privacy Officer Database, and Remote Customer System Use.

■ **Payroll/HR Systems/e-Payroll** applications include Personnel and Accounting Integrated Data (PAID) System and PAID e-Payroll.

■ Other applications include Allocation Resource Center, Patient Financial Services System, FEE, Scheduling Replacement Project, Health Data Repository, Pharmacy Re-Engineering and IT Support, VA Learning Management System, Federal Health Information Exchange, HealtheVet-Vista, MyHealtheVet, Compensation and Pension Maintenance and Operations, BIRLS/VADS, BDN Maintenance and Operations, Insurance System Maintenance and Operations, Loan Guarantee Maintenance and Operations, Burial Operations Support System, Automated Monument Application System, VA Enterprise Architecture, Capital Asset Management System, and Program Integrity/Data Management.

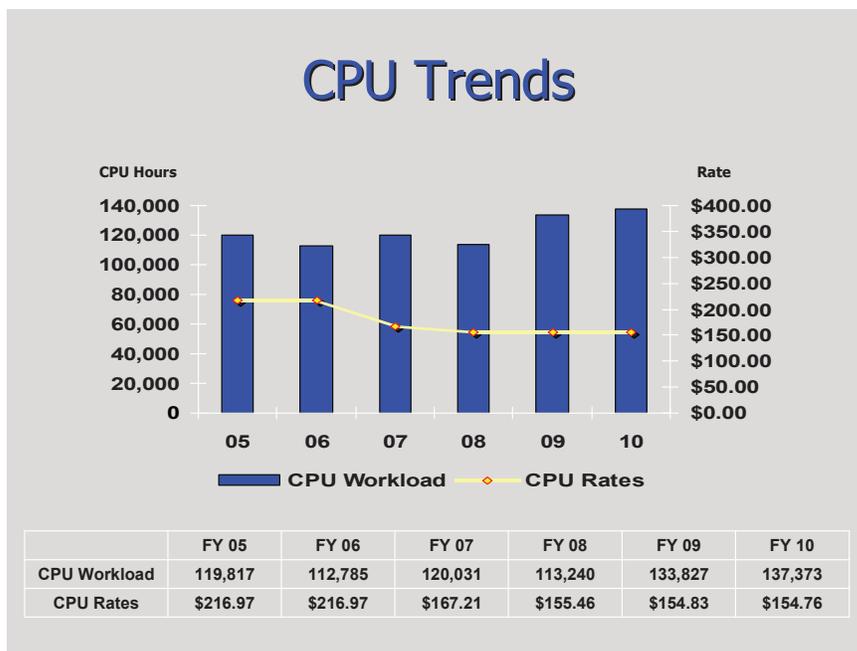
**Direct Access Storage Device (DASD) Cost Reduction**

To better support VA's IT needs today and tomorrow, the AITC established a heterogeneous environment for its DASD, which enables the AITC's DASD to support mainframe and open system platform storage needs in a single environment. The DASD is capable of mirroring data, creating business continuance volumes, and replicating data at remote sites. At the same time, the AITC is actively working to reduce DASD costs. The industry-wide decrease in hardware costs per unit and the use of best practices has resulted in a continued decline in DASD rates (see chart, right).

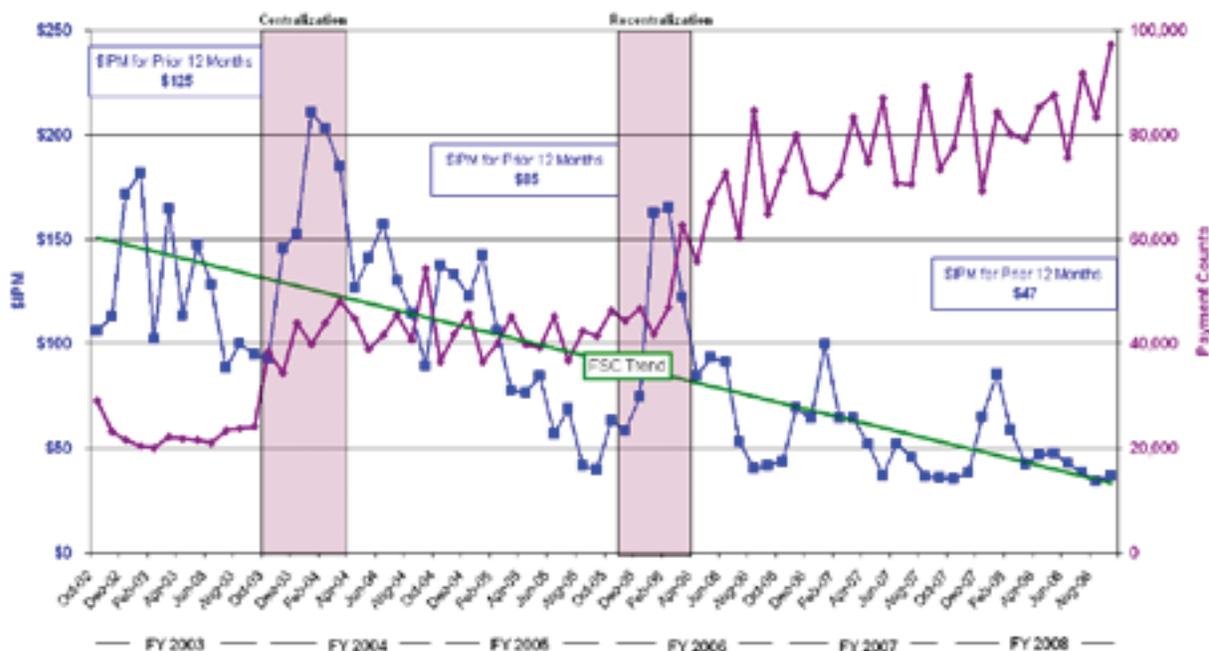


**Central Processing Unit (CPU) Cost Reduction**

With workloads relatively stable between FY 2006 and FY 2009, the AITC will still be able to reduce the CPU rate in FY 2009. A moderate rate decrease is expected in FY 2010. However, the impact of cost containment through cost management and out-year technology innovation during the remainder of FY 2008 and FY 2009 is yet to be realized. The overall workload stabilization is a result of joint efforts to increase efficiencies in Decision Support System (DSS) and FMS processing. FMS accounts for approximately 18 percent of our CPU workload (see chart, right).



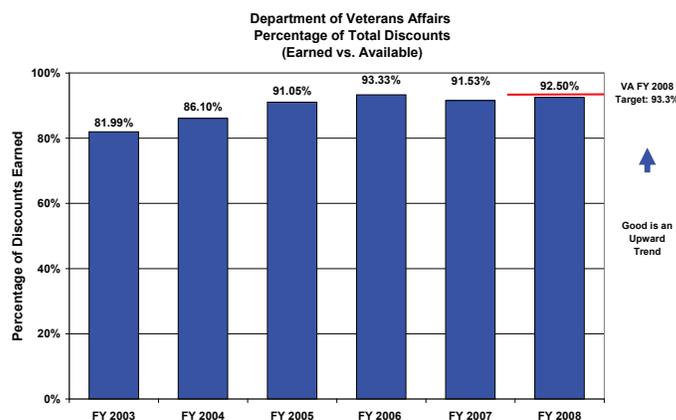
## Financial Management



■ **Commercial Vendor Payments** – VA continued to enhance its vendor payment processes throughout 2008. Interest payments VA-wide improved over \$48,000—a 6.0 percent improvement over FY 2007 levels, largely attributable to the centralization of payments at the FSC in Austin, Texas. Further, interest penalties paid per million dollars disbursed declined nearly 18 percent from \$84 per million in FY 2007 to \$69 per million disbursed in FY 2008. At the same time, VA earned nearly 93 percent (\$6.4 million) of its available discounts.

VA also continued to gain efficiencies and improve performance as a result of the centralization of payments at the FSC. Through this centralization, VA strengthened its focus on identifying and preventing vendor payment errors. The FSC also enhanced audit recovery efforts over improper vendor payments. The FSC reviews VA vendor payments daily to systematically identify, prevent, and recover improper payments made to commercial vendors. Current payment files are matched to identify and, where possible, prevent duplicates prior to payment. Payments from prior fiscal years are matched to identify potential duplicate payments for further analysis, assessment, and, as appropriate, collection. Additionally, the FSC reviews vendor payments to identify and collect improper payments result-

ing from duplicate incentive award payments, erroneous interest penalties, service charges, and sales taxes. The FSC has recovered almost \$55,000 for reuse by VA entities during FY 2008. Overall, during FY 2008, collections of improper payments and the recovery of unapplied vendor statement credits totaled over \$2.6 million. Improved payment oversight also enabled VA to identify and cancel nearly \$15.3 million in potential improper payments prior to disbursement. Since the inception of the FSC's audit recovery effort in FY 2001, VA has recovered over \$23.9 million in improper payments and prevented the improper payment of another \$48.2 million.



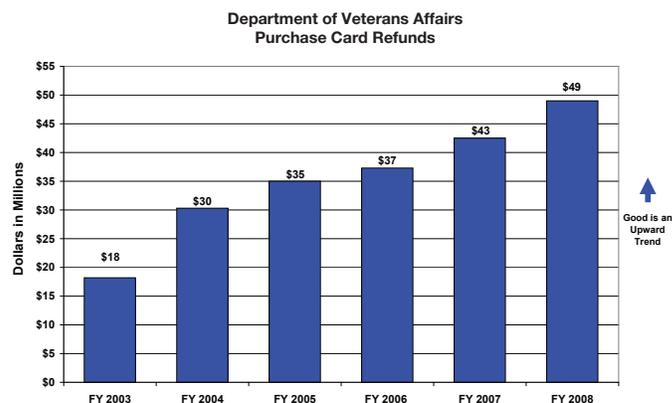
■ Over 4.3 million **purchase card** transactions were processed, representing over \$2.8 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned VA over \$49 million in credit card refunds compared to \$43 million during FY 2007. These refunds are returned to VA entities for use in veterans programs.

■ The **Fee Basis credit card program** automates Health Care Fee Basis payments, eliminates processing of paper checks, and earns VA additional credit card refunds. In FY 2008, VA's Fee Basis credit card program processed over 420,000 transactions representing over \$130 million in payments and generated over \$2.1 million in refunds. The growth of this program was attributed to additional Fee Basis medical providers agreeing to receive payment via the Fee Basis Purchase Card and more VA medical centers joining the program.

■ **VA's Travel Management Centers (TMCs)** serve veterans and employees who travel frequently. The billings are transmitted electronically from each TMC and payment is sent daily through the Department of the Treasury's Electronic Certification System. In FY 2008, the travel management program processed over 261,000 transactions, disbursed payments of over \$44 million, and earned over \$536,000 in refunds.

■ **VA's Prime Vendor Payment System** automates payments under a nationwide prime vendor centralized purchasing contract. In FY 2008, 135 VA medical centers used the Prime Vendor System to electronically process over 445,000 transactions worth over \$3.4 billion. The FSC ensures vendors who participate in VA's multi-billion dollar Prime Vendor procurement program are paid on time. These vendors provide VA medical centers with an efficient way to order supplies at low, negotiated contract prices and guarantee delivery within 24 hours, eliminating the need for warehousing large volumes of supplies.

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

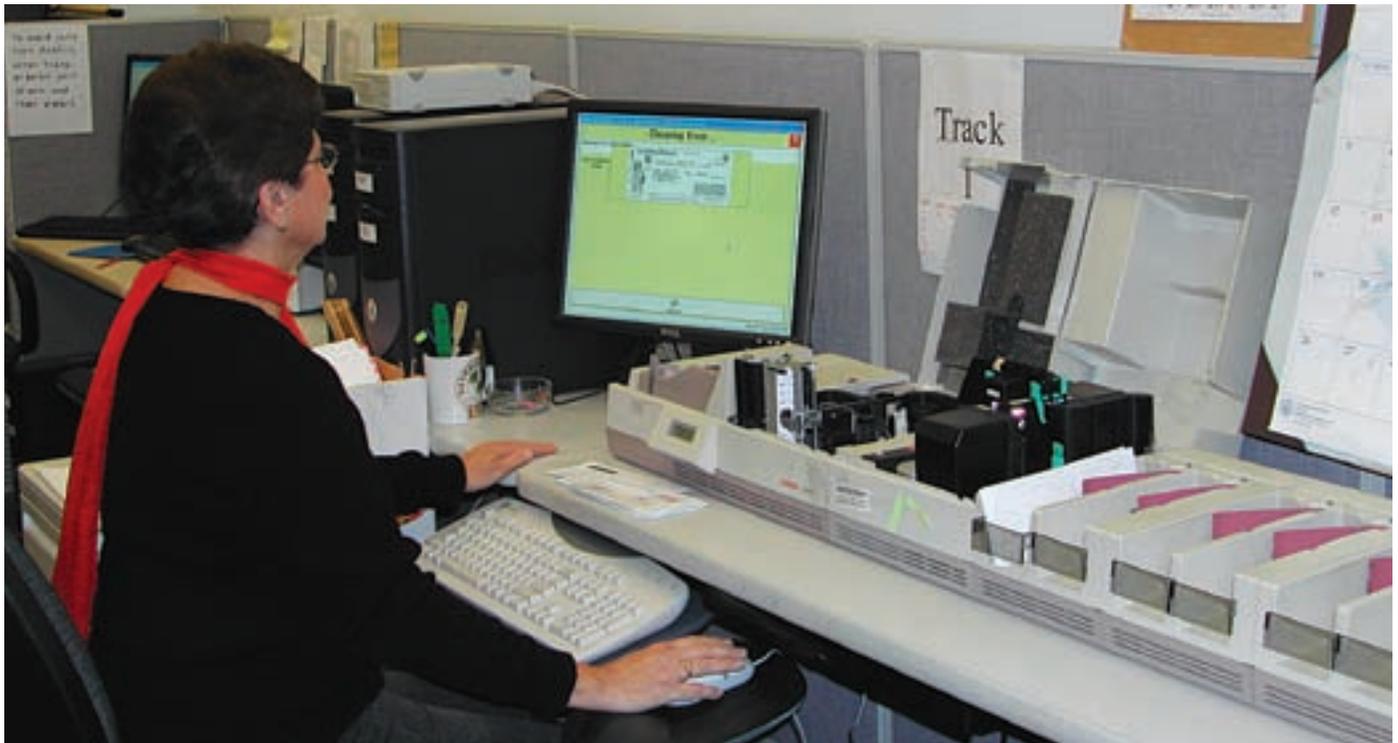


objectives. The EC/EDI staff continue to support VHA efforts to comply with EC/EDI mandates identified in the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

The EC/EDI services include support of the VHA Central Business Office (CBO) Electronic Business (e Business) initiatives by processing medical claims and insurance verifications and sending them to the VA clearinghouse, Emdeon. This support includes:

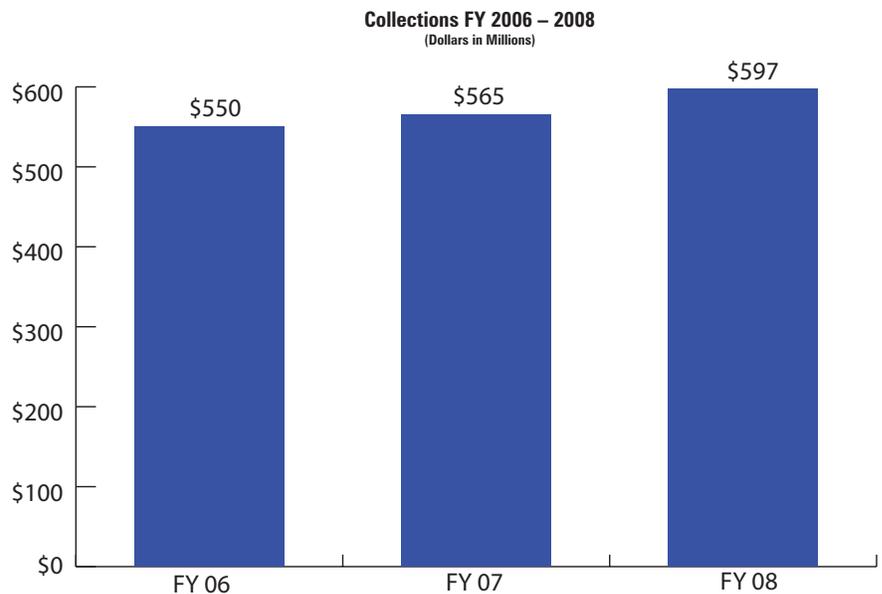
- Transmitting claims status messages and reports on the status of claims to VA medical centers.
- Processing and then transmitting medical claims payments and explanation of benefits to VA medical centers for processing in their accounts receivable system.
- Working with FSC EDI partners, VA medical centers, Veterans Health Information Systems and Technology Architecture (VISTA) developers, Emdeon, and CBO Project Managers to research e Business issues, provide solutions, and implement the necessary changes.

During FY 2008, FSC and VHA CBO representatives completed the project to acquire an automated solution that will provide electronic medical claims data analysis and reporting capabilities. This automated solution will enable the VHA CBO to implement business process improvements across all VA medical centers. The automated solution will have a direct and positive impact on VHA's revenue cycle, which amounts to over \$2 billion annually. Furthermore, the software will help improve the FSC's day-to-day electronic medical claims processing operations. This automated solution is expected to be implemented by March 2009.



The DMC collects debts arising from beneficiaries' participation in education, compensation, pension, and loan guaranty benefit programs. VA pays benefits under four different education programs to veterans or their beneficiaries to further their education. Compensation benefits are paid to veterans who incurred a disability while in military service. Pension benefits are paid under an income-based program. The loan guaranty program allows a veteran to acquire a VA-guaranteed loan for housing purposes. Debts normally arise as a result of a change in entitlement that either reduces the amount to be paid or terminates the benefit due to non-entitlement.

**■ Collections** - Collections increased from \$550 million in FY 2006 to \$597 million in FY 2008. This is due largely to effective and efficient use of collection tools and timely use of administrative offset authority for both internal benefit offsets as well as offsets under the Treasury Offset Program.



## Security and Law Enforcement

### ■ Instrumental in E-Gov Initiatives

The Security and Investigations Center (SIC) has been committed to the implementation of the OPM E-QIP software for the electronic processing of investigative paperwork. Meeting its goal for 2008, the SIC has initiated a full-scale implementation of the E-QIP system. In accordance with the E-Gov initiative, the SIC has been instrumental in not only utilizing this program internally but in the implementation of the program VA wide. The E-QIP software system allows users greater flexibility by allowing them to fill out background paperwork on a secure server from home and allows administrators advanced auditing capabilities.

### ■ Secure Request Database for Employees

The SIC developed a secure electronic request system for the initiation of employee background investigations. This system was used in 2007 to process in excess of 16,000 contractor background investigations for VA and is in final testing phases for release to employees. This system will not only minimize the amount of time required to initiate an employee background but also simplify the overall process of initiation by allowing clear and concise informational fields, taking the guesswork out of background initiation for human resource officers.

■ **Tactical Firearms Instructor's Course** is a 40-hour training course on how to properly prepare firearms instructors on how to instruct first responding officers on basic weapons and tactics. The course covers close quarter battle drills, tactical movement, cover and range drills, preparation set-up and safety concerns, tactical operations, escalation and de-escalation of force exercises, vehicle cover ballistics, and high risk traffic stops.

■ **Firearms Instructor's Course** is a 96-hour training course to train law enforcement officers to become firearms instructors in the field. The course covers such areas as basic marksmanship, use of force, civil liability, weapon and equipment nomenclature, fundamentals pistol skills, and basic marksmanship. This course is one of the most comprehensive firearms instructor's courses in the law enforcement community.

■ The LETC has implemented two courses for our United States Air Force partners, specifically tailored to meet the requirements of their organization. These are the **Security Guard Training** program and the **Advanced Police** course.





## Objective: Maintaining Customer Satisfaction

The Enterprise Centers engage their customers regularly to assess satisfaction levels and to target areas for improvement. Since Enterprise Centers have to compete for business, they cannot afford to become complacent. Customers can count on our responsiveness and high-quality services.

## Information Technology

### ■ AITC Customer Satisfaction Survey

The Austin campus conducts an annual survey of customer satisfaction. As in previous years, Gartner Consulting, a professional firm under contract to Austin, designed the eighth comprehensive customer satisfaction survey. The Austin campus scored in the top 10 percent of Gartner's Information Technology Customer Satisfaction database with an overall satisfaction rating of 4.22 out of 5.00, well surpassing the database average of 3.72 for all 297 private and public sector organizations in Gartner's database. Austin's individual ratings on the standard evaluation criteria compare favorably to Gartner's ITCS database. Austin mirrors the best-in-class averages in several categories. Detailed survey results are available at [vaww.aac.va.gov](http://vaww.aac.va.gov).



■ **Austin Service Desk** personnel are certified help desk professionals through an accredited help desk institution. They received foundation training on the Information Technology Infrastructure Library (ITIL) framework, which facilitates the delivery of high quality service. When customers experience a disruption in their

daily computing activities, the Service Desk provides a vital customer interface that can process and manage incidents, problem inquiries, and service requests. The goal is to ensure that customers can resume their work as soon as possible following the service interruption, thus minimizing the impact to business operations.

### ■ AITC Human Resources Management (HRM)

Attracting, retaining, and motivating high quality employees are essential to achieving VA's mission. The AITC's HRM is a fully functional personnel office equipped with experienced human resources (HR) specialists. Our skilled specialists are able to interpret and apply Office of Personnel Management (OPM) and statutory standards and guides relative to federal recruitment and placement processes and are knowledgeable in all phases of federal regulations. HR specialists maintain a constant interaction with both managers and employees, providing guidance on a full range of personnel services. Additionally, the HRM maintains a close relationship with OI&T, providing management advisory services to the OI&T HR Coordinator. From recruitment to labor/employee relations, our experienced staff implements best practices to serve our customers in a timely and professional manner.

Currently, the HRM provides services support to approximately 1,800 VA employees within the AITC, Business and Field Operations Services, and Compliance and Inspection Divisions. The recent reorganization of OI&T further increased the demand for HRM support to OI&T employees. In FY 2009, the AITC HRM will continue to provide support for OI&T Station 103 employees on a firm-fixed priced contract. The AITC HRM anticipates that support levels for OI&T and Office of Acquisition and Logistics (OA&L) will increase in FY 2009 and FY 2010. The AITC HRM is working with OI&T and OA&L on HRM support levels.

Our services include:

- Recruitment and Staffing – Execute the complete recruitment and placement process from issuance of announcements to selections and issuance of

letters of selection and non-selection, observing all merit principles of the federal hiring process. Provide full appointment authority for centralized and non-centralized positions. Maintain all centralized personnel files and input personnel actions.

- **Classification** – Provide full classification authority for non-centralized positions. Proposed upgrades are to be processed within 30 workdays, and all other classification actions will be processed within 5 workdays of receipt of position descriptions in Austin. Appropriate background security investigations are provided for employees as required by their positions including Personal Identity Verification and fingerprinting.
- **Labor/Employee Relations** – Provide guidance and support in performance management, employee relations, Office of Workers Compensation, training, awards, benefits, retirement and the Employee Assistance Program. These services are provided to employees via FedSource in partnership with ComPsych Guidance Services.

■ **The Records Center & Vault** is listed on the National Archives and Records Administration (NARA) Central Registry of Approved Facilities for the Storage of Federal Records and is one of the first such facilities to comply with NARA's 2009 records storage facility standards.



## Information Technology Plans for 2009 and Beyond

### ■ **z9Mainframe**

The z890 is the AITC's small-scale mainframe and will require an upgrade to address the need to support cus-

tomers requests for more processing power. Additionally, IBM will no longer support modifications to the platform that require microcode changes such as to the memory or processor. The upgrade is planned for the first quarter FY 2009 and will allow the AITC to keep this production platform in a vendor supported state. The estimated cost is \$1.5 million.

### ■ **High Availability Infrastructure**

Estimated at \$1 million, this project is planned for the second quarter of FY 2009 and will begin establishing highly available server infrastructures for mission-critical and mission-essential VA systems. This will be done in a variety of ways including, but not limited to, movement of internal drive storage to centralized and standardized enterprise class storage, implementation of server clustering and failover, and implementation of VMWare clusters with automatic failover and load-balancing capabilities.

### ■ **AITC Network Redesign**

Estimated at \$3.5 million, this project is a redesign of the existing local area network and will provide more flexibility to accommodate rapid reconfiguration, better centralized management, increased security, and higher throughput. The planned completion date of this project is third quarter of FY 2009.

### ■ **Disk Storage Upgrade**

At the current rate of growth, an estimated \$2.2 million disk storage upgrade is planned in the third quarter of FY 2009 in support of natural growth and new workload.

### ■ **Building Access Control System Readers/Keypads Replacement**

In accordance with Homeland Security Presidential Directive (HSPD) 12, which requires all Federal agencies to develop a common identification card that every Federal agency will accept, VA must implement a smartcard for authentication and identification for both information systems and physical access control. The National Institute of Standards and Technology has set forth the standards, and Federal Information Processing Standard 201 is establishing timelines for implementing those standards. Since the timelines are unknown, the AITC estimates that by the fourth quarter of FY 2009, the AITC building access security system will be upgraded to be compatible with the smartcard technology. The cost is estimated at \$360,000.

### ■ Enterprise Backup and Nearline Storage

The enterprise backup network is finding it increasingly difficult to back up all of its open systems applications onto tape within the time period authorized by its customers, which increases the likelihood of a backup failure occurring. Additionally, the existing mainframe tape infrastructure has reached the end of its useful life and is scheduled for end of service in FY 2010. Recent tape procurement efforts reveal that new tapes are no longer available, resulting in the data center having to accept pre-certified tapes which also increases the risk of backup failures. A disk-based backup solution would overcome these problems by redirecting the additional workload onto an alternative disk media within the authorized time period until tape resources are available. This solution would enable the data center to successfully back up its customers' data, continue to support its disaster recovery workload, eliminate backup failures due to inferior tapes, and reduce its overall tape storage capacity. Fewer tapes equals smaller infrastructure. Data recovery time may potentially be reduced because the data will be kept on disk until it is purged. The amount of data retained on disk is only limited to the disk capacity of the disk solution. The cost is estimated at \$7.5 million.



■ The **Records Center and Vault** is working with VHA management to identify how it can better serve VHA in providing records storage and management services for active records. For the most part, the RC&V stores and maintains records that have been inactive for 3 years, but the trend is for VHA facilities to scan active paper records over to electronic format and box/ship the paper records to the RC&V for long-term storage. This cost

saving initiative permits the medical centers to then convert their file rooms over to valuable office or patient care areas. One of the major challenges being faced, however, is working through the process to correlate the active paper records with the electronic records to establish a valid disposition date when the records do become inactive.

■ The RC&V identified potential enhancements to its Web-based **Records Retrieval System (RRS)** to improve its service to customers and save time. RC&V staff, along with the Austin Information Technology Center (AITC) staff who developed the program, are analyzing four key objectives for development and implementation. One of the possible improvements includes obtaining automatic record locator capabilities between the RRS and the inventory database, which will save several hours each day of manual cross referencing.

■ The **RC&V Expansion** will increase its capacity by an additional 74,912 square feet. When the RC&V takes possession of the new space in December 2008, shipments will return to pre-moratorium levels with the intention of ramping up volumes to allow customers to transport boxes of records to free up their in-house storage space. Ultimately the additional incurred rent and GSA fee expenses will be passed on to our customers in the form of higher box storage rates.



## Financial Management

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

The FSC continues to provide support to the U.S. Department of Agriculture (USDA). Under a franchise agreement, the FSC accepts invoices from USDA Utility and Telecommunication providers, translates them to a USDA-approved file format, and transfers these invoices to USDA via a secure connection. USDA inputs these invoices into its legacy systems for processing and payment. This processing takes place using FSC-owned translator software rather than the mainframe translator, which ensures license compliancy and reduces processing costs for USDA.

■ The **FSC provides Division of Immigration Health Services (DIHS)** with an integrated, end-to-end medical claims payment-processing application in conjunction with document processing through an optical character reader. State-of-the-art technology is being applied to automate and Web-enable this application. This application truly represents a full life-cycle – automated service from the time an invoice reaches the FSC through generation of payment, and is in full compliance with the Prompt Payment Act and HIPAA.

■ The **Customer Support Help Desk (CSHD)** offers a comprehensive one-stop response team to support inquiries from VA stations and vendors. The CSHD provides timely and accurate responses to questions ranging from how to navigate in FMS to assisting a veteran with benefits information. The e-Travel Help Desk assists travelers and stations in processing travel requirements in the new ETS system.

■ The **Vendor Inquiry System (VIS)** stores more than 4 years of payment information. Once vendors complete an

authentication process, they are able to access a secure Website to view previous, current and future payments for their company. Currently, there are 17,520 active registered vendors who have made over 552,115 requests in FY 2008 and a total of over 2.3 million requests since the VIS's inception in April 2003. The VIS provides FSC vendors with an easy-to-use self-service tool for immediate access to their invoice and payment information 24 hours a day. This has also improved customer service by reducing the need to handle numerous routine inquiries by FSC staff. Registered VIS users now have the ability to submit electronic invoices directly to the FSC. Vendors complete user friendly forms to create, manage and track invoices. This online system provides the vendor with a list of valid purchase orders, virtually eliminating the number one error causing payment delays. Errors identified by the online system are immediately returned to the VIS user, who can instantly correct them prior to submission. This prevents payment delays and results in more accurate vendor payments. In FY 2008, invoices submitted via VIS increased by 22,360 invoices and \$340 million from the previous year. Since our initial opening, 44,732 invoices totaling \$895 million have been submitted via the system.

## Financial Management Plans for 2009 and Beyond

### ■ **FSC Relocation to New Facility**

The FSC has continually expanded both its services provided and customer base, more than doubling revenue and adding over 100 employees since 2001. As a result, the FSC has exhausted the available space in its current building and cannot accommodate customer demand for increased services. To leverage the potential of the VA Franchise Fund, which offers high quality common administrative services at competitive rates, the FSC must continue to grow its business. Such growth satisfies customer demand for financial services and spreads fixed operating costs over a larger business base thus reducing the unit cost of services for all customers. The VA Franchise Fund Board of Directors approved the FSC's acquisition of commercial leased space to satisfy their increased space requirements.

Maintaining Customer Satisfaction

The FSC worked with GSA to negotiate a lease for suitable commercial space to house the FSC operations at the MetCenter business park complex located near the Austin-Bergstrom International Airport. Relocation of FSC operations is planned for the spring of 2009.

■ Under the (E-Gov) **e-Payroll** initiative, DFAS will process payroll and associated activities for VA. However, the FSC will continue to support this initiative by providing payroll processing support to DFAS. Stations supported by the FSC local payroll section were the first to pilot test DFAS's payroll application for VA in FY 2006, followed by most VBA activities and VA personnel at the Oakland and San Francisco stations in FY 2008. The rest of VA will migrate to DFAS by the end of FY 2009 with the FSC continuing to provide payroll processing and consulting support. The FSC also supports the e-Payroll initiative by reviewing retirement cards prior to their submission to OPM for personnel converting to DFAS as well as assisting the e-Payroll Project Office with data cleanup efforts.

■ FSC-planned support of the **E-Gov** Travel initiative will continue through the life of the project. For FY 2008, funding was combined from two lines for E-Gov travel to cover increased costs to support changes to the VA member ID to comply with OMB memorandum M-07-16, Subject: *Safeguarding against and responding to the breach of personally identifiable information (PII)*, signed

by Clay Johnson III on May 22, 2007. This memorandum calls for reducing the volume of collected and retained PII to the minimum necessary.

In order to comply with this OMB requirement, Electronic Data Systems (EDS) will make program changes to the current VA member ID to delete the portion that includes the users' social security number. Additional work includes development necessary to transition to the Smart Pay 2 VA contract with US Bank; supplemental customer support services (onsite customer account service representatives); reporting services in addition to that provided by the GSA master contract, and continued software maintenance and upgrade support. In recognition of successful implementation of this e-Gov initiative, Secretary Peake visited the FSC e-Travel staff on April 21, 2008, to extend his appreciation for a job well done.



## Security and Law Enforcement

■ **Addition of Specialized and OGA Courses**

The Law Enforcement Training Center has added an Advance Police Officer's course to give VA police updated training on various law enforcement training topics. We are looking to add two new specialty courses. One is an Active Shooter course, which will train officers on how to respond to an active shooting situation where there is minimal amount of time to plan in order to maximize saving lives. The other specialized course, Improvised Explosive Device (IED) Recognition and Detection, will give officers additional and advanced training in recognizing and detecting IEDs.



### ■ Monthly and Quarterly Billing Audits

To ensure our ongoing commitment to our customers, the SIC continues to utilize a rigorous regimen of audits of the monthly billing to our customers. Monthly and quarterly audits have greatly reduced the likelihood of improper billings.

## Security and Law Enforcement Plans for 2009 and Beyond

### ■ New Dormitory

An additional 48 dormitory rooms will be built adjacent to our existing main classroom and housing facility to accommodate the growing needs of our in-house residence program. The project started during the 4th quarter of FY 2008.

■ **Implementation of the VA Police Automated System of Records (VAPS)** 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.



### ■ Development of a Centralized Records

**Management System** will enable management to receive incident information as soon as it is entered. Reporting on critical incidents will be much faster and easier. This system will standardize the VA police officers' reporting requirements and redirect the efforts of all stations to a One VA solution.

### ■ Help Desk

The SIC will institute a dedicated help line to assist customers with the sometimes taxing questions about initiating, processing and adjudicating background investigations.

■ Completion of a **new dual central facility** for investigative processing is scheduled to be completed in late 2008. The new Security Center will bring together all the elements of the SIC to include processing, adjudication and personal identity verification support functions. In addition it will serve as the cornerstone for investigative support for the entire VA.



# Performance Measures, Goals, and Objectives

## 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 overall governance and performance 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 VA Franchise Fund goals support 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 ensuring that customer identification badges are issued without delay.
- 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 below accurately represents the Enterprise Centers' performance during fiscal years 2005–2008. 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 seven performance goals, six were met.

## Performance Summary Table

Performance Measure	Actuals				Plan	Were 2008 Goals Achieved?	
	2005	2006	2007	2008	2008	Yes	No
Ranking within top 12.5% in the Information Technology Customer Satisfaction database	12%	8%	8%	12%	12.5%	x	
Total collections per dollar spent on collection activities	\$67	\$80	\$80	\$84	\$77	x	
Payment processing accuracy rate	99%	97.9%	98%	98.4%	98%	x	
Class graduation rate	95%	96.5%	96.5%	98.5%	95%	x	
Percent of investigations that are completed within the established timeframes <sup>1</sup>	89%	96%	98%	96%	98%		x
Percent of recalled records shipped securely and accurately to requesting facility within established timeframes	N/A	N/A	99.6%	99.9%	99%	x	
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	x	

<sup>1</sup>The timeliness of completed investigations will be improved with the implementation of E-QIP. This software will allow the online retrieval of closing documents, thus reducing the length of time required to complete cases.

## Performance Highlights During FY 2008

- For the 11th year in a row, the audited financial statements of the VA Franchise Fund received an unqualified “clean” opinion with no audit qualifications.
- The AITC continued its leadership in exceeding performance levels associated with customer satisfaction.
- The DMC demonstrated a phenomenal rate of return of \$84 collected for every dollar of incurred expense.
- Despite increasing payment volume, the FSC maintained an accuracy rate of 98.4 percent.
- The LETC upgraded course offerings and kept graduation rates at extremely high levels.
- The RC&V ensured that medical centers received recalled patient records within established timeframes. In addition, the RC&V shipped the records in a manner that did not compromise the patients' personal information.
- Meeting its goal for 2008, the SIC initiated a full-scale implementation of the E-QIP system.



## Limitation Statement

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

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

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

## Audit Opinion

For the 11th consecutive year (1998-2008), we have received an unqualified "clean" audit opinion.

# Financial Statement Analysis

The consolidated financial statements present the Franchise Fund's (Fund) financial position, cumulative results of operations, changes in net position, and information on budgetary resources for FY 2008 and FY 2007. Highlights of the information contained in the consolidated financial statements are summarized in this section.

## Overview of Financial Position

### Assets

The Consolidated Balance Sheets reflect the Fund's asset balances of \$142.8 million as of September 30, 2008. This is a decrease of \$53.4 million (27 percent over the previous year's total assets of \$196.2 million). The reduction in asset balances is largely due to two factors. First was the issuance of two billing holidays during FY 2008: one by the Austin Information Technology Center for \$27.3 million and one by the Debt Management Center for \$1.8 million. The billing holidays lead to a decrease in revenue and, therefore, a related decrease in Fund Balance with Treasury occurred. The other factor was the improved collections of outstanding accounts receivable. This yielded a \$23.9 million (72 percent) decrease in accounts receivable from FY 2007 to FY 2008.

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

(Dollars in Thousands)

	2008	2007
Fund Balance with Treasury	\$103,725	\$137,509
Property, Plant, and Equipment, Net	27,769	23,737
Accounts Receivable, Net	9,111	33,092
Other Assets	2,175	1,826
<b>Total Assets</b>	<b>\$142,780</b>	<b>\$196,164</b>

### Liabilities

The Fund had total liabilities of \$40.1 million as of September 30, 2008. This represents a decrease of \$33.7 million (46 percent over the previous year's total liabilities of \$73.8 million). The reduction in liabilities is largely due to decreasing demand for Information Technology Acquisition Services.

The Fund's liabilities as presented in the Consolidated Balance Sheets are summarized in the following table:

(Dollars in Thousands)

	2008	2007
Other Liabilities	\$28,575	\$46,422
Intragovernmental Liabilities	8,579	23,592
Accounts Payable	2,967	3,799
<b>Total Liabilities</b>	<b>\$40,121</b>	<b>\$73,813</b>

## Management Assurances

### Net Position

The Fund's net position decreased by \$19.7 million in FY 2008 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was \$102.7 million in FY 2008, which yielded a 16 percent decrease from FY 2007's ending net position of \$122.4 million. Net position is the sum of unexpended funds and cumulative results of operations.

### Cumulative Results of Operations

The Fund's cumulative results of operations yielded a net loss of \$24.6 million in FY 2008, as reflected in the Consolidated Statement of Net Cost. The loss was primarily due to the issuance of two billing holidays: one by the Austin Information Technology Center for \$27.3 million and one by the Debt Management Center for \$1.8 million.

### Budgetary Resources

The Combined Statement of Budgetary Resources presents budgetary resources made available to the Fund during the year and the resulting status of budgetary resources at year-end. The Fund does not receive an annual appropriation from Congress. The Fund is fully self-sustained by recovering all costs through reimbursements for services provided. The Fund had total budgetary resources of \$408.1 million, a decrease from the FY 2007 level of \$446.5 million.

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

(Dollars in Thousands)

	2008	2007
Beginning Unobligated Balance	\$192,081	\$150,351
Spending Authority Earned and Collected	261,877	281,966
Receivable from Federal Sources	(24,040)	(15,319)
Change in Unfilled Customer Orders	(21,790)	29,493
<b>Total Budgetary Resources</b>	<b>\$408,128</b>	<b>\$446,491</b>

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-wide initiative, Department managers were responsible for establishing and maintaining effective internal controls over financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations. On the basis of statements of written assurance provided by the Under Secretaries, Assistant Secretaries, and other key officials, the Secretary of Veterans Affairs provided 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's signed Statement of Qualified Assurance on internal control may be found on page 91 in the 2008 Department of Veterans Affairs Performance and Accountability Report ([http://www.va.gov/budget/report/2008/PartI/Part\\_I.pdf](http://www.va.gov/budget/report/2008/PartI/Part_I.pdf)).


**BROWN & COMPANY CPAs, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

The Director  
Department of Veterans Affairs Franchise and Trust Fund Oversight

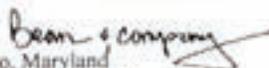
We have audited the accompanying consolidated balance sheet of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended September 30, 2008 and 2007. These financial statements are the responsibility of the VA Franchise Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as amended*. Those standards and OMB Bulletin No. 07-04 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements including the accompanying notes present fairly, in all material respects, in conformity with the U.S. generally accepted accounting principles, the VA Franchise Fund's assets, liabilities, and net position as of September 30, 2008 and 2007; and net costs; changes in net position; and budgetary resources for the years then ended.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, as amended, we have also issued a report dated November 14, 2008 on our consideration of the VA Franchise Fund's internal control 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" (MD&A) is presented for the purpose of additional analysis and is required by OMB Circular No A-136, revised *Financial Reporting Requirements*. The VA Franchise Fund's MD&A and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the VA Franchise Fund officials. Based on this limited work, we found no material inconsistencies with the financial statements; U.S. generally accepted accounting principles, or OMB guidance.

  
Largo, Maryland  
November 14, 2008

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

The Director  
Department of Veterans Affairs Franchise and Trust Fund Oversight

We have audited the financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. 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. 07-04, *Audit Requirements for Federal Financial Statements, as amended*.

In planning and performing our audit, we considered the VA Franchise Fund's internal control over financial reporting and compliance 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. 07-04 and to determine our procedures for auditing the financial statements. 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 over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis.

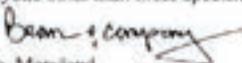
Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, significant deficiencies 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. A material weakness is a control deficiency that results in more than a remote likelihood that the design or operation of one or more internal controls will not allow management or employees, in the normal course of performing their duties, to promptly detect or prevent errors, fraud, or noncompliance in amounts that would be material to the financial statements. Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies. However, for the controls we tested, we found no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance, except as stated in the following paragraphs.

The Department of Veterans Affairs (VA) Office of Inspector General (OIG) engaged an independent public accounting firm to perform the audit of the VA's consolidated financial statements for the years ending 2008 and 2007. The VA's consolidated financial statements include the VA 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 17, 2008, and identified material weaknesses that include significant departures from certain requirements of OMB Circular A-127, Financial Management Systems; Circular A-123, Management's Responsibility for Internal Control; and Circular A-130, Management of Federal Information Resources: (2) Financial Management System Functionality – Material Weakness (Repeat Condition); (1) Information Technology (IT) Security Controls

– Material Weakness (Repeat Condition); and (3) Financial Management 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 November 14, 2008.

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 14, 2008

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CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

The Director  
Department of Veterans Affairs Franchise and Trust Fund Oversight

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, 2008, and have issued our report thereon dated November 14, 2008. 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. 07-04, *Audit Requirements for Federal Financial Statement*, amended.

The management of the VA Franchise Fund is responsible for complying with laws and regulations applicable to the VA Franchise Fund. As part of obtaining reasonable assurance about whether the VA Franchise Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, 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. 07-04, as amended.

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.

The Department of Veterans Affairs (VA) Office of Inspector General (OIG) engaged an independent public accounting firm to perform the audit of the VA's consolidated financial statements for the years ending 2008 and 2007. The VA's consolidated financial statements include the VA 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 17, 2008, and identified material weaknesses that include significant departures from certain requirements of OMB Circular A-127, Financial Management Systems; Circular A-123, Management's Responsibility for Internal Control; and Circular A-130, Management of Federal Information Resources: (2) Financial Management System Functionality - Material Weakness (Repeat Condition); (1) Information Technology (IT) Security Controls - Material Weakness (Repeat Condition); and (3) Financial Management Oversight - Material Weakness (Repeat Condition). These material weaknesses in internal control over financial reporting indicate that the 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 14, 2008

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# Consolidated Financial Statements

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND  
CONSOLIDATED BALANCE SHEET  
AS OF SEPTEMBER 30, 2008 and 2007  
(Dollars in Thousands)**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>Intragovernmental</b>		
Fund Balance with Treasury (Note 2)	\$ 103,725	\$ 137,509
Accounts Receivable	9,028	33,068
Other Assets (Note 3)	2,171	1,819
Total Intragovernmental	<u>114,924</u>	<u>172,396</u>
Accounts Receivable	83	24
Property, Plant and Equipment, Net (Note 4)	27,769	23,737
Other Assets (Note 3)	4	7
<b>Total Assets</b>	<b><u>\$ 142,780</u></b>	<b><u>\$ 196,164</u></b>
<b>LIABILITIES</b>		
<b>Intragovernmental Liabilities</b>		
Other Liabilities (Note 6)	8,579	23,592
Total Intragovernmental	<u>8,579</u>	<u>23,592</u>
Accounts Payable	2,967	3,799
Other Liabilities (Note 6)	28,575	46,422
<b>Total Liabilities</b>	<b><u>40,121</u></b>	<b><u>73,813</u></b>
<b>NET POSITION</b>	<b><u>\$ 102,659</u></b>	<b><u>\$ 122,351</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 142,780</u></b>	<b><u>\$ 196,164</u></b>

*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, 2008 and 2007  
(Dollars in Thousands)**

	<u>2008</u>	<u>2007</u>
<b>PROGRAM COSTS:</b>		
Gross Costs Intragovernmental	\$ 43,732	\$ 40,053
Less: Earned Revenue-Intragovernmental	<u>(231,191)</u>	<u>(258,899)</u>
Net Program Costs - Intragovernmental	(187,459)	(218,846)
Costs Not Assigned to Programs	212,070	211,052
<b>NET COST OF OPERATIONS</b>	<u><u>\$ 24,611</u></u>	<u><u>\$ (7,794)</u></u>

**DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND  
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007  
(Dollars in Thousands)**

	<u>2008</u>	<u>2007</u>
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Beginning Balance	\$ 122,351	\$ 109,889
<b>OTHER FINANCING SOURCES (NON-EXCHANGE):</b>		
Transfers-In	522	191
Imputed Financing	<u>4,397</u>	<u>4,477</u>
Total Financing Sources	4,919	4,668
Net Cost of Operations	<u>(24,611)</u>	<u>7,794</u>
<b>Net Change</b>	<u><u>(19,692)</u></u>	<u><u>12,462</u></u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 102,659</u></u>	<u><u>\$ 122,351</u></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, 2008 and 2007  
(Dollars in Thousands)**

	<u>2008</u>	<u>2007</u>
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance at the Beginning of the Period	\$ 192,081	\$ 150,351
Spending Authority from Offsetting Collections Earned		
Collected	261,877	281,966
Receivable from Federal sources	(24,040)	(15,319)
Change in unfilled customer orders		
Advance Received	(14,839)	230
Without Advance from Federal Sources	<u>(6,951)</u>	<u>29,263</u>
<b>Total Budgetary Resources</b>	<b><u>408,128</u></b>	<b><u>446,491</u></b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred	284,056	254,410
Unobligated Balance Available (Note 2)	<u>124,072</u>	<u>192,081</u>
<b>Total Status of Budgetary Resources</b>	<b><u>408,128</u></b>	<b><u>446,491</u></b>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated Balance, Net - Beginning of the Period	(54,572)	(2,566)
Obligations Incurred	284,056	254,410
Less Gross Outlays	(280,822)	(292,471)
Change in Uncollected Customer Payments from Federal Sources	30,991	(13,945)
<b>Obligated Balance, Net End of Period</b>	<b><u>\$ (20,347)</u></b>	<b><u>\$ (54,572)</u></b>
<b>NET OUTLAYS</b>		
Gross Outlays - Disbursements	280,822	292,471
Less: Offsetting Collections	<u>(247,037)</u>	<u>(282,195)</u>
<b>Net Outlays</b>	<b><u>\$ 33,785</u></b>	<b><u>\$ 10,276</u></b>

*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, 2008 and 2007  
(Dollars in Thousands)

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### Note 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

Created by Congress in 1996, as one of six Franchise Fund pilots operating within the Executive Branch of Government, the Department of Veterans Affairs' (VA) Franchise Fund supports VA's mission by supplying common administrative services at competitive prices. By law, the business lines within the Fund can only sell to Federal entities. This organization accounted for its funds in six activity centers (VA Enterprise Centers) and in one administrative organization: Austin Information Technology Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and the Franchise and Trust Fund Oversight 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) 2008 and 2007 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements.

#### C. Basis of Accounting

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

#### D. Fund Balance with Treasury

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

#### E. Accounts Receivable

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

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

**F. Property, Plant and Equipment**

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

**G. Other Liabilities**

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

**H. Revenues and Financing Sources**

The Fund receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee-for-service" basis. 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.

**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>2008</u>	<u>2007</u>
<b>Fund Balance with Treasury</b>	\$ 103,725	\$ 137,509

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>2008</u>	<u>2007</u>
<b>Unobligated Apportionment</b>		
Available	\$ 124,072	\$ 192,081
Unavailable		
<b>Obligated balance not yet Disbursed</b>	<u>(20,347)</u>	<u>(54,572)</u>
<b>Total Unexpended Apportionment</b>	<u><u>\$103,725</u></u>	<u><u>\$137,509</u></u>

## Note 3. Other Assets

Other assets are generally made up of advances. There are three types of advances handled by the Franchise Fund. The first is when Treasury processes charges from other agencies to the Franchise Fund via the Intra-Governmental Payment and Collection System (IPAC). 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.

The second type of advance is advances paid to employees for travel. This includes payment for both permanent change of station (PCS) and temporary duty (TDY) travel.

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.

	<u>2008</u>	<u>2007</u>
<b>Intragovernmental</b>		
Advance Payment – Federal	\$ <u>2,171</u>	\$ <u>1,819</u>
<b>Total Intragovernmental</b>	<u>\$ 2,171</u>	<u>\$ 1,819</u>
Advances to Employees	\$ 1	\$ 1
Advance Payment - Other	<u>3</u>	<u>6</u>
<b>Total Other Assets</b>	<u><u>\$ 2,175</u></u>	<u><u>\$ 1,826</u></u>

#### 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, 2008:

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & Equipment	\$ 2,512	\$ (1,010)	\$ 1,502
ADP Equipment	35,873	(22,564)	13,309
Software	12,455	(10,100)	2,355
Software - In Development	0	0	0
Leasehold Improvements	<u>23,885</u>	<u>(13,282)</u>	<u>10,603</u>
<b>Total PP&amp;E</b>	<b><u>\$ 74,725</u></b>	<b><u>\$ (46,956)</u></b>	<b><u>\$ 27,769</u></b>

PP&E as of September 30, 2007:

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture & Equipment	\$ 2,512	\$ (849)	\$ 1,663
ADP Equipment	29,035	(20,759)	8,276
Software	11,552	(9,591)	1,961
Software - In Development	694	0	694
Leasehold Improvements	<u>23,210</u>	<u>(12,067)</u>	<u>11,143</u>
<b>Total PP&amp;E</b>	<b><u>\$ 67,003</u></b>	<b><u>\$ (43,266)</u></b>	<b><u>\$ 23,737</u></b>

## Note 5. Leases

The Franchise Fund has operating leases. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund's FY 2008 operating lease costs were \$1,575,557 for real property rentals and \$79,223 for equipment rentals. The Franchise Fund's FY 2007 operating lease costs were \$1,622,138 for real property rentals and \$23,736 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 4.1 to 4.2 percent annual increases in cost.

### OPERATING LEASES

<u>Fiscal Year</u>	<u>Percentage Increase</u>	<u>Real Property</u>	<u>Equipment</u>
2009	4.2	\$ 1,642	\$ 83
2010	4.2	1,711	86
2011	4.2	1,783	90
2012	4.1	1,856	93
2013	4.1	1,932	97

## Note 6. Other Liabilities

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

	<u>2008</u>	<u>2007</u>
<b>Intragovernmental</b>		
Accrued Payables – Federal	\$ 3,612	\$ 3,786
Advances – Federal	<u>4,967</u>	<u>19,806</u>
<b>Total Intragovernmental Liabilities</b>	<b><u>\$ 8,579</u></b>	<b><u>\$ 23,592</u></b>
<b>Public</b>		
Accrued Payables	\$ 21,928	\$ 41,988
Accrued Salaries & Wages	2,568	577
Accrued Funded Annual Leave	<u>4,079</u>	<u>3,857</u>
<b>Total Public Liabilities</b>	<b><u>\$ 28,575</u></b>	<b><u>\$ 46,422</u></b>

## **Note 7. Reconciliation of Net Cost of Operations to Budget**

Statement of Federal Financial Accounting Standard 7 "requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The standard states that "OMB will provide guidance regarding details of the display for the Statement of Financing, including whether it shall be presented as a basic financial statement or as a schedule in the notes to the basic financial statements."

Statement of Federal Financial Accounting Concept 2, Entity and Display, provides Concepts for Reconciling Budgetary and Financial Accounting by adding a category of financial information to further satisfy users' needs to understand "how information on the use of budgetary resources relates to information on the cost of program operations ..." The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations. In previous years this reconciliation was accomplished by presenting the Statement of Financing as a Basic Financial Statement.

Effective for fiscal year 2007, OMB and the Chief Financial Officers Council decided that this reconciliation would be better placed and understood as a note rather than as a basic statement. Comparative displays for the current year and prior year are required.

## FY 08 Reconciliation of Net Cost of Operations to Budget

	<u>2008</u>	<u>2007</u>
<i>Resources Used to Finance Activities:</i>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	284,056	254,410
Less: Spending Authority from Offsetting Collections and Adjustments	(216,046)	(296,141)
Net Obligations	<u>68,010</u>	<u>(41,731)</u>
<b>Other Resources</b>		
Transfers in/out	522	191
Imputed Financing from Costs Subsidies	4,397	4,477
Net Other Resources Used to Finance Activities	<u>4,919</u>	<u>4,668</u>
<b>Total Resources Used to Finance Activities</b>	72,929	(37,061)
<i>Resources Used to Finance Items not Part of the Net Cost of Operations:</i>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(44,226)	28,960
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(9,005)	(4,805)
Resources that Fund Expenses Recognized in Prior Periods	(60)	4
<b>Total Resources Used to Finance Items not Part of the Net Costs of Operations</b>	<u>(53,291)</u>	<u>24,159</u>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	19,638	(12,902)
<b>Components Not Requiring or Generating Resources</b>		
Depreciation and Amortization	7,852	5,108
Loss on Disposition of Assets	(2,879)	0
Total Components that Will Not Require or Generate Resources	4,973	5,108
<b>Total Components that Will Not Require or Generate Resources in the Current Period</b>	<u>4,973</u>	<u>5,108</u>
<b>Net Cost of Operations</b>	<u><u>24,611</u></u>	<u><u>(7,794)</u></u>

# Department of Veterans Affairs

## FRANCHISE FUND

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### **Law Enforcement Training Center**

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### **Debt Management Center**

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Internet: [www.va.gov/debtman/default.html](http://www.va.gov/debtman/default.html)

### **Security and Investigations Center**

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