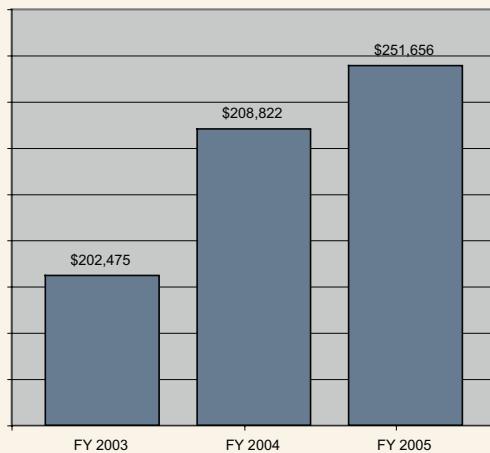


## LETTER TO STAKEHOLDERS

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



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

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

### DEAR STAKEHOLDERS,

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

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

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

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

Some of our most noteworthy FY 2005 accomplishments include:

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

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

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



Tim S. McClain  
Chief Management Officer

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

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

In addition, I commend the contributors to this report including our primary editor, Loleisa Davis, and the management and the employees at the Austin Automation Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Records Center and Vault, Security and Investigations Center and the Enterprise Fund Office.

*Tim S. McClain*