



Department of Veterans Affairs

Franchise Fund FY 2009 Annual Report

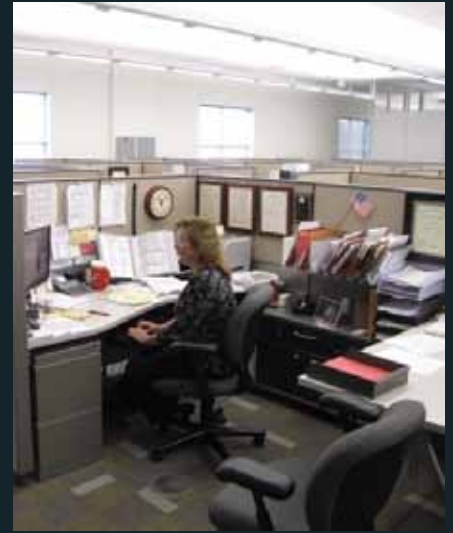
Promoting Efficiencies in the Delivery of
Common Administrative Support Services



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



VA Franchise Fund FY 2009 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 2009 Annual Report

Table of Contents

2-3 Letter to Stakeholders

4-30 Management's Discussion and Analysis

4 Mission, Vision, and Values

5-8 Members of the VA Franchise Fund Network

9-10 Our Stakeholders

11-25 Meeting VA Franchise Fund Objectives

26-28 Performance Measures, Goals, and Objectives

29-30 Financial Statement Analysis

31-34 Auditor's Reports

31 Independent Auditor's Report on the Financial Statements

32-33 Independent Auditor's Report on Internal Control Over Financial Reporting

34 Independent Auditor's Report on Compliance with Laws and Regulations

35-45 Consolidated Financial Statements

35 Consolidated Balance Sheet

36 Consolidated Statement of Net Cost and Changes in Net Position

37 Combined Statement of Budgetary Resources

38-45 Notes to the Consolidated Financial Statements

Contributors

Austin Information Technology Center

Debt Management Center

Financial Services Center

Law Enforcement Training Center

Records Center and Vault

Security and Investigations Center

Franchise and Trust Fund

Oversight Office



Rita A. Reed, Acting Assistant Secretary for Management

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

Letter to Stakeholders

I am delighted to report that the Department of Veterans Affairs Franchise Fund completed another successful year of operations in FY 2009. This Franchise Fund surpassed the \$300 million mark in total revenue, which is another commendable achievement. Total revenue was \$310 million, of which \$233 million came from our parent agency, VA, while \$77 million came from other government agencies (OGA). The Franchise Fund has truly been **“Promoting Efficiencies in the Delivery of Common Administrative Support Services.”**

Some of our most noteworthy accomplishments include:

- Receiving our 12th consecutive unqualified “clean” audit opinion, clearly demonstrating good financial stewardship.
- Scoring in the top 3.5 percent of Gartner Consulting’s (Gartner) Information Technology Customer Satisfaction database with an overall satisfaction rating of 4.27 out of 5.00, well surpassing the average of 3.71, earning a coveted Gartner “Best in Class” rating (AIRC).
- Demonstrating efficiencies in debt collection services with a rate of return of over \$101 collected for every dollar spent (DMC).
- Converting VA FedTraveler.com users to new member identification login numbers, eliminating the use of Social Security numbers (FSC).
- Implementing a Centralized Records Management System enabling management to receive incident information as soon as it is entered. This system standardizes reporting requirements for VA police officers and redirects the efforts of all stations to a One VA solution (LETC).
- Using new records storage bays adjacent to the existing facility, which will store approximately 325,000 cubic feet of records (RCV).

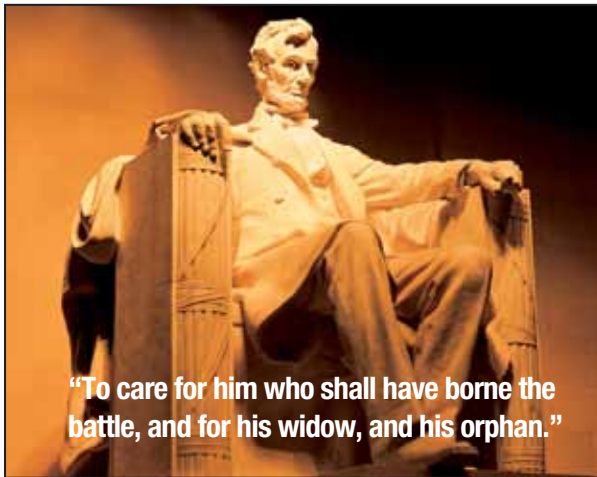
- Completing construction of a new facility allowing investigative processing, adjudication and personal identifiable verification support to come together under one roof, providing consolidation of efforts and resources (SIC).

The success of the Franchise Fund would not have been achieved without the support of its customers. We thank all of our customers for their continuing support.

The Fund continues to explore new avenues to improve the services it provides to its customers. Our goal to achieve service excellence gives us the opportunity to increase customer satisfaction and value propositions.

On behalf of the Franchise Fund, I invite you to examine our FY 2009 Annual Report outlining accomplishments of the Enterprise Centers and their plans for next year, as well as the Franchise Fund's audited financial statements. We look forward to the coming year and are confident that we will meet the challenges that lie ahead.

A handwritten signature in black ink, reading "Rita A. Reid". The signature is written in a cursive style with a large initial "R" and "A".



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

To provide Comprehensive Business Solutions for Tomorrow's Government

VA Franchise Fund's Values

To guide us in fulfilling our 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 listening and responding to their concerns, we seek continuous improvement in our programs and services.

Accountability

We will perform in a manner that makes us accountable and responsible to Veterans and their families, our leaders and other employees, as well as to 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 and sound business principles.

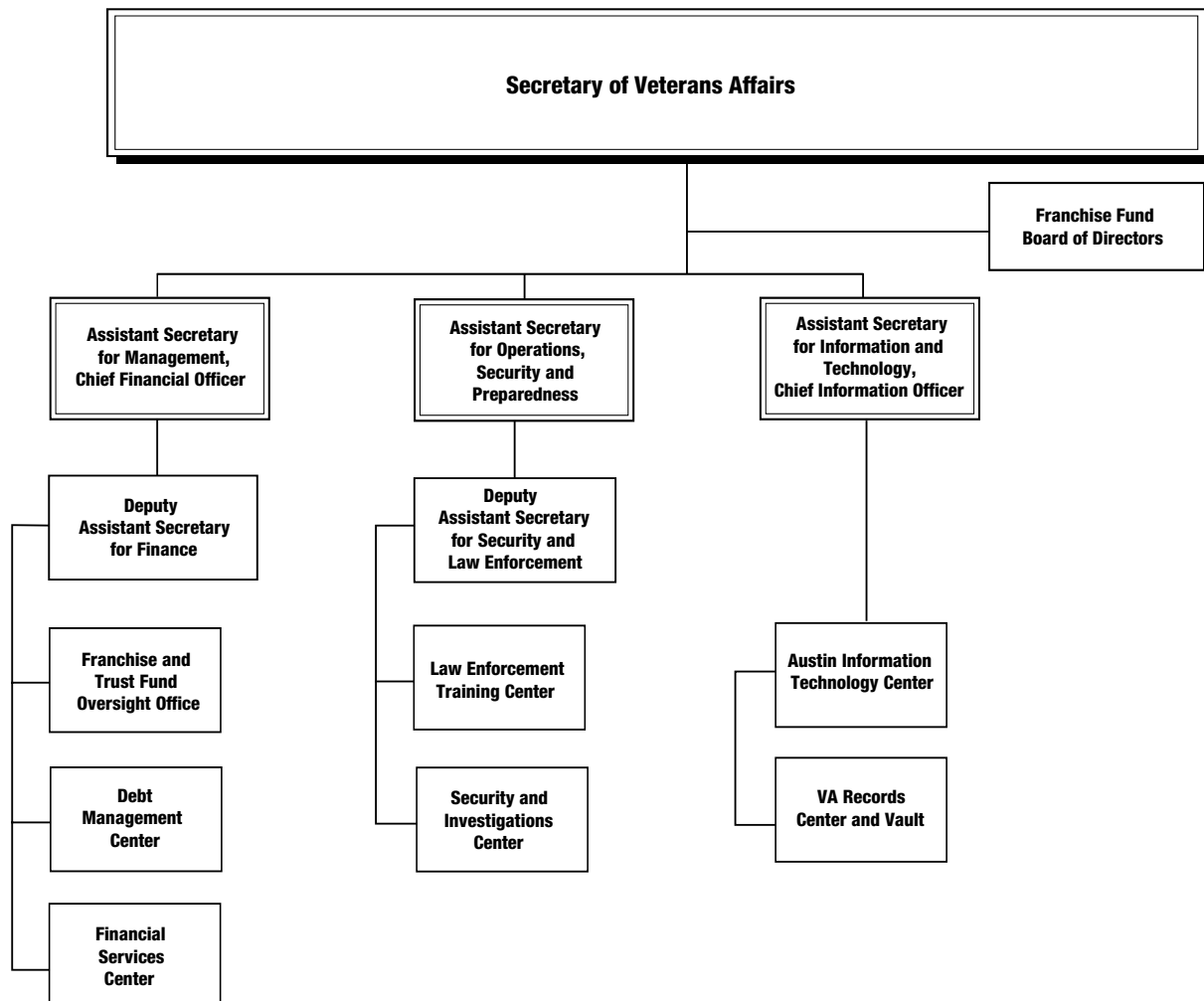
Members of the VA Franchise Fund Network

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 on mission-critical functions within their organization. We have positioned ourselves to meet the needs of any Federal agency at competitive prices.

Information Technology (IT)

Records Center and Vault (Neosho, MO)

- Records Storage
- Records Management Services

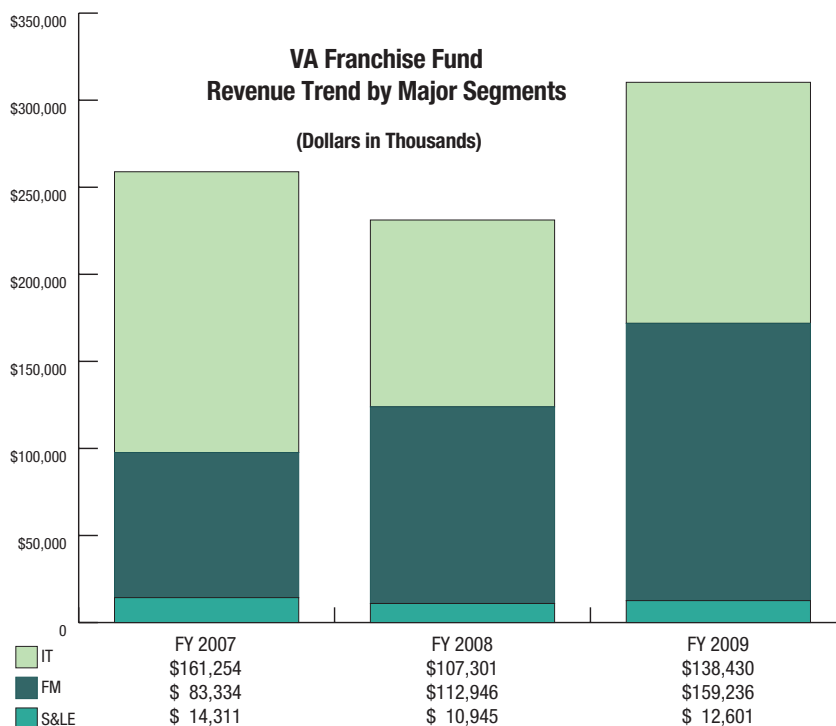
Business Segments

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 2007 through FY 2009.

The IT segment ended FY 2009 with \$138 million in revenue, compared to \$107 million in FY 2008.

The FM segment generated \$159 million in revenue in FY 2009, far exceeding FY 2008 revenue of \$112 million.

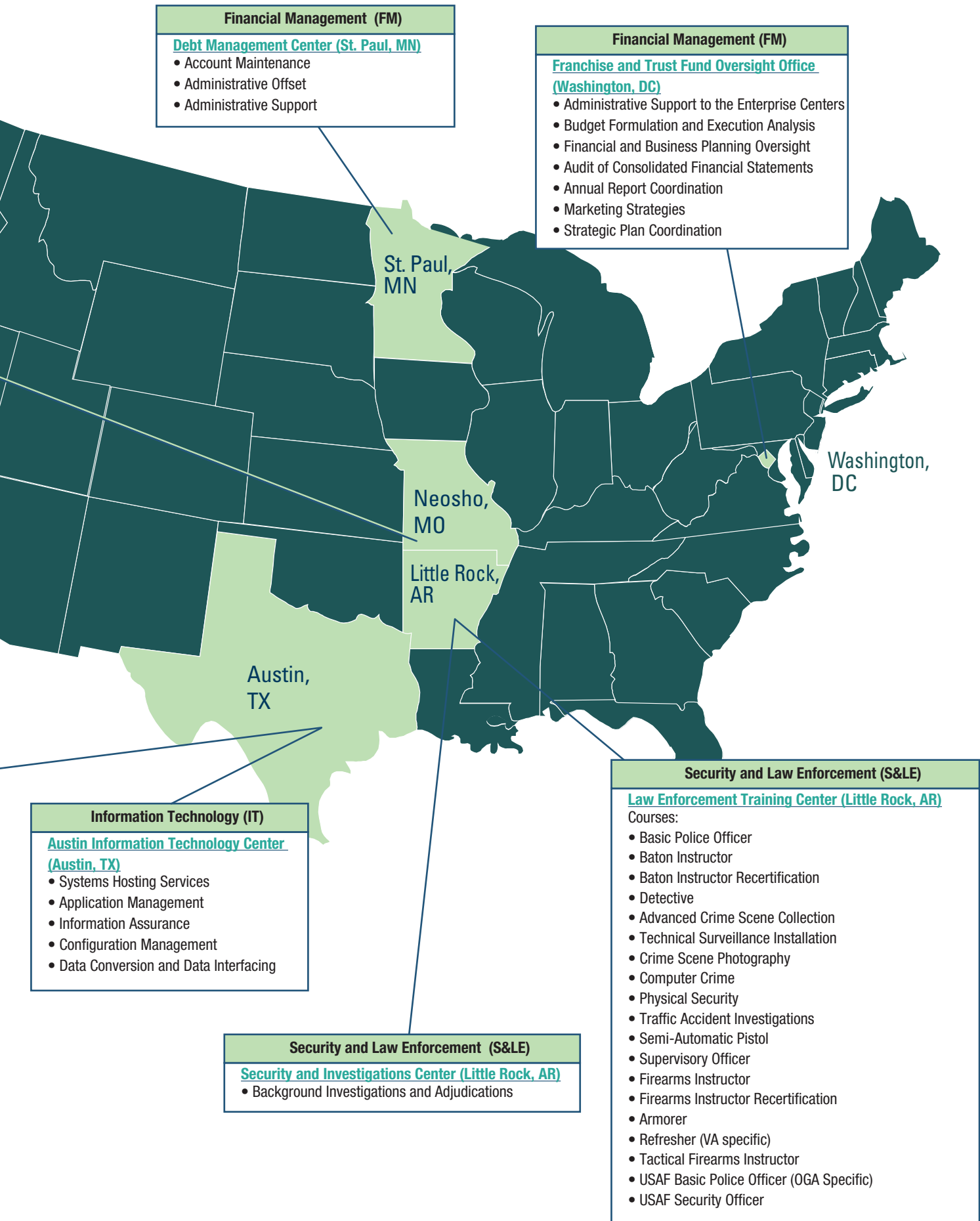
The S&LE segment experienced an increase in revenue of approximately 15 percent. Revenue in FY 2009 was \$13 million compared to revenue in FY 2008 of \$11 million.



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



Members of the VA Franchise Fund Network



John Rucker, Acting Executive Director, Corporate Data Center Operations 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, Director Law Enforcement Training Center and Security and Investigations Center

Information Technology

Austin Information Technology Center (AITC). 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 Midwestern part of the country, the RC&V provides records storage, protection, and management services for official federal records. The 403,160 square foot facility is certified by the National Archives and Records Administration to operate as an agency records center. General, vital, and unscheduled records pending litigation freezes are safely and securely stored in paper or film format.

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 healthcare or limited jurisdiction environments, the LETC is available to approximately 3,900 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 VA entities nationwide.

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.

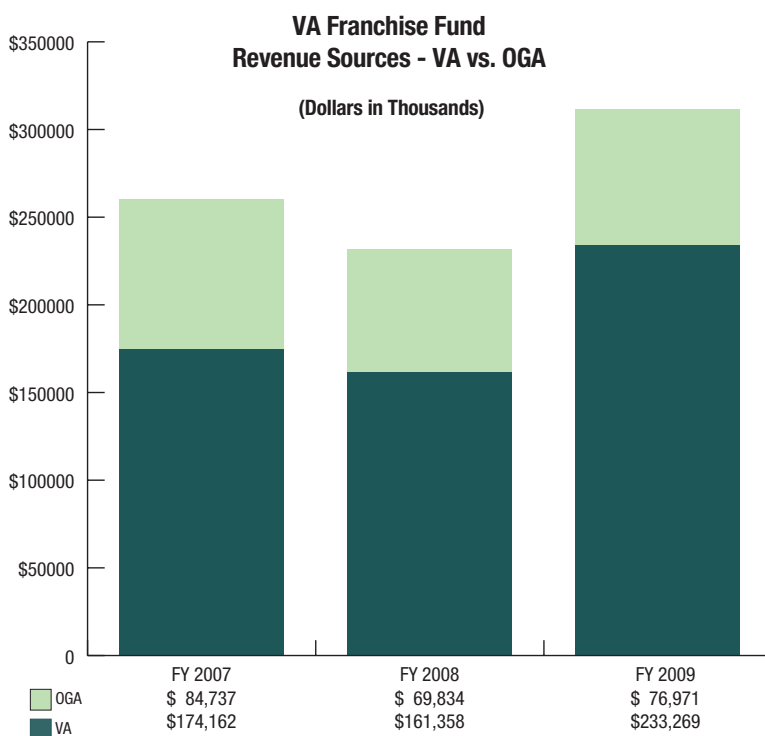
The American public also holds us accountable to high standards as we spend their tax dollars to administer government programs. Expensive and wasteful practices are not acceptable. We embrace resilience and resourcefulness as we adopt business practices that enable us to become more efficient and responsive.

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
- Environmental Protection Agency
- 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 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

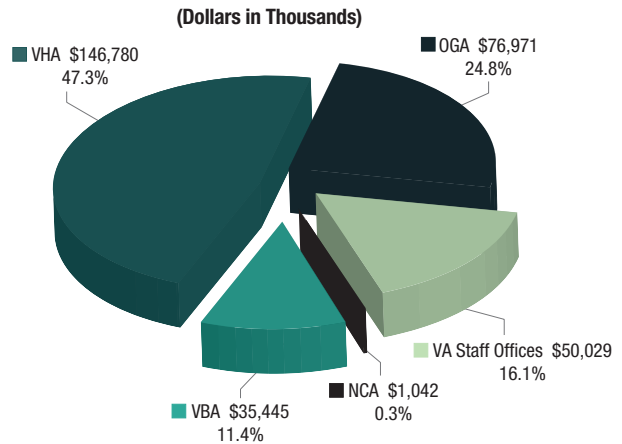


Approximately two-thirds of our revenue comes from VA customers. The remaining one-third comes from a wide variety of OGA customers. Within VA, VHA programs provide the most revenue to the Enterprise Centers.

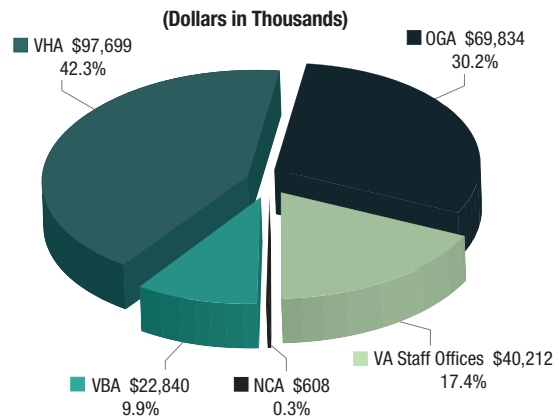
Revenue from OGA customers has fluctuated over the past three years. However, we ended FY 2009 with \$77 million, an increase in OGA sales of 10 percent over FY 2008 levels of \$70 million. This increase was primarily due to additional pass-through revenue from Immigration and Customs Enforcement (ICE) for Medical Claims Processing, TDY Travel, and Credit Card Services.

Comparison of Customer Revenue from FY 2007-2009

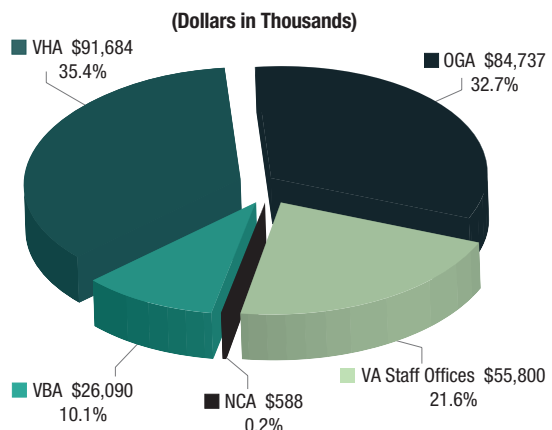
VA Franchise Fund Revenue by Customer As of September 30, 2009



VA Franchise Fund Revenue by Customer As of September 30, 2008



VA Franchise Fund Revenue by Customer As of September 30, 2007



Meeting VA Franchise Fund Objectives

Information Technology Segment

■ AITC Customer Satisfaction Survey

The AITC conducts an annual survey of customer satisfaction. As in the previous 9 years, AITC contracted with Gartner Consulting to administer their tenth benchmarked information technology (IT) customer satisfaction survey. The survey, taken by 418 AITC customers, resulted in an overall satisfaction rating of 4.27 out of 5.00, the highest score the AITC has achieved in the 10 years of conducting this survey.

Use of Gartner as an independent, recognized expert in the IT industry minimizes the potential for survey bias and provides a 99 percent confidence level in the overall score. The survey uses standard criteria questions to allow for benchmarking across peer groups. The AITC peer group includes private sector and public sector organizations conducting four or more surveys from 2000 to 2009. By conducting annual or biennial surveys and acting on the feedback, this peer group demonstrates a strong commitment to customer satisfaction. Of the 398 surveys within the peer group, the AITC scored in the top 3.5 percent of overall satisfaction scores, earning a coveted Gartner "Best in Class" rating. This year's overall satisfaction rating also well surpasses the database average of 3.71.

■ CDCO National Service Desk

Corporate Data Center Operations (CDCO) National Service Desk personnel are certified by 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 CDCO National Service Desk provides a vital customer interface that can process and manage incidents, problems, inquiries, and service requests. The goal is to ensure that customers can resume work as soon as possible following the service interruption, thus minimizing the impact to business operations. The CDCO National Service Desk receives over 7,900 calls per month and opens an average of 11,500 incident reports and customer service requests. The FY 2009 goal of 75 percent of service requests being resolved on "first contact" is consistently exceeded. The abandoned call rate of 6 percent or less continues to be met and is lower than industry standards for that category. Year after year, the CDCO National Service Desk receives high marks on an annual CDCO customer satisfaction survey conducted independently by Gartner. CDCO National Service Desk provides support on a corporate-wide basis for VA Central Office, VHA, and VBA systems and applications processed at all four centers. In addition to VA customers, other Federal customers include the EPA, NARA, and GAO.



OMB Exhibit 300 Project Support

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

■ **Decision Support System (DSS)** is a legacy application that 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. This system supports the collection, processing, and dissemination of several billion dollars of financial information and transactions each fiscal year.

■ **VETSNET** provides 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, timelier service to Veterans through improved access to Veteran and claim data, on-time updates, and immediate status on pay.

■ **VistA Foundations Modernization 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, Kathy Lee Frisbee (KLF) Menu System Server Support, Hospital Laboratory, Lockbox, Medical Statistical Analysis Software (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, Vistria/VistA Interface Engines, VHA Work Measurement, and Workers Compensation Information System.

■ **Enrollment applications** include Enrollment Database, Enrollment System Redesign, Health Eligibility Center, Enrollment Priority Letters Phase II, Operation Enduring Freedom, and Social Security Confirmation.

■ **VA Computing Infrastructure and Operations** applications include the 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 applications** include the Personnel and Accounting Integrated Data (PAID) System.

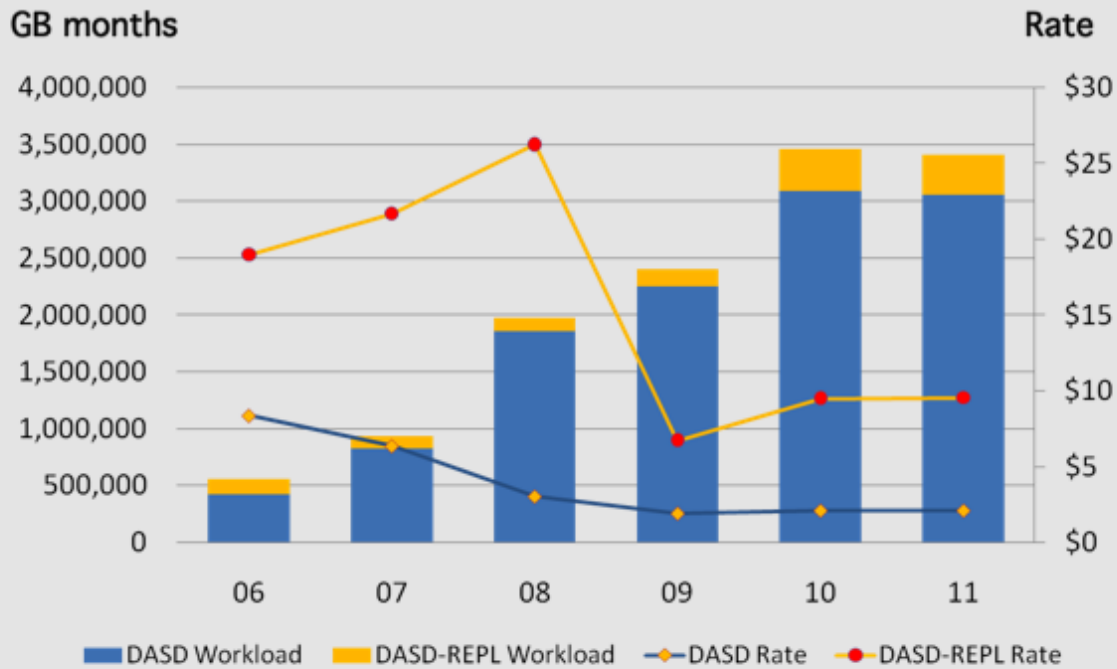
■ **Health Data Repository (HDR)** is a data repository of clinical information that resides on one or more independent platforms and is used by clinicians and other personnel to facilitate longitudinal patient-centric care. The data in HDR will be retrieved from existing VistA files and organized in a format that supports the delivery of care, regardless of the patient's current location or where the patient has been treated in the past.

■ **Loan Guaranty Maintenance and Operations** applications include the Lockbox Funding Fee, Loan Guaranty Web Processing, Loan Guaranty Processing, Loan Service and Claims, Mortgage Loan Accounting Center, and Customer Owned Assets.

■ **Compensation and Pension Maintenance and Operations** includes the Beneficiary Identification Records Locator Subsystem/Veterans Assistance at Discharge System, Benefits Delivery Network Maintenance and Operations, Insurance System Maintenance and Operations, Burial Operations Support System, Automated Monument Application System, VA Enterprise Architecture, Capital Asset Management System, and Program Integrity/Data Management.

■ **Other applications** include the Allocation Resource Center, Patient Financial Services System, Fee, Scheduling Replacement Project, Pharmacy Re-Engineering and IT Support, VA Learning Management System, Federal Health Information Exchange, HealtheVet-VistA, and MyHealtheVet.

DASD Trends

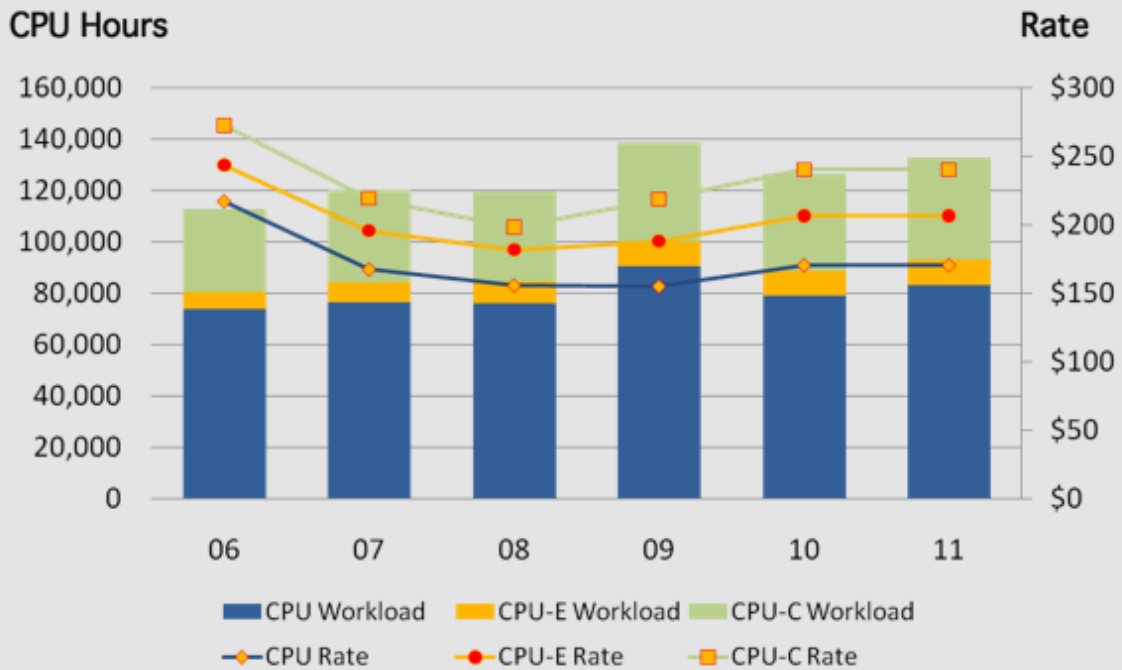


	FY 06	FY07	FY08	FY09	FY10	FY11
DASD Workload	417,304	818,024	1,851,816	2,249,416	3,081,895	3,055,463
DASD Rate	\$8.35	\$6.35	\$3.03	\$1.91	\$2.10	\$2.10
DASD-REPL Workload	140,148	113,824	116,842	152,045	369,455	345,771
DASD-REPL Rate	\$18.97	\$21.68	\$26.27	\$6.71	\$9.48	\$9.52

Direct Access Storage Device (DASD) Cost Reduction
 The AITC has an established enterprise DASD environment that meets mainframe and open systems storage performance and data volume requirements, protects data against hardware failure, creates data snapshots, and replicates data to remote sites for contingency planning and disaster recovery. Until recently, industry-wide decreases in hardware costs per unit and the use of best practices resulted in a continued decline in our DASD rates. Current market research indicated requirements for extensive reconfiguration of the existing hardware configuration with greatly increased software costs to accommodate projected 30 percent annual growth rates. The AITC is therefore seeking an available and highly disaster tolerant storage solution supporting routine and continuity of operations plan storage with a uniform architecture solution at the AITC and the failover sites in Hines and Philadelphia. This replacement solution will include close to a petabyte of storage and incorporate

and interoperate with the AITC’s existing investment in EMC Corporation storage subsystems, software, and infrastructure. So, while the DASD-mirrored rate increased from \$1.91 in FY 2009 to \$2.10 in FY 2010, we do not anticipate further increases in the DASD rates in FY 2011. Once implemented, the plan is to incorporate all disk storage into this replacement solution, then as the environment’s individual current hardware components reach their end of life cycle, each can either be replaced or disposed of depending upon the existing DASD workload. Although there will be a slight decrease in the FY 2011 DASD workload resulting from HDR’s migration from our EMC disk storage by second quarter FY 2010, the AITC anticipates additional DASD workload by FY 2011 from new initiatives coming online in FY 2010 such as VBA’s The Image Management System, Veterans Online Application System, Paperless, and Virtual VA applications.

CPU Trends



	FY 06	FY07	FY08	FY09	FY10	FY11
CPU Workload	73,911	76,404	76,133	90,640	79,234	83,199
CPU Rate	\$216.97	\$167.21	\$155.46	\$154.83	\$170.27	\$170.27
CPU-E Workload	6,763	7,891	8,374	9,335	9,499	9,975
CPU-E Rate	\$243.61	\$195.63	\$181.74	\$187.76	\$206.48	\$206.48
CPU-C Workload	32,111	35,736	34,969	38,652	37,768	39,657
CPU-C Rate	\$272.52	\$219.16	\$197.89	\$218.39	\$240.15	\$240.13

■ Central Processing Unit (CPU) Cost Reduction

Rate trends are illustrated in the CPU chart above. With workloads relatively stable between FY 2006 and FY 2009, the AITC was able to reduce the CPU routine support rate in FY 2009 with a moderate increase in FY 2010. However, the impact of cost containment through cost management and out-year technology innovations during the remainder of FY 2009 and FY 2010 is yet to be realized. Overall workload stabilization is a result of joint efforts to increase efficiencies in DSS and FMS processing.

■ Disk Storage Upgrade

In the last two years, the AITC has experienced a 30 to 40 percent increase in disk usage. The AITC keeps a reserve to accommodate small increments of disk usage. Storage requests are tracked and monitored daily, and this information is combined on a monthly basis with projected storage requirements to assess additional storage needs. As new customers are added to the storage network, additional storage is procured. In FY 2009, disk storage upgrades were purchased for \$12 million.

■ Mainframe

The z890, the AITC's small-scale mainframe, was upgraded to address the need to support customer requests for more processing power and to continue production processing on a vendor-supported platform. Additionally, the upgrade allows AITC to create a robust (redundant CPUs) virtual LINUX production environment to support CDCO operational objectives. The upgrade is complete at a cost of \$2.06 million. The upgrade allows the AITC to continue to provide scalable, reliable, and supportable processing environments for its customers.

■ Records Center and Vault Expansion of Bays H and I

RC&V took possession of its newest leased records storage bays adjacent to existing leased warehouse space in December 2008. The additional 74,917 square feet of warehouse space is certified by the National Archives and Records Administration (NARA) and, when totally shelved out, will store approximately 325,000 cubic feet of records. A capital investment of \$1.2 million was used to purchase over 2,300 13- and 14-shelf high units. Based on current business projections, the second and final phase to purchase shelving from capital reserves will be in late FY 2010. The facility currently stores nearly 1.6 million cubic feet of records in its nine warehouse bays.



Information Technology Segment Plans for 2010 and Beyond

■ Private Branch Exchange (PBX)

The AITC is responsible for the IT needs of VA South Park office tenants who are currently without a PBX. Extending AITC NEC 2400 PBX to the South Park office will allow VA tenants to have access to full functionality including Voice Mail, Automatic Call Distribution, ContactWorX, and Global Navigator. It will also allow them access to VA's centralized long distance phone plan, thereby reducing long distance charges. This purchase is planned for FY 2010 at an estimated cost of \$280,000.

■ Generator

To support IT business growth in subsequent years, several electrical system expansions will be necessary. The Uptime Institute's Tier Classification and Performance Standards define performance-based outcome requirements for different levels of reliability and availability of data centers. This system is a four-tier standard electrical system which is the highest rating available. The Uptime Institute considers the AITC's local generators to be the primary source of power for the data center; therefore, all the AITC designs and upgrades are targeted to achieve a Tier III rating (concurrently Maintainable Site Infrastructure) for reliability, redundancy, and maintainability. During FY 2010, a new 2 mega watt emergency diesel generator will be purchased to augment the existing system accommodating immediate growth, with an estimated cost of \$750,000.

■ RC&V Customer Satisfaction Survey

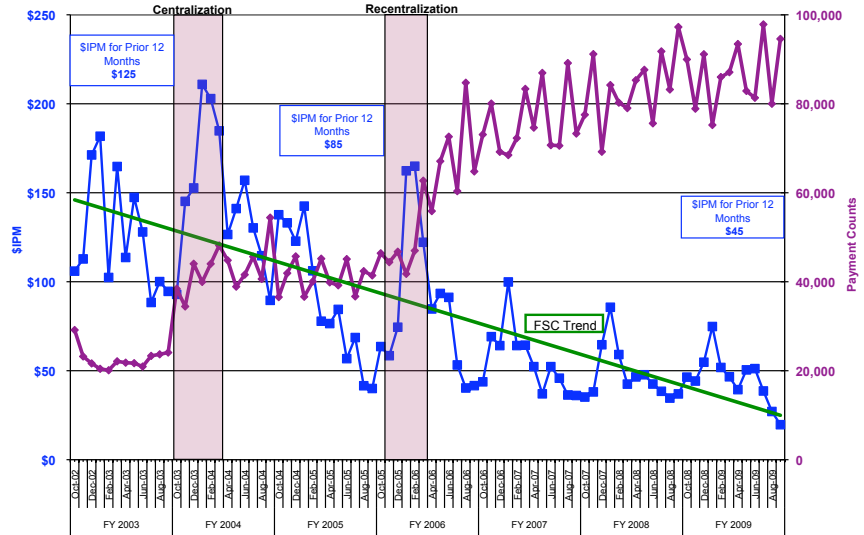
The Records Center and Vault proposes to conduct a customer satisfaction survey in the second quarter of FY 2010. The targeted audience will be our many VHA customers, Records Management and VBA Regional Offices, and VA staff offices who use our electronic Records Retrieval System (RRS) and who interact with RC&V staff via phone/email. Nearly 2,000 registered users currently access the RRS to request accession numbers for record shipments and for record recalls. We will solicit ways to improve our on-line RRS and better serve our VA customers. Our ability to satisfy and retain our customers is dependent on our ability to meet their requirements and anticipate the kinds of services that will be most useful to them.

Financial Management Segment

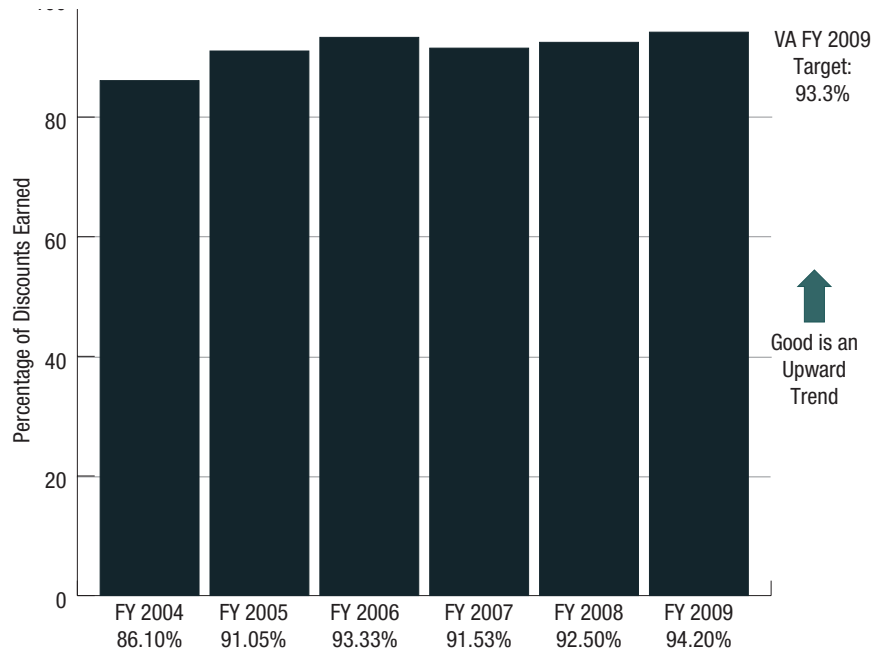
■ The FSC processed over 1 million invoices valued at \$9.7 billion during FY 2009. The FSC realized its best interest performance to date improving interest paid to vendors due to late payment of invoices to just \$45 per million dollars disbursed, a 6.2 percent improvement over FY 2008 and a 46 percent improvement over the past three years. The FSC has also set new records for payment processing timeliness and accuracy. For the first time, both the overall payment accuracy and timeliness averages reached 99 percent. And for the third consecutive year, the FSC earned over 90 percent of all available discounts for a total of \$4.7 million.

The FSC continued to improve its business processes, adding customer value. FSC staff enhanced functionality of their FASFED application enabling Web access to Intra-governmental Payment and Collection (IPAC) supporting documentation, thus reducing delays in receiving information needed to record these transactions at the station level. The expanded use of the SF 224 Web-based application and the improved coordination with station accounting personnel facilitated the clearing of unmatched transactions and reduced to four months the time needed to resolve these items nationwide.

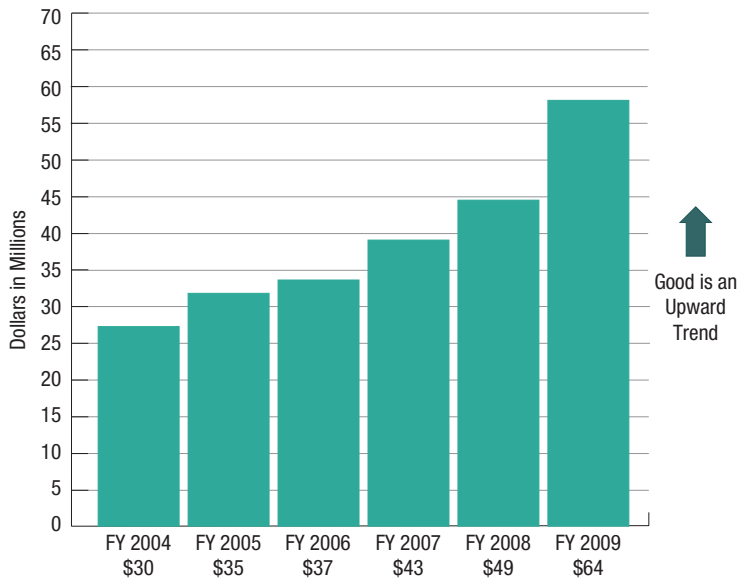
FSC Interest Paid Per Million Dollars Disbursed Plus FSC Processed Payment Counts



Department of Veterans Affairs Percentage of Total Discounts (Earned vs. Available)



**Department of Veteran Affairs
Purchase Card Refunds**



■ The FSC processed over 4.7 million **purchase card** transactions, representing \$3 billion in purchases. The electronic billing and payment process for centrally billed accounts earned VA over \$64 million in charge card program refunds (purchase, travel and fleet), a 30 percent increase over FY 2008. 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. During FY 2009, the number of transactions exceeded 558,000 and were valued at more than \$167 million, earning VA over \$3.2 million in 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 in this program was due to additional Fee Basis medical providers agreeing to receive payment via the Fee Basis Purchase Card and more VA medical centers joining the program.

■ **The VA Travel Management Center (TMC)** is a service-disabled Veteran-owned small business that serves Veterans and employees who travel frequently. Billings are transmitted electronically from the TMC and payment is sent daily through the Department of the Treasury's Electronic Certification System. In FY 2009, the travel management program processed over 332,000 transactions, disbursed payments of \$50 million, and earned over \$856,000 in refunds compared to over \$536,000 during FY 2008.

■ **VA's Prime Vendor Payment System** automates payments under a nationwide prime vendor centralized purchasing contract. The system provides VA medical centers with an efficient way to order supplies at low, negotiated contract prices and guarantees delivery within 24 hours, eliminating the need for warehousing large volumes of supplies. In FY 2009, 132 VA medical centers used the Prime Vendor System to electronically process 546,000 payments valued at \$3.7 million.



Left to right: Rod Wood (Director, FSC), Terry Riffel, and Ed Murray (Deputy Assistant Secretary for Finance)

■ On December 17, 2008, Ms. Terry Riffel, Associate Director of the Financial Operations Service at the FSC, was recognized for implementing a **series of comprehensive solutions** that demonstrate strategic vision which streamlined processes using cutting-edge technology and inventive customer service approaches. Ms. Riffel led the implementation of VA's electronic government travel services, FedTraveler. Ms. Riffel brought this major project implementation to completion last December, which allowed VA to retire four legacy travel systems, saving \$1.8 million annually. She was also the architect in transforming commercial vendor payments from an old labor-intensive legacy process to a state-of-the-art automated invoice processing solution incorporating multiple best practices.

■ The **FSC continues to expand** both its customer base and services provided, with additional expansion forecasted for the near future. The FSC has grown to nearly 400 employees with projections for continued growth to satisfy increased customer demand for its services. As a result, the FSC exhausted the available space in its current facility, limiting their ability to accommodate customer demand for increased services. The FSC growth satisfies customers' demand for financial services and allows the FSC to spread fixed operating costs over a larger business base. This reduces the unit cost of services for all customers and allows the FSC to continue to deliver "world class" services at competitive rates.

■ The FSC worked with the General Services Administration (GSA) to negotiate a lease for suitable commercial space at the **MetCenter business park complex** located near the Austin-Bergstrom International Airport. The FSC occupied their Leadership in Energy and Environmental Design (LEED)-certified facility during the first week of July 2009. The new building provides the flexibility and accommodations required to meet current operational commitments. Ongoing demand for additional FSC services led the VA Franchise Fund Board of Directors to approve the acquisition of additional office space within the facility to support planned growth in customer requirements. The additional space is expected to be available in the second quarter of FY 2010.



■ **FSC EDI Services**

The electronic commerce/electronic data Interchange (EC/EDI) system uses 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. EC/EDI also provides for internal exchange of information among VA application systems. 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 FSC will continue to support VA's efforts to increase cost savings and program efficiencies through the expansion of electronic data transfers in VA applications. The FSC will also continue to support VHA's efforts to comply with EC/EDI mandates identified in the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

■ The **FSC provides EC/EDI services** to VA's Denver Acquisition and Logistics Center for invoices and payment vouchers. Commercial invoices, Financial Management System (FMS) payments, and subsistence prime vendor program services are also provided to VA entities nationwide. VBA benefits from EC services in the FSC's identification of the status of loan defaults. The FSC also provides EDI services to assist the Veterans Canteen Service in receiving and processing invoices, payments, and purchase orders.

■ 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. The invoices are automatically input into 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 **Customer Support Help Desk (CSHD)** offers a comprehensive one-stop response team to support inquiries from VA stations and vendors. CSHD is organized to provide 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 VA-wide Travel System.

■ The **Vendor Inquiry System (VIS)** provides FSC vendors with an easy-to-use self-service tool for immediate access to invoice and payment information 24/7. Currently, there are over 28,314 active registered vendors who made over 2.7 million requests since inception of the VIS in April 2003. The VIS has improved customer service by freeing staff to concentrate on more complicated vendor issues. Additionally, registered VIS users have the ability to submit electronic invoices directly to the FSC. VIS users complete user friendly forms to create, manage and track invoices. Since inception, 82,099 invoices totaling \$1.5 billion have been submitted via the VIS invoice system.

■ The **FSC will continue to support VA-wide Travel** and will provide the following services for program sustainment: Global System Administration; support for Local System Administrators; sponsorship of Super User conference calls; user acceptance testing of new software releases; training on new software releases; Contracting Officer's Technical Representative support; and participation in meetings hosted by GSA such as EDS User Group; Program Change Control Board; and Executive Change Control Board.

■ **Medical Claims Processing**

The FSC provides 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 fully complies with the Prompt Payment Act and HIPAA.

At the request of the VHA Chief Business Office, the FSC undertook five medical claims payment projects that have the potential to significantly expand their Medical Claims Payment product line. The largest undertaking was a pilot project to pay unauthorized claims for Veterans without medical insurance who meet certain

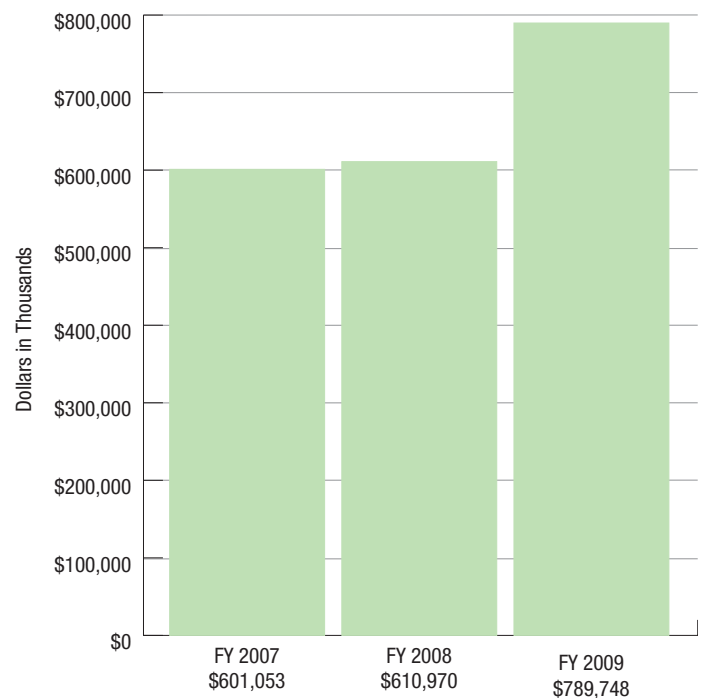
eligibility under the authority of the Millennium Bill Act. Under this authority, claims are paid for Veterans who received emergency medical care at non-federal medical facilities. The FSC developed an eligibility check process that combines existing claims processing technology with tailored functionality to increase payment timeliness and standardization. The FSC initiated the pilot with stations from Veterans Integrated Service Network (VISN) 20 and 22. Upon pilot completion, the FSC anticipates a decision to implement a nationwide process. In addition to this project, the FSC is also developing processes to automate the following activities:

- Project HERO program claims auditing
- Dialysis program claims processing
- Pharmacy claim payments processed through the TRICARE/VA Pharmacy program
- Internet portal for medical providers to view their Explanation of Benefits for payments made under the CHAMPVA and FEE programs

■ DMC Debt Collection Services

The DMC collects debts arising from Veterans' or 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 Veterans to acquire a VA guaranteed housing loan. 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. VA attempts to contact the debtor as soon as possible after creation of the debt and get them to pay the debt or enter into a repayment arrangement. If collection efforts are unsuccessful, we ensure that the accounts get referred to the Department of the Treasury (Treasury) for offset under the Treasury Offset Program (TOP) or get referred to Treasury for cross servicing action.

Collections/Offsets FY 2007 - 2009



The chart depicts collections/offsets for FY 2007- FY 2009. They include collections/offsets on VBA's benefit debts as well as administrative offsets from compensation pension benefits to apply to VHA's first party medical debts. The increase from FY 2007 to FY 2009 is attributed to a concerted effort on our part to identify and initiate offset when benefits become available. In addition, we have stepped up efforts to ensure that accounts are referred to the Treasury when they become eligible for offset under the TOP or when they can be referred for cross servicing using Treasury's private collection agencies.

■ IT Security

The DMC, with the assistance of VA Web Solutions, enhanced security of its online payment Web site administrative functions. The AITC assisted in security enhancements for the automated exchange of credit information with two major credit reporting agencies. This enabled us to more efficiently report credit information to all four major credit agencies.

■ New Education Benefit

The Post-9/11 G.I. Bill was enacted in 2007 with education benefits beginning August 1, 2009. Because the priority was to ensure payments could be made beginning August 2009, the collection interface between the Chapter 33 system and the Centralized Accounts Receivable System was left with a relatively short window for development. Working closely with the Chapter 33 development team, the DMC's IRM staff, contract developer, and programmer completed development and programming of the interface in time for payments to begin as scheduled.

■ Paper Check Conversion

The DMC's collection processing system was converted to paperless check processing in FY 2009. This was accompanied by the deletion of a suspense account as requested by Treasury. The programming was completed in sync with Chapter 33 interface development and programming.

■ Customer Service

The DMC increased its staffing to handle a higher volume of customer inquiries and to improve response time in answering toll-free telephone calls and general correspondence. Over the course of the year, average monthly abandoned calls were reduced from a high of 5.8 percent to 1 percent. The average number of days for responding to general correspondence was reduced from a high of 15.4 to the current 7.8.



Daniel Osendorf, Director of the DMC, received recognition for the DMC's work leading to the enactment of the Combat Veterans' Debt Elimination Act of 2008. This law was signed by the President on June 30, 2008, and provides for termination of collection action on certain debts arising from a VA benefit program for members of the Armed Forces and Veterans who die of injuries incurred or aggravated in the line of duty while serving in theaters of combat or as the result of hostile action. The law also provides for refunds of collections received after the death of the servicemember or Veteran. On October 10, 2008, President Bush signed into law a subsequent measure broadening the equitable relief to all military members who die while on active duty regardless of combat or hostile activity.



Rod Wood, Director of the Financial Services Center, received the Presidential Rank Meritorious Award in 2008. The award was presented by Secretary Shinseki.

Each year, the President recognizes a small group of career Senior Executives and senior career employees who have received the Presidential Rank Award. Recipients are nominated by their agency heads, evaluated by boards comprised of private citizens, and approved by the President. The evaluation criteria focus on leadership and results. Recipients of this prestigious award are strong leaders and professionals who achieve results and consistently demonstrate strength, integrity, and a relentless commitment to excellence in public service.

Financial Management Segment Plans for 2010 and Beyond – FSC and DMC

■ Permanent Change of Station (PCS) Travel

The FSC created a Web-based Travel Portal to automate the flow of two forms—Interagency Transfer Requests, VA Form 3918, and Requests for Permanent Duty, VA Form 3036c. The travel portal streamlines the process for initiating and approving these forms for relocating employees who are authorized PCS travel entitlements. Use of this application by Human Resources, Authorizing, Budget and Approving officials replaces manual processes with the electronic flow of documents and electronic signature functionality. The FSC plans to implement the use of the PCS Travel Portal VA-wide in Fiscal Year 2010 and develop additional functionality for the electronic processing of claims for PCS travel reimbursements.

■ Financial Consulting Service (FCS)

The Supply Fund (Fund) is a self-supporting revolving fund financing the operations of VA's Office of Acquisition and Logistics (OAL). The Fund recovers its operating expenses through fees and markups on approximately 30 different products or services. The FCS provided expertise by working with Supply Fund and systems support personnel to develop an automated routine which places all monthly FMS Supply Fund detail transactions into a structured query language (SQL) database, enabling queries to be accomplished at a much faster speed. The FCS supported the Supply Fund during the 2009 audit cycle, providing critical assistance in gathering the data requested by their independent auditors. The FCS will continue to provide support to the OAL Finance Office as requested.

During FY 2009, FCS personnel were actively involved in the FLITE program's **Integrated Financial Accounting System (IFAS)** project and **Strategic Asset Management (SAM)** project pilot teams. The teams play an important role in assisting in the development, design and configuration of the SAM system. FCS personnel provided their expertise to Inventory, Purchasing, National Item File, and vendorizing process teams. FCS personnel also assisted in the nationwide vendor cleanup initiative which is necessary prior to SAM and IFAS implementation. FCS personnel will continue to provide assistance and expertise in these areas, as well as prepare for the roll-out and support of IFAS.

■ Commercial Vendor Payments

The FSC will continue progress on increasing electronic submission of commercial vendor invoices in FY 2010 and beyond. Currently, the FSC receives over 25 percent of all invoices via electronic means. During June 2009, a Federal Register notice was published announcing a change to the VA acquisition requirements mandating electronic invoice submission. During FY 2010, the proposed mandate will be published in the Federal Register for public comment. After review and revision, we anticipate adoption of the final rule requiring electronic invoice submission.

Security and Law Enforcement Segment

■ Instrumental in E-Gov Initiatives

The Security Investigations Center (SIC) has been committed to the implementation of the OPM E-QIP software for the electronic processing of investigative paperwork. Implementation has been slowed as a result of the delay in procuring a new Web-based enterprise system that is replacing the current Security Management System database written in MS Access. This is an OPM-mandated system that the SIC is fully committed to fielding for VA. 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.

■ Completion of the **new SIC facility** during FY 2009 has allowed investigative processing, adjudication, and personal identify verification support to come together under one roof, providing consolidation of effort and resources.

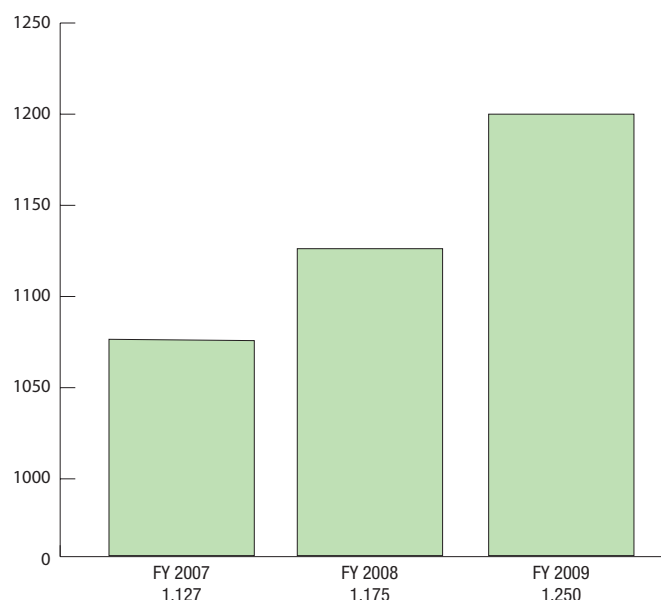
■ Secure Request Database for Employees

This database was developed and implemented by the SIC for background investigations and has been highly successful in minimizing the amount of time required to initiate an investigation for contractors. The Employee Division has not fielded the Request Database to VA employees due to the upcoming conversion from the Security Management System database written in MS Access to a Web-based enterprise system that supports VA personnel and administrative security cases. The Request Database will interface with the new Web-based enterprise system to streamline the entire process from initiation to final determination.

■ **Implementation of a Centralized Records Management System** enables management to receive incident information as soon as it is entered. This system standardizes VA police officers' reporting requirements and enables a One VA solution.



**Department of Veterans Affairs
Number of VA Police Officers Trained**



■ Training

The number of police officers trained at the Law Enforcement Training Center has steadily increased over previous years. During FY 2007, 1,127 police officers received basic and specialized training at our Little Rock campus. In FY 2008, that numbers rose to 1,175, and in FY 2009 our training facility accommodated 1,632 students from VA and other government agencies, 1,250 of whom were VA police officers. Additional course offerings that are being developed include an expanded basic training curriculum and an Active Shooter course to train officers to react and respond to situations within a minimum amount of time, while maximizing the potential to save lives.

■ Consolidation of Administrative Efforts

As VA has become increasingly security conscious, the demand for background investigations has grown. During FY 2008, 12,870 background investigations were completed while 13,710 were completed in FY 2009. Completion of the new SIC facility has greatly enhanced the capabilities of the Center by allowing the consolidation of administrative efforts. With all SIC staff now located under one roof, duplication of effort has diminished and the streamlining of many tasks has occurred.



Security and Law Enforcement Segment Plans for 2010 and Beyond

■ Construction of an Additional 48 Dormitory Rooms

Because of the increased demand for training, our residential facility is being expanded with the construction of a new 48-room dormitory wing adjacent to our existing classroom and housing facility. The establishment of a satellite training facility is in the preliminary stages and will provide the capability to train up to 1,000 additional officers per year. The project is scheduled for completion during the first quarter of FY 2010.

■ The Implementation of a New Security Database

This database will further enhance the services available to VA. It is envisioned that all VA field sites will have the ability to log in to the new database in a “read only” capacity to view the current status of investigations and to print required documentation.

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 fostering 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 2006–2009. 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. All of the Franchise Fund's performance goals were met.

Performance Summary Table

Performance Measure	Actuals				Plan	Were 2009 Goals Achieved?	
	2006	2007	2008	2009	2009	Yes	No
Ranking within top 12.5% in the Information Technology Customer Satisfaction database	8%	8%	12%	3.5%	12.5%	x	
Total collections per dollar spent on collection activities	\$80	\$80	\$84	\$101	\$86	x	
Payment processing accuracy rate	97.9%	98%	98.4%	98.6%	98%	x	
Class graduation rate	96.5%	96.5%	98.5%	96.8%	95%	x	
Percent of investigations that are completed within the established timeframes	96%	98%	96%	99%	98%	x	
Percent of recalled records that are shipped securely and accurately to requesting facilities within established timeframes	N/A	99.6%	99.9%	99.9%	99%	x	
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	x	

Performance Highlights During FY 2009

- For the 12th consecutive year, the audited financial statements of the VA Franchise Fund received an unqualified “clean” opinion.
- The AITC continued its leadership in exceeding performance levels associated with customer satisfaction.
- The DMC demonstrated a phenomenal rate of return of \$101 collected for every dollar of incurred expense.
- The FSC successfully implemented a technology solution to facilitate the transition from paper invoices to the e-Invoice format.
- The LETC upgraded course offerings and maintained graduation rates at high levels.
- The RC&V ensured that medical centers received recalled Veteran records within established timeframes and that the records were shipped in a secure manner.
- The SIC implemented a secured request database for employees. This has been highly successful in minimizing the amount of time required to initiate an investigation for contractors.



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 12th consecutive year (1998-2009), 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 2009 and FY 2008. 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 \$167.3 million as of September 30, 2009. This is an increase of \$24.5 million (17 percent over the previous year's total assets of \$142.8 million). The increase in asset balances is largely due to two factors. The Financial Services Center (FSC) moved to a new building during FY 2009, and procured furniture, equipment, etc. for the new facility. This resulted in an increase in Property, Plant, and Equipment. The other factor was an increase in accounts receivable due from the Department of Homeland Security for medical claims processing by the FSC.

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

	(Dollars in Thousands)	
	<u>2009</u>	<u>2008</u>
Fund Balance with Treasury	\$ 90,624	\$103,725
Property, Plant, and Equipment, Net	32,565	27,769
Accounts Receivable, Net	42,711	9,111
Other Assets	<u>1,409</u>	<u>2,175</u>
Total Assets	<u>\$167,309</u>	<u>\$142,780</u>

Liabilities

The Fund had total liabilities of \$58.7 million as of September 30, 2009. This represents an increase of \$18.6 million (46 percent over the previous year's total liabilities of \$40.1 million). The increase in liabilities is primarily due to an increase in advances received from the Department of Homeland Security and the Department of Health and Human Services for medical claims processing by the FSC.

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

	(Dollars in Thousands)	
	<u>2009</u>	<u>2008</u>
Other Liabilities	\$21,092	\$28,575
Intragovernmental Liabilities	34,375	8,579
Accounts Payable	<u>3,219</u>	<u>2,967</u>
Total Liabilities	<u>\$58,686</u>	<u>\$40,121</u>

Net Position

The Fund's net position increased by \$6 million in FY 2009 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was \$108.6 million in FY 2009, which yielded a 6 percent increase from FY 2008's ending net position of \$102.7 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 gain of \$857 thousand in FY 2009, as reflected in the Consolidated Statement of Net Cost.

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 \$421.8 million, a \$13.7 million increase from the FY 2008 level of \$408.1 million.

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

(Dollars in Thousands)

	<u>2009</u>	<u>2008</u>
Beginning Unobligated Balance	\$124,072	\$192,081
Spending Authority Earned and Collected	284,657	261,877
Receivable from Federal Sources	33,659	(24,040)
Change in Unfilled Customer Orders	<u>(20,596)</u>	<u>(21,790)</u>
Total Budgetary Resources	<u>\$421,792</u>	<u>\$408,128</u>

Management Assurances

The financial and performance data presented in this report are complete and reliable. Throughout the year, 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 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 new material weaknesses were found. Under the Federal Financial Management Improvement Act, VA is substantially compliant with applicable Federal accounting standards and the U.S. Standard General Ledger (SGL) at the transaction level. However, VA is not compliant with two Federal financial management system requirements. Two non-conformances, which are also material weaknesses, were identified prior to FY 2009. The Secretary's signed Statement of Qualified Assurance on internal control may be found on page 89 in the 2009 Department of Veterans Affairs Performance and Accountability Report (http://www4.va.gov/budget/docs/report/PartI/FY2009-VAPAR_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

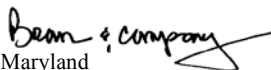
We have audited the accompanying consolidated balance sheet of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2009 and 2008, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended September 30, 2009 and 2008. These financial statements are the responsibility of the VA Franchise Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04, as amended, 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, 2009 and 2008; 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 16, 2009, 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 16, 2009

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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, 2009, and have issued our report thereon dated November 16, 2009. 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 audits, 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, as amended, 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. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, as amended, a significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. 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 a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses as defined above.

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 2009 and 2008. The VA's consolidated financial statements include the VA Franchise Fund. The accounting firm issued the FY 2009 *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 16, 2009, and identified four (4) 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: (1) Financial Management System Functionality – (Repeat Condition); (2) Information Technology (IT) Security Controls – (Repeat Condition); (3) Financial Management Oversight – (Repeat Condition) and (4) Compensation, Pension and Burial Liabilities.

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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 16, 2009.

This report is intended solely for the information and use of the management of the Department of Veterans Affairs Franchise Fund, the management of, the VA OIG, OMB, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland
November 16, 2009

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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, 2009, and have issued our report thereon dated November 16, 2009. 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 Statements*, 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, as amended, 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. Except as discussed below, the results of our tests disclosed no instances of noncompliance which are required to be reported herein under *U.S. Government Auditing Standards*.

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 2009 and 2008. The VA's consolidated financial statements include the VA Franchise Fund. The accounting firm issued the FY 2009 *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 16, 2009. These material weaknesses in internal control over financial reporting discussed in the auditor's report and identified as "Financial Management System Functionality," and "Information Technology (IT) Security Controls" indicate that VA's financial management systems did not substantially comply with the Federal financial management systems requirements as required by FFMIA section 803(a).

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Department of Veterans Affairs Franchise Fund, the management of VA, the VA OIG, OMB, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland
November 16, 2009

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Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
 CONSOLIDATED BALANCE SHEET
 AS OF SEPTEMBER 30, 2009 and 2008

(Dollars in Thousands)

	<u>2009</u>	<u>2008</u>
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 90,624	\$103,725
Accounts Receivable (Note 3)	42,688	9,028
Other Assets (Note 4)	1,368	2,171
Total Intragovernmental	<u>134,680</u>	<u>114,924</u>
Accounts Receivable (Note 3)	23	83
General Property, Plant and Equipment, Net (Note 5)	32,565	27,769
Other Assets (Note 4)	41	4
Total Assets	<u>\$167,309</u>	<u>\$142,780</u>
LIABILITIES		
Intragovernmental Liabilities:		
Other Liabilities (Note 7)	34,375	8,579
Total Intragovernmental	<u>34,375</u>	<u>8,579</u>
Accounts Payable	3,219	2,967
Other Liabilities (Note 7)	21,092	28,575
Total Liabilities	<u>58,686</u>	<u>40,121</u>
NET POSITION	<u>\$108,623</u>	<u>\$102,659</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$167,309</u>	<u>\$142,780</u>

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

Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
 CONSOLIDATED STATEMENT OF NET COST
 FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

(Dollars in Thousands)

	<u>2009</u>	<u>2008</u>
PROGRAM COSTS:		
Gross Costs Intragovernmental	\$127,154	\$ 43,732
Less: Earned Revenue-Intragovernmental	(310,266)	(231,191)
Net Program Costs - Intragovernmental	(183,112)	(187,459)
Costs Not Assigned to Programs	182,255	212,070
NET COST OF OPERATIONS	\$ (857)	\$ 24,611

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
 CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

(Dollars in Thousands)

	<u>2009</u>	<u>2008</u>
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	\$102,659	\$122,351
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	35	522
Imputed Financing	5,072	4,397
Total Financing Sources	5,107	4,919
Net Cost of Operations	857	(24,611)
Net Change	5,964	(19,692)
NET POSITION	\$108,623	\$102,659

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

Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

(Dollars in Thousands)

	<u>2009</u>	<u>2008</u>
BUDGETARY RESOURCES:		
Unobligated Balance at the Beginning of the Period	\$124,072	\$192,081
Budget Authority		
Spending Authority from Offsetting Collections		
Earned		
Collected	284,657	261,877
Changes in Receivables from Federal sources	33,659	(24,040)
Change in unfilled customer orders		
Advance Received	23,459	(14,839)
Without Advance from Federal Sources	(44,055)	(6,951)
Total Budgetary Resources	<u>421,792</u>	<u>408,128</u>
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred	323,146	284,056
Unobligated Balance Available (Note 2)	98,646	124,072
Total Status of Budgetary Resources	<u>421,792</u>	<u>408,128</u>
CHANGE IN OBLIGATED BALANCE:		
Obligated Balance, Net - Beginning of the Period	(20,347)	(54,572)
Obligations Incurred, Net	323,146	284,056
Less Gross Outlays	(321,217)	(280,822)
Change in Uncollected Customer Payments from Federal Sources	10,396	30,991
Obligated Balance, Net, End of Period	<u>\$ (8,022)</u>	<u>\$ (20,347)</u>
NET OUTLAYS		
Gross Outlays - Disbursements	321,217	280,822
Less: Offsetting Collections	(308,116)	(247,037)
Net Outlays	<u>\$ 13,101</u>	<u>\$ 33,785</u>

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

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements

For the Years Ended September 30, 2009 and 2008

(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

VA was selected by the Office of Management and Budget in 1996 as one of six executive branch agencies to establish a franchise fund pilot program. In this program, entrepreneurial organizations, or Enterprise Centers, are authorized to sell common administrative support services to VA and other Government agencies and operate entirely on revenues earned from customers. Enterprise Centers receive no Federally appropriated funding. 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. In 2006, under Public Law 109-114, permanent status was conferred upon the VA Franchise Fund.

Created as a revolving fund, the VA Franchise Fund began providing services to VA and other Government agencies on a fee-for-service basis in 1997. 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 Austin Information Technology Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and one administrative office, 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 FY 2009 and 2008 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 the 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>2009</u>	<u>2008</u>
Fund Balance with Treasury	\$90,624	\$103,725

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>2009</u>	<u>2008</u>
Unobligated Apportionment		
Available	\$98,646	\$124,072
Unavailable		
Obligated balance not yet Disbursed	(8,022)	(20,347)
Total Unexpended Apportionment	<u>\$90,624</u>	<u>\$103,725</u>

Note 3. Accounts Receivable, Net

Intragovernmental accounts receivable consist of amounts due from the VA and other federal agencies. No allowances for losses are required.

Public accounts receivable consist mainly of amounts due from VA employees. No allowance for losses is required, based on prior experience of collectibles.

Accounts Receivable, Net as of September 30,

	<u>2009</u>	<u>2008</u>
Intragovernmental Accounts Receivable	\$42,688	\$ 9,028
Public Accounts Receivable	23	83
Allowance for uncollectible amount	0	0
Net Public Accounts Receivable	<u>\$ 23</u>	<u>\$ 83</u>

Note 4. 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>2009</u>	<u>2008</u>
Intragovernmental		
Advance Payment – Federal	\$1,368	\$2,171
Total Intragovernmental	\$1,368	\$2,171
Advances to Employees	\$25	\$1
Advance Payment – Other	16	3
Total Other Assets	\$1,409	\$2,175

Note 5. General Property, Plant and Equipment

General 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.

General PP&E as of September 30, 2009:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	\$ 9,214	\$ (1,248)	\$ 7,966
ADP Equipment	36,852	(26,321)	10,531
Software	25,120	(14,445)	10,675
Leasehold Improvements	14,745	(11,352)	3,393
Total PP&E	\$85,931	\$(53,366)	\$32,565

General PP&E as of September 30, 2008:

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

Note 6. 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 2009 operating lease costs were \$1,924,478 for real property rentals and \$16,952 for equipment rentals. The Franchise Fund's FY 2008 operating lease costs were \$1,575,557 for real property rentals and \$79,223 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 3.9 to 4.1 percent annual increases in cost.

OPERATING LEASES			
Fiscal Year	Percentage Increase	Real Property	Equipment
2010	3.9	\$2,000	\$18
2011	3.8	2,076	18
2012	3.8	2,154	19
2013	4.0	2,241	20
2014	4.1	2,332	21

Note 7. Other Liabilities

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

	2009	2008
Intragovernmental		
Accrued Payables – Federal	\$ 5,950	\$ 3,612
Advances – Federal	28,425	4,967
Total Intragovernmental Liabilities	\$34,375	\$ 8,579
Public		
Accrued Payables	\$13,810	\$21,928
Accrued Salaries & Wages	2,868	2,568
Accrued Funded Annual Leave	4,414	4,079
Total Public Liabilities	\$21,092	\$28,575

Note 8. 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 09 Reconciliation of Net Cost of Operations to Budget

	2009	2008
<i>Resources Used to Finance Activities:</i>		
Budgetary Resources Obligated		
Obligations Incurred	323,146	284,056
Less: Spending Authority from Offsetting Collections and Adjustments	(297,721)	(216,046)
Net Obligations	25,425	68,010
Other Resources		
Transfers in/out	35	522
Imputed Financing from Costs Subsidies	5,072	4,397
Net Other Resources Used to Finance Activities	5,107	4,919
<i>Total Resources Used to Finance Activities</i>	30,532	72,929
<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	(26,654)	(44,226)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(15,127)	(9,005)
Resources that Fund Expenses Recognized in Prior Periods	61	(60)
Total Resources Used to Finance Items not Part of the Net Costs of Operations	(41,720)	(53,291)
<i>Total Resources Used to Finance the Net Cost of Operations</i>	(11,188)	19,638
Components Not Requiring or Generating Resources		
Depreciation and Amortization	10,285	7,852
Loss on Disposition of Assets	46	(2,879)
Total Components that Will Not Require or Generate Resources	10,331	4,973
<i>Total Components that Will Not Require or Generate Resources in the Current Period</i>	10,331	4,973
<i>Net Cost of Operations</i>	(857)	24,611

Department of Veterans Affairs

FRANCHISE FUND

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