

# Department of Veterans Affairs

## 2012 FRANCHISE FUND ANNUAL REPORT



Providing Efficient Common Administrative Services  
to Our Federal Partners

## Providing Efficient Common Administrative Services to Our Federal Partners



### **VA Franchise Fund FY 2012 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 Fund Oversight Office  
810 Vermont Avenue, NW (047F)  
Washington, DC 20420



# DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND FY 2012 ANNUAL REPORT

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- ◆ Corporate Data Center Operations
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- ◆ Law Enforcement Training Center
- ◆ Security and Investigations Center
- ◆ Franchise Fund Oversight Office

## 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 integrity, commitment, advocacy, respect, and excellence.



"To care for him who shall have borne the battle, and for his widow, and his orphan."

## VA CORE VALUES

### Integrity

Act with high moral principle. Adhere to the highest professional standards. Maintain the trust and confidence of all with whom I engage.

### Commitment

Work diligently to serve Veterans and other beneficiaries. Be driven by an earnest belief in VA's mission. Fulfill my individual responsibilities and organizational responsibilities.

### Advocacy

Be truly Veteran-centric by identifying, fully considering, and appropriately advancing the interests of Veterans and other beneficiaries.

### Respect

Treat all those I serve and with whom I work with dignity and respect. Show respect to earn it.

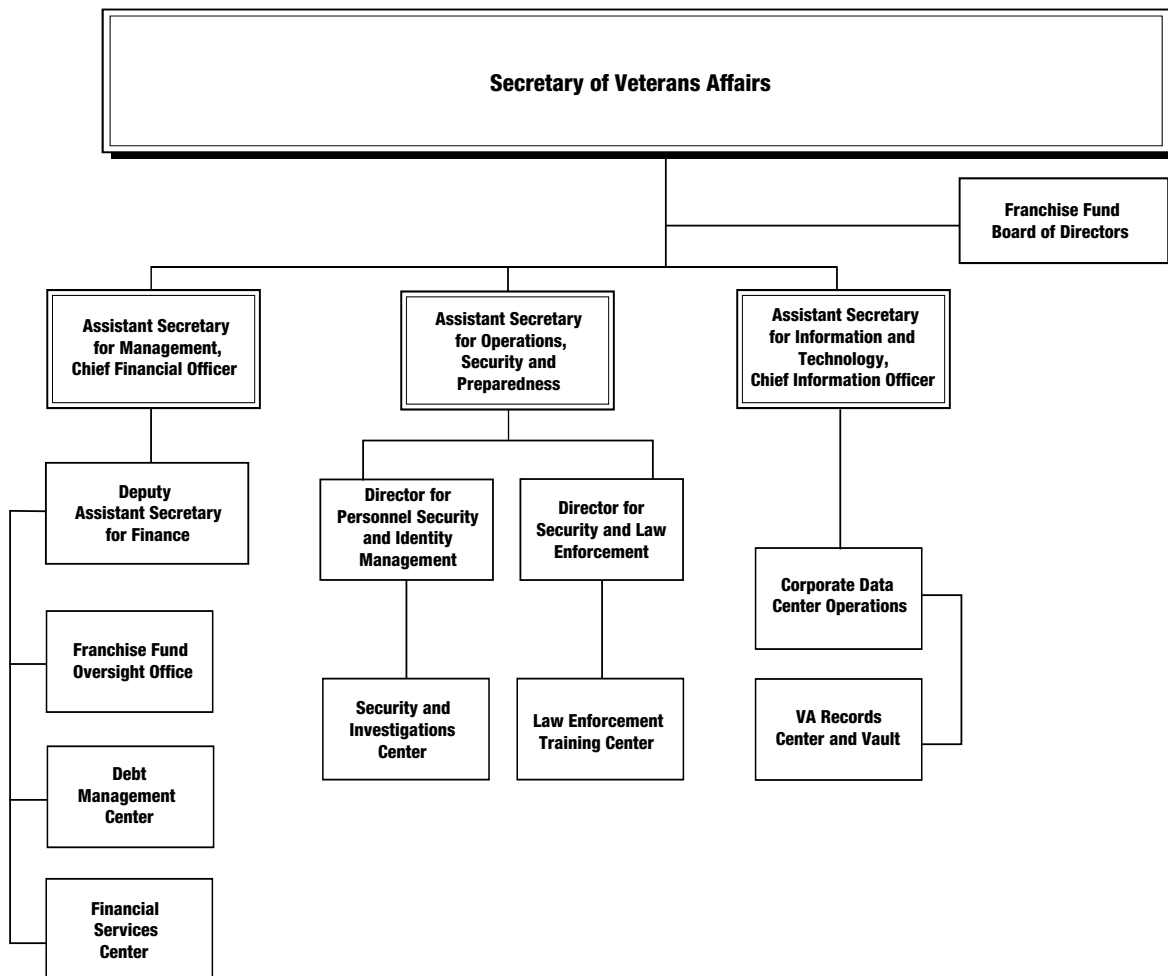
### Excellence

Strive for the highest quality and continuous improvement. Be thoughtful and decisive in leadership, accountable for my actions, willing to admit mistakes, and rigorous in correcting them.

# 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 comprised of an administrative office (Franchise 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 (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 organizations. We have positioned ourselves to meet the needs of any Federal agency at competitive prices.

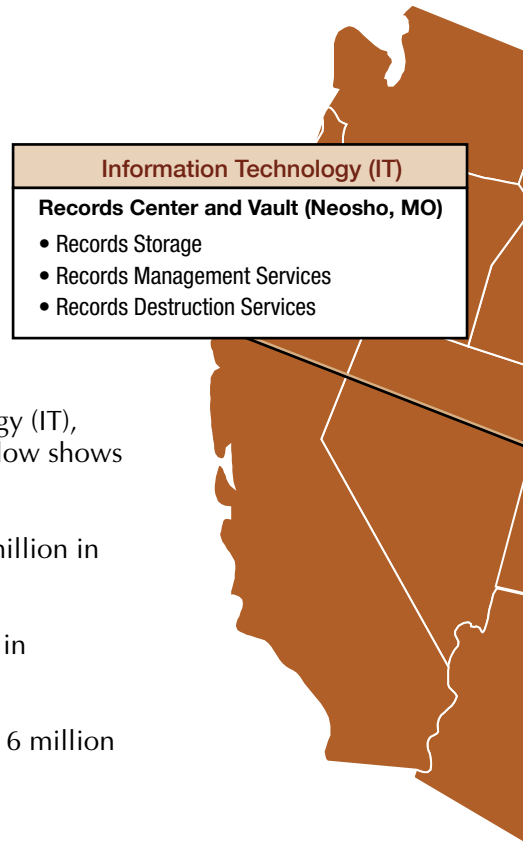
## Business Segments

The VA Franchise Fund is comprised of 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 2010 through FY 2012.

The IT segment generated \$229 million in revenue in FY 2012, compared to \$236 million in FY 2011.

The FM segment generated \$188.9 million in FY 2012, compared to \$188.3 million in FY 2011.

The S&LE segment ended FY 2012 with over \$22 million in revenue compared to \$16 million in FY 2011.

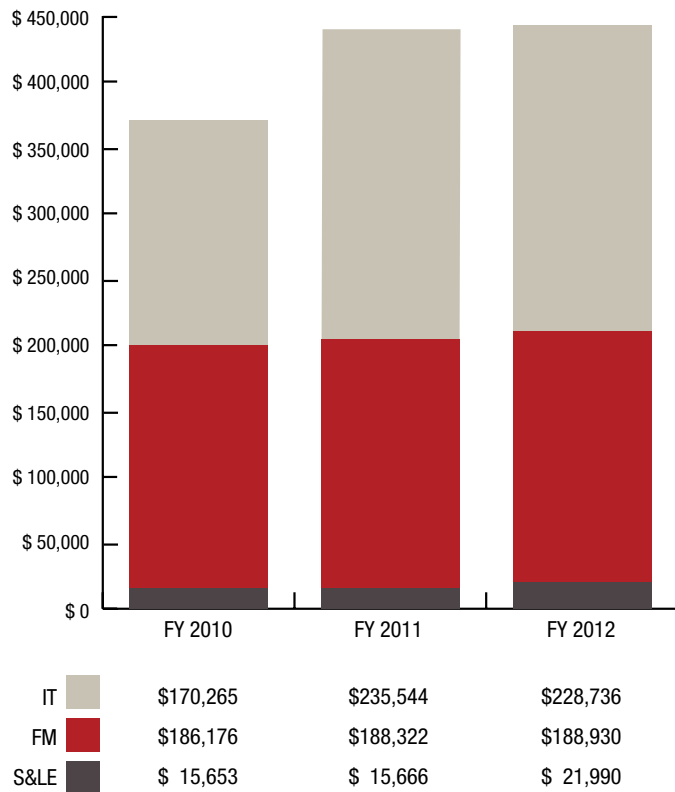


**Information Technology (IT)**

**Records Center and Vault (Neosho, MO)**

- Records Storage
- Records Management Services
- Records Destruction Services

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



**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 Support Services
- Permanent Change of Station and Temporary Duty Travel
- Vendor File Maintenance
- Common Administrative Services
- Accounting Training
- Consulting



## MEMBERS OF THE VA FRANCHISE FUND NETWORK



*David Kubacki, Director,  
Corporate Data Center  
Operations and the Records  
Center and Vault*



*Thomas Grahek, Director,  
Debt Management Center*



*Teresa Riffel, Director,  
Financial Services Center*



*Monica Pullin, Director,  
Franchise Fund Oversight  
Office*



*Robert Cagle, Director, Law  
Enforcement Training Center*



*Joshua Blockburger, Director,  
Security and Investigations  
Center*

## Information Technology

### Corporate Data Center Operations (CDCO).

Comprised of data centers in Austin, TX; Falling Waters, WV; Hines, IL; Philadelphia, PA; and Quantico, VA; the CDCO 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 CDCO 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 CDCO offers a full complement of technical solutions to best meet customer needs.

### Records Center and Vault (RCV).

Located in a subterranean, climate-controlled facility in a remote Midwestern part of the country, the RCV 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, as well as 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 support services. 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 Fund Oversight Office

(FFO). Located in Washington, DC, the FFO functions as the business office for the VA Franchise Fund. As such, the FFO 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 and strategic plans, 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 health care or limited jurisdiction environments, the LETC is available to approximately 3,400 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 North Little Rock, AR, the SIC provides timely and quality processing for appropriate background investigations, security checks, and timely adjudication determinations for VA employees, contractors, and affiliates in sensitive positions of public trust or with sensitive public trust for all VA entities nationwide.



# LETTER TO STAKEHOLDERS



W. Todd Grams,  
Executive in  
Charge, Office of  
Management, and  
Chief Financial  
Officer

On behalf of the Franchise Fund, I invite you to examine our FY 2012 Annual Report outlining the VA Enterprise Centers' accomplishments and plans for next year, and the Franchise Fund's audited financial statements. This report documents the Franchise Fund's progress in the delivery of common administrative services to VA and other government agencies (OGA). We ended FY 2012 with total revenue of \$440 million, which is consistent with FY 2011 revenue.

The Franchise Fund's progress resulted in many noteworthy accomplishments. They include:

- ◆ Continuing to support the Secretary's Major Transformation Initiatives. These initiatives are part of the Department's goal to transform VA into a 21st Century organization and to ensure we provide timely access to benefits and high quality health care to our Nation's Veterans (CDCO).
- ◆ Collecting \$1.1 billion in debt during FY 2012 and increasing the number of phone agents and phone lines by 42 percent and 400 percent, respectively, in order to eliminate busy signals (DMC).
- ◆ Initiating a new section dedicated to the reconciliation of VA's intragovernmental differences. During FY 2012, the Intragovernmental Reconciliation Section processed over \$700 million in corrections to reduce the differences between VA and its trading partners (FSC).
- ◆ Initiating a Mobile Training Team (MTT) concept in FY 2012 to export specific training to field locations; ultimately saving thousands of dollars in travel. There were 10 classes held under the MTT concept, training 175 students and saving approximately \$172,000 in travel and tuition costs for our customers (LETC).
- ◆ Implementing an Office of Personnel Management (OPM) finger print scanner that converts hard card finger prints to an electronic file, allowing the possibility to scan the hard card finger prints and transmit the digitized file to OPM on the day received (SIC).
- ◆ Achieving an overall rating of 4.7 out of 5 during an FY 2012 customer satisfactory survey with high marks for timeliness and excellent service (RCV).
- ◆ Attaining an unqualified audit opinion of our financial statements for the 15th consecutive year.

These successful endeavors are examples of the Franchise Fund **providing efficient common administrative services to our Federal partners**. The success of the Franchise Fund would not have been possible without the support of its customers. We thank all of our customers for their continuing support.

I am pleased to submit the Department of Veterans Affairs Franchise Fund FY 2012 Annual Report. We look forward to the coming year and are confident that we will continue to demonstrate sound business practices.

W. Todd Grams

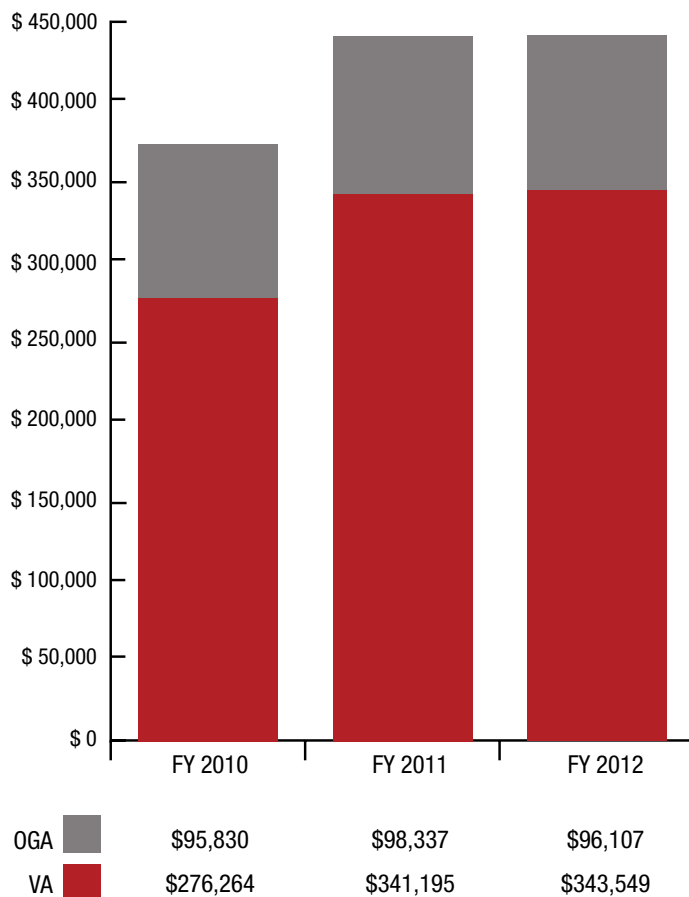
# OUR STAKEHOLDERS

Our ultimate stakeholders are Veterans and their families who directly benefit from the services VA provides and those who carefully monitor the delivery of these services, including the Office of Management and Budget, Congressional authorization and appropriations committees and subcommittees, and Veterans Service Organizations. Other stakeholders include VA and other government agencies.

As knowledgeable government professionals, we provide our stakeholders with creative, cost-effective, and practical solutions to help them accomplish their primary mission. Although Federal agencies have unique missions, our collective experience enables us to give expert advice from an insider's point of view as we understand unique requirements and financial constraints. We realize that we must compete for business every day to retain our customers' trust and confidence.

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

VA Franchise Fund  
Revenue Sources – VA vs. OGA  
(\$ in thousands)



## External Stakeholders

- ◆ Veterans and their families
- ◆ Office of Management and Budget
- ◆ Congressional authorization and appropriations committees and subcommittees
- ◆ Veterans Service Organizations
- ◆ Private sector vendors
- ◆ Department of Agriculture
- ◆ Department of Defense
- ◆ Department of Energy
- ◆ Department of Health and Human Services
- ◆ Department of Homeland Security
- ◆ Department of Interior
- ◆ Department of Justice
- ◆ Department of Labor
- ◆ Department of Transportation
- ◆ Department of the Treasury
- ◆ Department of State
- ◆ Environmental Protection Agency
- ◆ Export/Import Bank
- ◆ Food and Drug Administration
- ◆ General Services Administration
- ◆ Government Accountability Office
- ◆ Internal Revenue Service
- ◆ National Aeronautics and Space Administration
- ◆ National Archives and Record Administration
- ◆ National Geospatial-Intelligence Center
- ◆ Office of Personnel Management
- ◆ Postal Regulatory Commission
- ◆ United States Postal Service

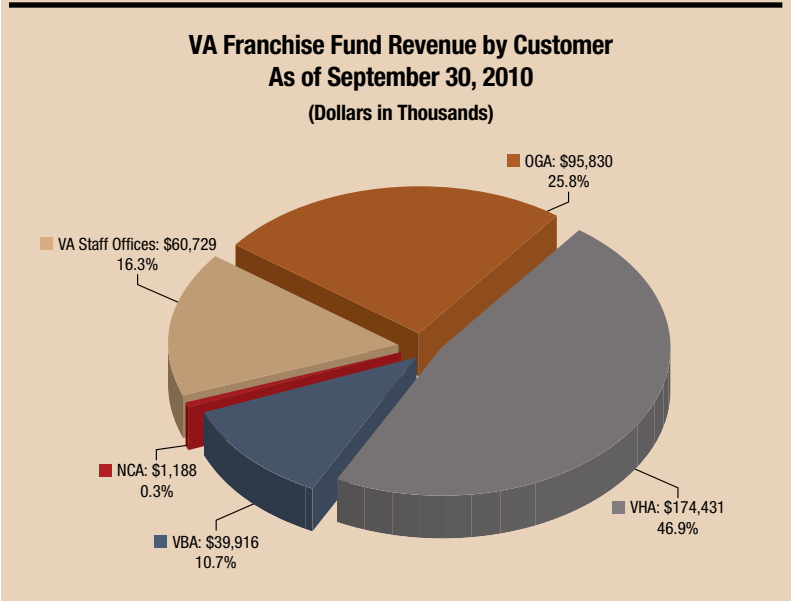
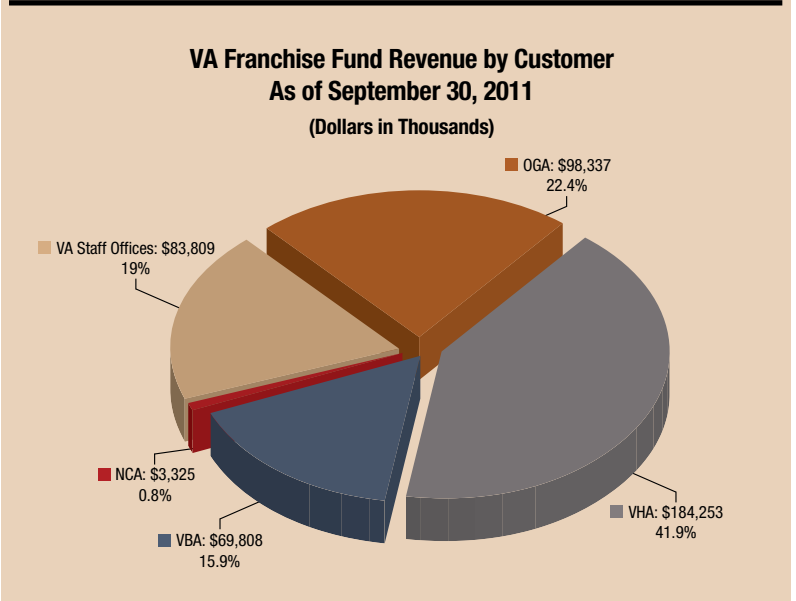
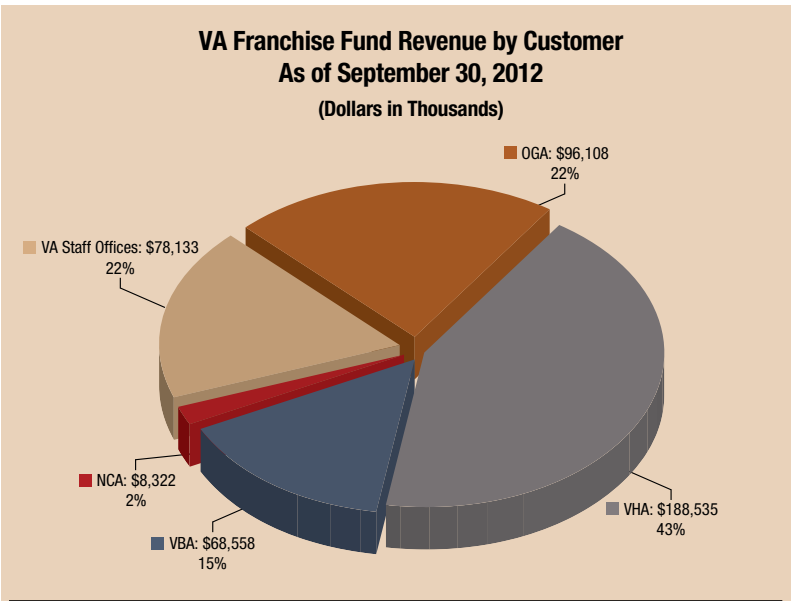
## Internal Stakeholders

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

# COMPARISON OF CUSTOMER REVENUE FROM FY 2010-2012

Approximately three-fourths of our revenue comes from VA customers. The remaining one-fourth comes from a wide variety of other government agency (OGA) customers. Within VA, VHA programs provide the most revenue to the Enterprise Centers.

Revenue from OGA customers fluctuated over the past 3 years. We ended FY 2012 with \$96 million, a decrease in OGA sales of 2.3 percent over FY 2011 levels of \$98 million. This decrease is primarily due to a reduction in pass-through revenue from Immigration and Customs Enforcement Health Services Corps (IHSC) for Medical Claim Disbursements.



# MEETING VA FRANCHISE FUND OBJECTIVES

## INFORMATION TECHNOLOGY SEGMENT – CDCO

### CDCO Supports Major Transformation Initiatives

The CDCO continues to support the Secretary's Major Transformation Initiatives. These initiatives are part of the Department's goal to transform VA into a 21st Century organization and to ensure we provide timely access to benefits and high-quality health care to our Nation's Veterans. The CDCO is committed to Continuous Readiness in Information Security (CRISP), the VA Deputy Secretary's initiative to eliminate the information security material weakness noted during previous VA financial statement audits, provide a lasting change to remediation efforts, and strengthen information security within VA.



### Consolidation of Data Centers

The consolidation of the Hines, Philadelphia, Falling Waters, and Quantico Information Technology Centers with the Austin Information Technology Center (AITC) to become the CDCO began in FY 2009 and is ongoing. The AITC has been in the franchise fund since 1996; all other Centers were funded from the IT Systems appropriation through FY 2010 and have been included in the franchise fund since FY 2011. People, processes, and technology aspects are being transformed from decentralized "site centric" facilities to centralized "service-focused" facilities. To date, the network telecommunications, security, business office, Web Operations, and Disaster Recovery/COOP functions have been consolidated and the chief technology, public affairs, privacy, records management, and property accountability officers support all Centers. Efforts have resulted in standardized architecture and processes, balanced workloads, and efficiencies from centralized infrastructure. Future efforts will involve consolidation of remaining functional areas; for example, enterprise storage and backup and virtualization. While the five national data centers are consolidated under the CDCO, regional and facility data centers throughout VA still exist. A National Data Center Program effort to consolidate those data centers to achieve maximum efficiency is ongoing through 2018.

## VA and Department of Defense (DoD) Sharing Initiatives

CDCO supports the following applications related to the VA/DoD data-sharing initiative:

- **Clinical Data Repository/Health Data Repository (CHDR)** interfaces with the Health Data Repository (HDR) to provide VA data to DoD clinicians who treat Active Dual Consumer personnel in DoD hospitals and clinics, interfaces with the Clinical Data Repository (CDR), and shares data between VA and DoD.
- **Nationwide Health Information Network (NHIN)** receives data from DoD. NHIN facilitates communication with non-VA providers through the VA Gateway and provides an interface with internal systems for checking permissions, patient correlations, data retrieval, document generation, code translations and auditing.
- **Veterans Health Information Systems and Technology Architecture (VistA) VistAWeb (NVW)** is an Intranet Web application used to review remote patient information found in VistA, Bidirectional Health Information Exchange (BHIE) (DoD), HDR databases, and NHIN.
- **VA/DoD Identity Repository (VADIR)** consolidates data transfers between DoD and VA. DoD's Defense Manpower Data Center (DMDC) stages shared data as defined in a Memorandum of Understanding and transmits data to VADIR. The VADIR data becomes available to VA organizations to assist in determining Veterans' benefits.
- **Virtual Lifetime Electronic Record (VLER)** offers a new way for health care providers to collaborate with one another as they provide care for our Service-members and Veterans. VLER is not a single system, but an initiative to share health care data by use of common standards. VLER enables authorized users within VA, DoD, private health care providers, and other government agencies to share health, personnel, and benefits information. The initiative also improves the delivery of health care and benefits to Service-members and Veterans, as well as their eligible designees.

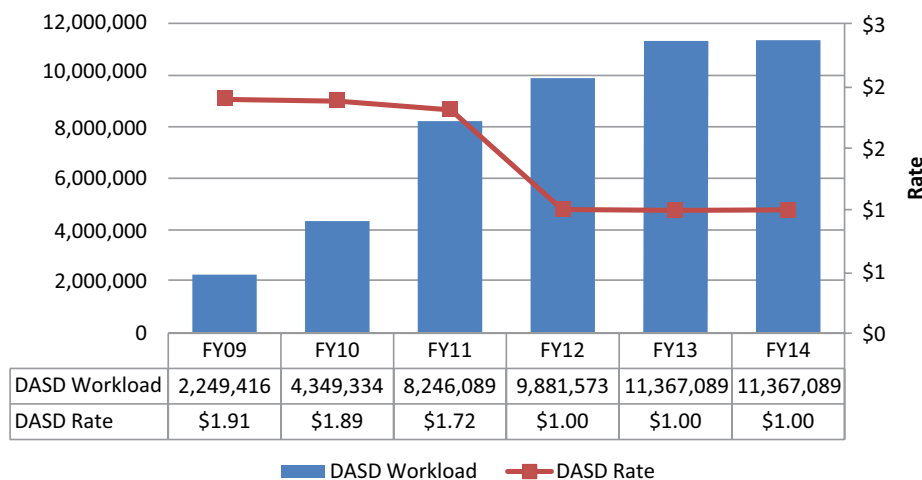


### Direct Access Storage Device (DASD) Trends

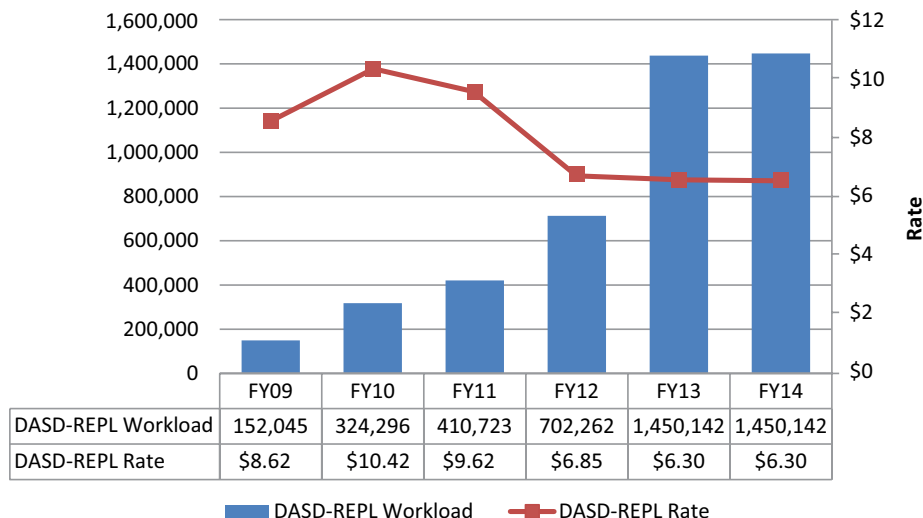
The CDCO has an established enterprise DASD environment that meets mainframe and open systems storage performance and data volume requirements, protects data against hardware failure, creates data snapshots, and replicates data to remote sites for contingency planning and disaster recovery (DR). Industry-wide decreases in hardware costs per unit and the use of best practices have resulted in a continued decline in DASD rates. CDCO's implementation of the Hitachi hardware and software installations at the CDCO data centers in Austin, Hines, and Philadelphia began in FY 2011 and continues in FY 2012. This DASD infrastructure supports routine, mission essential and mission critical servers with highly available, fault tolerant storage at the three data centers. Under this new infrastructure, failover can be accomplished to either of the other two DR sites.

This new solution includes two additional petabytes of usable storage and incorporates and interoperates with the existing investment in EMC Corporation storage subsystems, software, and infrastructure. All disk storage systems will be incorporated into this replacement solution as the environments' current hardware components reach end of life cycle. The depreciation expense associated with this capital expenditure is included in the FY 2013 and 2014 rates. As a result of increased workloads in FY 2012, the DASD rate was reduced to \$1.00. Based on current workload projections, the DASD rate will be \$1.00 in both FY 2013 and FY 2014. The CDCO anticipates additional DASD workload from recent initiatives such as NHIN, Veterans Benefits Management System (VBMS), and Surgical Quality & Workflow Management. In addition, several legacy applications are expecting increases in DASD workload. The applications include Loan Guaranty, VBA Corporate, ESSENCE, and Administrative Data Repository.

### DASD Trends



### DASD-REPL Trends\*

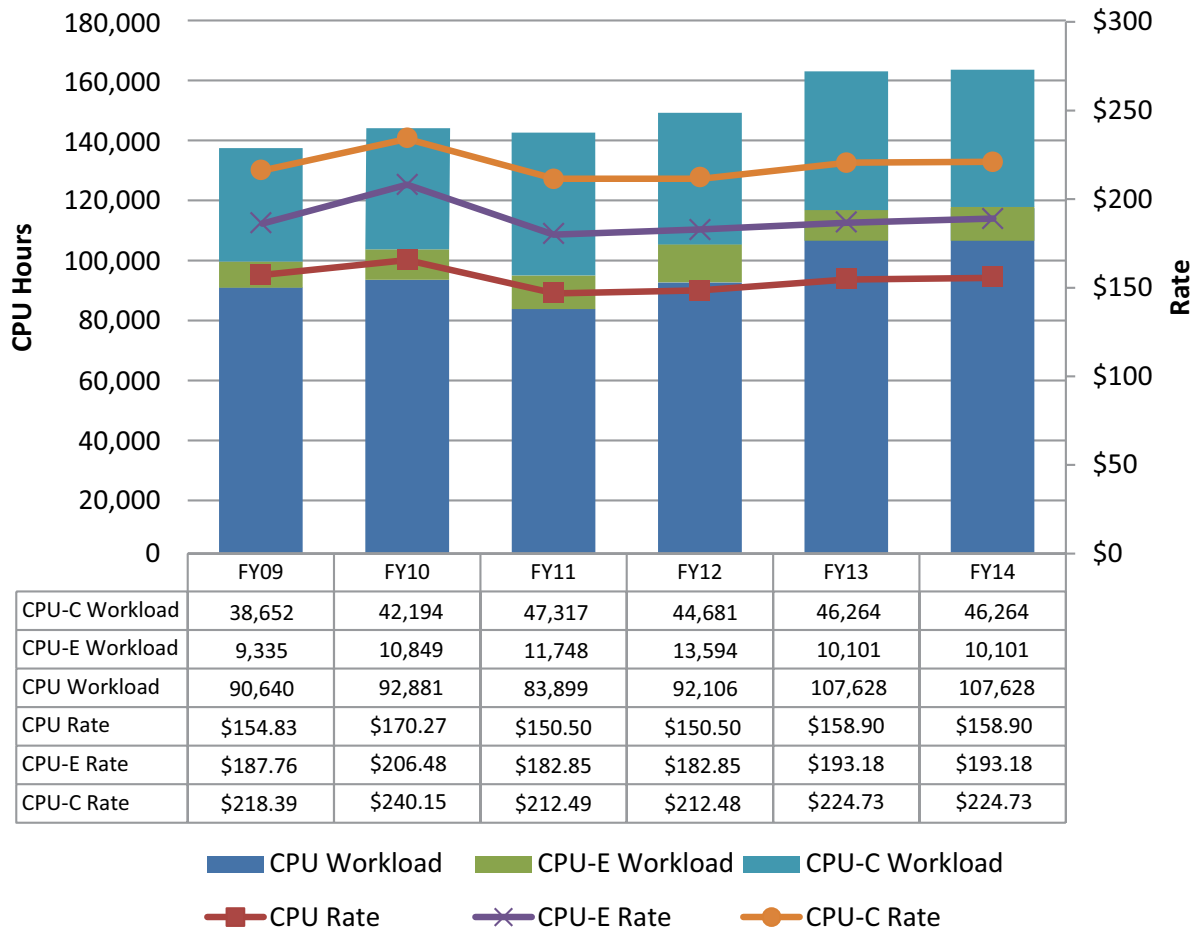


\*DASD-REPL denotes data storage that is electronically vaulted to a remote data center for application data recovery in the event of a disaster.

### Central Processing Unit (CPU)

Rate trends are illustrated in the CPU chart below. With workloads relatively stable between FY 2009 and FY 2012, the CDCO experienced a moderate rate increase in FY 2010 and was able to reduce the CPU rate in FY 2011 and hold constant in FY 2012. Increases in estimated FY 2013 and FY 2014 costs will result in moderate increases in the CPU rates in FY 2013 and FY 2014.

### CPU Trends\*



\*CPU-E and CPU-C denote CPU processing that can resume application processing within 72 hours and 12 hours respectively of a declared disaster on a mainframe computer.

## INFORMATION TECHNOLOGY SEGMENT - THE RCV



### Customer Satisfaction Survey

The RCV conducted its second annual customer satisfaction survey in early FY 2012 with a targeted audience of active users of the Records Retrieval System (RRS). The RRS is the online application that our customers use to manage their record inventories. Survey responses were more than double those of the previous year. On a scale of 1 through 5 with 5 being the best, the RCV's overall rating was 4.7 increasing from 4.5 in FY 2010. Overall, the RCV received very high marks for timeliness, and many survey participants praised the excellent service received from the RCV staff. Suggestions for improvement are being reviewed for feasibility and cost effectiveness. The next survey is scheduled for FY 2013.

**Service Delivery** – The RCV reviewed outgoing mail operations to determine ways to decrease mailing costs to customers. Efforts focused on the Records Management Center (RMC), the agency incurring the largest expense for return of Veteran case files to process new claims. Prior to the study, recalled case files were shipped individually to each requesting claims assistant at the regional office. To reduce shipping costs, the RCV is decreasing the number of daily outgoing packages, with permission from the customer by combining all requests from a facility into one daily shipment to be sorted/distributed by the facility's mailroom. Twenty-seven regional offices participated in the study. As a result, the overall agency cost for shipping packages to RMC customers has decreased an average of \$2,000+ monthly. Plans are to continue mail studies in an effort to reduce mailing charges for other RMC offices.

## Information Technology Segment Plans for 2013 and Beyond

In FY 2013, the CDCO plans to purchase servers and storage for the production environment and install and expand its uninterruptible power source (UPS). The CDCO also plans several Web Operations refreshes to support the disaster recovery (DR) solution, support a virtual environment, upgrade search functions, add additional capacity and upgrade the network infrastructure including load balancing. The CDCO also plans to move all production IT systems from the Capital Region Data Center (CRDC) to the Capital Region Readiness Center (CRRC) in Martinsburg, West Virginia. In addition, the CDCO plans humidification enhancements, security cameras, cemetery grounds keeping tracking system, generator expansion, phone system peripherals, virtual tape upgrade, automatic transfer file software, refresh Z10 technology, mail handling equipment, UPS battery strings, roof access mitigation, enterprise backup, and online transaction processing.

◆ **IBM Servers.** The new system will perform as the hardware platform for the replicated environment for the

memorial benefits platform at the DR facility in Culpeper, Virginia. The system will contain 18 virtual computing platforms for databases, mid-tier, and infrastructure tier. This purchase is planned for first quarter FY 2013 at an estimated cost of \$754,000.

◆ **Storage.** A storage array is required for the production environment for the memorial benefits platform at the DR facility in Culpeper. The solution will be architected within the CDCO standards and incorporated into the enterprise disk storage environment. Planned for first quarter FY 2013, this storage is estimated at \$368,000.

◆ **UPS Expansion.** UPS expansion is planned at the Quantico Information Technology Center during the first quarter FY 2013. This will serve the additional computer room infrastructure and expansion currently underway to support additional Memorial Benefits applications and services. The estimated cost is \$120,000.



◆ **Web Operations DR Solution.** Web Operations is responsible for the stability and uptime of VA's mission-critical websites, such as the main VA website (www.va.gov), all VA medical centers, and other VA applications. A WebOps DR solution will provide VA systems ability to recover if/when the respective DR plan is activated and limit the amount of VA staff production loss (time) and customer impact if a system is non-operational due to a disaster. Following the DR implementation, pre-production and production environments will be available on virtual DR servers located at the DR site at the Philadelphia Information Technology Center. Planned for first quarter FY 2013, the estimated cost is \$280,000.

- **Technology Refresh.** The current Web Operations environment contains equipment which is at the end of operational life, is unsupported, and has no provision for Continuity of Operations (COOP). This equipment consists of F5 load balancers, virtual servers, and racks. Estimated at \$1.5 million, this project will utilize a virtual environment with high availability provisioning for mission critical applications. This system is scheduled for first quarter FY 2013.
- **Autonomy Search Upgrade.** VA uses Autonomy for its search function. As the search functions advance with the product releases, the need for a more robust search solution grows. The solution to meet those needs will be architected within the CDCO standards and provide results that match the requests of users who perform searches on both the Internet and Intranet. Planned for first quarter of FY 2013, the estimated cost is \$500,000.
- **Web Operations Disk Storage Upgrade.** Additional capacity will support ongoing migration efforts and natural growth of existing systems, and provide for redundant systems, which will increase fault tolerance for hosted sites. The solution will be architected within the CDCO standards and incorporated into the enterprise disk storage environment. Planned for first quarter FY 2013, the estimated cost is \$3.5 million.
- **Network Upgrade.** The network provides the backbone for communication between servers, storage systems, and users. The Web Operations network infrastructure consists of two Cisco 6509 switches with two firewall modules and two content switching modules/load balancers. The network infrastructure is running on older,

end-of-sale hardware and the current configuration is not fully redundant. A new infrastructure solution architected within the CDCO standards is needed that can support a dynamic infrastructure with a high density of VMware servers and large back-end storage systems, full redundancy, and 10GbE. New Cisco Nexus switches will reduce the complexity of the environment. A unified fabric over 10 Gigabit Ethernet (GbE) for server LAN and storage area network (SAN) traffic enables consolidation of server adapters, cables, and top-of-rack switches by up to 50 percent. A unified fabric is designed to consolidate all data center input/output onto Layer 2 Ethernet and reduce capital and operating costs by reducing the number of server adapters, cables, and switches needed. Planned for first quarter FY 2013, the estimated cost is \$1 million.

- **Load Balancing.** The current load balancers that are in use for the Internet environment are approaching end of life, and as the need for Internet use expands in VA, a solution must be architected within the CDCO standards that also provides load balancing for the intranet environment. Implementation is planned for first quarter FY 2013 at an estimated cost of \$350,000.
- **Production Systems Relocation.** On behalf of OIT, the CDCO will move all production IT systems from the CRDC to the CRRC in Martinsburg, West Virginia. Planned for first quarter FY 2013, the relocation will require platform and connectivity solutions architected within the CDCO standards for 4 VMWare environments and 150 VEEAM Licenses, 4 Dell R910s, and an OC 12 DR Circuit. The estimated cost is \$862,000.

◆ **UPS Expansion.** This purchase will replace the existing Exide 31000 UPS installed in Philadelphia in 1995 and will allow use of "greener" and more efficient power supplies. Planned for first quarter FY 2013, the estimated cost is \$2 million. Power for all IT equipment in Austin is delivered from a UPS which consists of four 675 kilowatt modules and battery strings providing uninterrupted support of electric power. Short, momentary losses of utility power occur frequently and, without a UPS, IT equipment processes would be disrupted. Austin will soon reach maximum capacity on the existing UPS, and expanding this system is planned for first quarter FY 2013 to meet anticipated growth. The estimated cost for this expansion is \$1.2 million.

- ◆ **Additional Cooling/Humidification.** Additional cooling and humidification expansion is planned at Quantico during the first quarter FY 2013. This will serve the additional computer room infrastructure and expansion currently underway to support additional Memorial Benefits applications and services. The estimated cost is \$100,000.
  
- ◆ **Internet Protocol (IP) Security Cameras.** Hines currently uses analog closed circuit television (CCTV) cameras for surveillance for Building 215. As part of the technical refresh of the physical security system, Hines will acquire and install an IP camera. It is a digital video camera commonly employed for surveillance and, unlike the current analog CCTV cameras, can send and receive data via a computer network and the Internet. The IP Security Camera will provide Hines with several advantages including remote accessibility, higher image resolution, flexibility, and encryption and authentication. The acquisition is planned for first quarter FY 2013; the estimated cost is \$169,000.
  
- ◆ **Global Positioning System (GPS) Cemetery Grounds Keeping Tracking System.** Quantico requires a new GPS grounds keeping tracking system for use in the burial program. This system is expected to increase efficiency of gravesite plotting and advance capabilities in architecture of cemetery expansions to maximize gravesite configuration. Implementation is planned for first quarter FY 2013 at an estimated cost of \$125,000.
  
- ◆ **Generator Expansion.** To support IT business growth this year and in subsequent years, several electrical system expansions in Austin will be necessary. To augment the existing system, the CDCO will purchase five 2 megawatt emergency diesel generators. The Uptime Institute, an authority on data center efficiency, considers a data center's local generators to be the primary source of power; therefore, all designs and upgrades are targeted to achieve a Tier III rating (Concurrently Maintainable Site Infrastructure) for reliability, redundancy, and maintainability. 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 is a four-tier standard with Tier IV being the highest rating. Planned for first quarter FY 2013, the estimated cost is \$1 million.
  
- ◆ **Voice Over Internet Protocol (VOIP).** This project will extend VOIP services and unified messaging and voice mail services to all the CDCO sites required to replace obsolete technology. Hardware and services for this initiative will be purchased during first quarter FY 2013 at an estimated cost of \$1.8 million.
  
- ◆ **Upgrade IBM T3500.** The Enterprise Backup (EBU) Project implemented in FY 2012 did not include a Virtual Tape Library (VTL) at Hines, and upgrading the TS3500s at that location is necessary for unattended operation to take advantage of cost savings, portability, and scalability. This project will add additional switch blades to the EBU core switches, Small Form-Factor Pluggable (SFP) modules, and advanced Netbackup server clients for Windows and Unix servers. Planned for second quarter FY 2013, the estimated cost is \$500,000.
  
- ◆ **BMC Automatic Transfer Files (ATF).** Hines needs to acquire a built in Control Module (CM) of the BMC Software Control-M product that is Federal Information Processing Standard 140-2 compliant. This secure file transfer mechanism is invoked from within the job definition of a Control-M Server job using the Enterprise Manager Graphical User Interface (GUI). This component is referred to as Control-M/CM for Advanced File Transfer. In addition, the Hines Information Technology Center needs to acquire a Control-D Web Access Server, which will allow users to view reports from a Web browser interface in various formats; and a Control-V that allows for reports to be indexed and for migration to other less expensive media than prime DASD. The CDCO will architect this solution within established standards. This purchase is planned for the second quarter FY 2013 at an estimated cost of \$200,000.
  
- ◆ **z10 Technology Refresh.** This mainframe hardware upgrade of the small z10 production platform will include software license increases due to the upgrade. This upgrade is a technical refresh to maintain vendor-supported hardware and continue to provide a cost-effective platform for customer use. EPA is one of the primary customers using the z10. Planned for third quarter FY 2013, the estimated cost is \$3.7 million.
  
- ◆ **Mail Handling Equipment.** The Bowe Bell & Howell (BB&H) Mailstar 600 (mail handler) letter inserting system is a six-station folding and inserting system that provides the capability of folding multiple page letters

and selecting inserts from any of the six insert stations to complete mailing sets of correspondence for Veterans. The system includes an Automated User Interface (AUI) that runs on a Unix based PC at the front end of the system. Hines uses two BB&H Mailstar systems to insert and fold Veteran correspondence and associated enclosures. Hines mails approximately 10 million VBA letters to Veterans and their dependents annually. Upgrading of system parts and software is imperative once end-of-life is reached in July 2013. A cost benefit analysis will be conducted prior to procurement to compare the cost to purchase this equipment to outsourcing this function. This purchase is planned for third quarter FY 2013 at an estimated cost of \$150,000.

◆ **UPS Battery Strings.** Austin's and Philadelphia's existing batteries are approaching end of useful life and must be replaced. Planned for third quarter FY 2013 in Austin, the estimated cost is \$150,000, and for fourth quarter in Philadelphia, the estimated cost is \$400,000.

◆ **Roof Access Mitigation.** This project will deter unauthorized access to certain vulnerable locations along the alley side of the building and monitor, detect, delay, and deter intrusion in Austin. The system will consist of physical barriers including surveillance cameras and lighting. The migration is planned for fourth quarter FY 2013; the estimated cost is \$175,000.

◆ **EBU.** The CDCO began executing a comprehensive technology refresh and enhancement of the tape backup environment for open systems and mainframe in FY 2012. In FY 2013, the CDCO will continue to replace

existing backup capabilities with a uniform architecture solution throughout the CDCO to improve performance, and provide high availability and standardization across the CDCO data centers (Austin, Hines, Philadelphia and Falling Waters/Martinsburg). The EBU solution has the ability to easily scale as additional projects come online within each data center. The additional funds will be used to procure additional networking hardware, Small Form-factor Pluggables (SFP), or server-side Host Bus Adapters (HBA) to alleviate bandwidth issues from server to EBU infrastructure. Planned for fourth quarter FY 2013, the estimated cost is \$500,000.

◆ **OLTP for IBM.** On-Line Transaction Processing (OLTP) is required in support of the Benefits Delivery Network (BDN). OLTP is a mode of processing that (compared to batch and decision support) is characterized by low cost, faster response time, and high availability. In a broader sense, OLTP puts data online where it can be instantly updated to reflect changes as they occur. The data processing models the actual business in real time, and a transaction converts this model from one business state to another. Tasks such as reservation scheduling and inventory control are especially complex; all the information must be current, and each piece of information is related to every other piece. With constant change as the norm, the coordination and integrity of the information are the keys to a successful business operation. IBM's premiere OLTP is a Customer Information Control System (CICS). The implementation is planned for fourth quarter FY 2013 at an estimated cost of \$400,000.

## FINANCIAL MANAGEMENT SEGMENT – FSC

### Vendor File Maintenance

The FSC maintains the FMS vendor file with over 1 million records. The FSC processed over 680,000 requests to modify the Vendor File in FY 2012. In FY 2011, VA embarked on a renewed effort to eliminate check payments. The FSC supported this effort by developing a portal for medical and commercial providers to access their Explanation of Benefits (EOB), and continues to support this effort by contacting medical vendors, Veterans, and dependents receiving checks and by notifying current medical providers in order to convert payments from check to Electronic Funds Transfer (EFT). In FY 2012, VHA embarked on an effort to reduce cash on hand used for Veteran benefit travel payments by converting them to electronic payments. The FSC supported this effort by developing a Web-based capability (Automated Veteran Input System) used to add Veterans' banking information to the FMS Vendor File. The FSC tracks and monitors the number of check payments versus EFT payments and vendor conversions based on the monthly payment vendor file. Continued focus on enrolling vendors to receive electronic payments increased the electronic payment percentage to 84 percent for medical providers and 97 percent for non-medical vendors.

### Centralization of Payments

During FY 2012, the FSC continued to serve as VHA's centralized payment office for certified and matched invoices for purchased goods and services as well as construction payments. The FSC processed over 1 million commercial vendor payments. Performance results indicate improvements in payment processing timeliness and accuracy as well as cost savings. Continued reductions in interest penalties for late payments were realized along with consistently strong performance in maximizing vendor discounts earned.

### Centralization of Permanent Change of Station (PCS)

The FSC created a Web-based PCS Travel Portal to automate the flow of Intra-agency Transfer Requests, VA Form 3918, and Requests for Permanent Duty, VA Form 3036c. The portal streamlines the process for initiating and approving travel documents required by relocating employees authorized PCS travel entitlements. Human resources, budget and approving officials can now use a Web-based application with electronic flow of documents and electronic signature functionality in lieu of the former labor-intensive manual process. Results to date show a 64 percent reduction in document processing time.

Relocating employees benefit by having increased time for move preparations and by receiving timely counseling on PCS entitlements. To date, the FSC has established over 3,147 station users in the travel portal at 393 VA stations. The FSC successfully processed 948 employee moves electronically using the PCS Travel Portal in FY 2012.

The FSC also completed and put into production the first phase of a PCS claims automation initiative effective July 16, 2012. Employees can now view a list of their authorized entitlements, select a document and populate the required reimbursable information. Upon submission, the FSC claims preparers receive a routing notification to compute the claim. It is then automatically routed to the approving official for review and signature. Finally, it is routed to the FSC's auditors for payment processing. Since implementation, the FSC has processed 364 PCS travel claims through the PCS portal with an average processing time of 3.2 days, a 77 percent reduction in claims document processing time.

In addition, as good environmental stewards, the FSC continues to emphasize "greening" efforts while refining processes. In late 2011 the FSC partnered with its household goods contractor to receive invoice packages electronically. Once processed, the FSC simply e-mails the invoice to GSA for post payment audits. This entire process is now paperless and the FSC electronically attaches the invoice packages to the employee folder located in their PCS Portal. The FSC's paperless processing eliminates printing and mailing of approximately 60,000 pages per year.

### FSC Information Technology (IT) Support

The FSC relies on IT support to provide financial services to customers. FSC IT staff uses a proactive research and development effort to leverage technology as a workforce multiplier, ensure personnel are up-to-date on the latest technological advances, and strive to provide the FSC and VA with world-class, cost-effective services. In addition, the staff's resourcefulness is a major factor in the FSC's ability to develop timely and innovative solutions for its customers.

#### The IT staff provides the FSC with:

- ◆ Application development and maintenance
- ◆ IT Helpdesk and PC desktop support
- ◆ Database, network, and server administration
- ◆ Enterprise architecture and information assurance
- ◆ Electronic commerce (EC)/electronic data interchange (EDI) services

## OTCnet Implementation

The FSC's Financial Accounting Service (FAS), in conjunction with VA Administrations and staff offices, financial institutions, and the Department of the Treasury (Treasury), successfully implemented Treasury's single Web-based application, the Over the Counter Channel Application (OTCnet), across VA. OTCnet integrates the functionality of the Paper Check Conversion Over the Counter (PCC OTC) and Treasury General Account Deposit Reporting Network (TGANet) systems into OTCnet Check Capture module and OTCnet Deposit Processing module. OTCnet Check Capture permits scanning of checks and electronic submission of deposit tickets while Deposit Processing permits electronic submission of deposit tickets. FAS implemented the Deposit Processing module and migrated users of PCC OTC to the Check Capture module. FAS achieved this accomplishment by preparing and providing documentation to Treasury; preparing implementation schedules, instructions and checklists; tracking implementation status; and assisting deposit locations. The implementation was successful and timely. FAS will pursue expanding the OTCnet Check Capture module to Deposit Processing module users to alleviate the need to physically deliver checks to a financial institution.

## 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 commercial vendors, telecommunication/utility service providers, healthcare entities such as VA medical centers, and healthcare clearinghouses. EC/EDI also provides 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 supports VHA's efforts to comply with EC/EDI mandates identified in the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The FSC provided gap/risk analysis, project plans, and requirements documents and other artifacts. The FSC also supported necessary software upgrades and Vista patches needed to sustain HIPAA requirements. During FY 2012, the FSC supported the processing of over 77 million healthcare-related electronic transactions, which produced an estimated cost savings to VHA of approximately \$204 million from processing electronic instead of paper transactions.

During FY 2012, the FSC's Electronic Commerce Division (ECD) supported VHA's initiative to meet the HIPAA-mandate to implement newer versions of the electronic transactions (X12 5010 and NCPDP D.0). Due to the extraordinary work performed by the ECD and all the other partners supporting the 5010/D.0, VA became one of the first providers in the U.S. to meet the January 1, 2012, HIPAA-mandated date to be ready to use the new transaction formats in production. Currently all transactions from VA are sent out using the required format (5010/D.0).

The FSC also provides EC/EDI services to VA's Denver Acquisition and Logistics Center for invoices, billing documents and payment vouchers. These transactions are now processed using FSC-owned software which reduces operational costs as well as facilitates day-to-day operational support. At the request of the Office of Acquisition and Logistics (OAL), the ECD team took the necessary steps to take over EDI services provided by another VA organization and put in place automated processes to eliminate cumbersome manual ones. Commercial invoices, Financial Management System (FMS) payments and subsistence prime vendor program services are also provided to VA entities nationwide. 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 EDI support to the U.S. Department of Agriculture (USDA). Under a franchise agreement, the FSC accepts invoices from USDA utility and telecommunications 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, which ensures license compliance and reduces processing costs for USDA.

## Commercial Vendor Payments

VA continued to enhance its vendor payment processes throughout 2012. Overall VA interest penalties paid per million dollars disbursed decreased from \$45 per million in FY 2011 to \$38 per million in FY 2012. At the same time, VA earned 97 percent (\$5.2 million) of its available discounts. FSC interest penalties paid per million dollars disbursed also declined from \$18 per million in FY 2011 to \$12 per million (31 percent decrease) in FY 2012. Additionally, the FSC earned 97 percent (\$4.9 million) of its available discounts.

VA also continued to gain efficiencies and improve performance through an initiative started in FY 2004

which centralized vendor payment activities at the FSC. Through this centralization, VA strengthened its focus on identifying and preventing improper vendor payments. The FSC reviews VA vendor payments daily to systematically identify, prevent and recover improper payments made to commercial vendors. Current payment files are matched to identify, and where possible, prevent duplicates prior to payment. Payments from prior fiscal years are matched to identify potential duplicate payments for further analysis, assessment and, as appropriate,

collection. Additionally, the FSC reviews vendor payments to identify and collect improper payments resulting from erroneous interest penalties.

Overall, during FY 2012, collections of improper payments totaled \$2.4 million from payment recapture audits and \$16.2 million from post payment reviews and other sources. Improved payment oversight enabled VA to identify and cancel over \$11.1 million in potential improper payments prior to disbursement.

## FINANCIAL MANAGEMENT SEGMENT - DMC

### Debt Collection

The DMC collects commercial and consumer debt. Consumer debt can arise from beneficiary's participation in a VBA benefits program, including compensation, pension, and loan guaranty. VA pays benefits under four different education programs to Veterans or their beneficiaries to further their education. Compensation benefits are paid to Veterans who incurred a disability while in military service. Pension benefits are paid under an income-based program. The loan guaranty program allows a Veteran to acquire a VA-guaranteed loan for housing purposes. Debts normally arise as a result of a change in entitlement that either reduces the amount to be paid or terminates the benefit due to non-entitlement. The DMC attempts to contact the beneficiary as soon as possible after creation of the debt to arrange for its repayment. If collection efforts are unsuccessful, the DMC refers the accounts for offset under the Treasury Offset Program or for cross-servicing action when eligible.

In FY 2012, the DMC participated in the Secretary's T-16 Veterans Relationship Management initiative. The DMC increased its number of phone agents by 42 percent. To enhance Veterans' access, and to eliminate busy signals, in July the DMC expanded to 96 phone lines which reduced the number of busy signals by 15 percent, with fewer than 5 percent of Veterans receiving a busy signal. In September, the DMC added an additional 48 phone lines, for a total of 144 Veteran-facing toll-free lines, allowing over 99 percent of Veterans to reach the DMC without a busy signal.

### Improving Customer Service

In August 2012 the DMC completed its move to the fourth floor of the Bishop Henry Whipple Federal Building. The DMC is now housed in state-of-the-art work space which allows our phone operators to answer calls more efficiently because of reduced office noise. Featured throughout this work space are large display monitors that allow our phone operators to track the total number of calls, the number of calls in the phone queue, the number of phone agents, and the maximum time of a caller in the queue. This shows our phone agents in real time the actual workflow coming into the DMC as well as their contribution to the overall workflow. Managers view real time data which displays every phone agent's name and their average response time and total number of answered calls. This enables managers to optimize the daily work performance of their employees.

### Common Administrative Support Services

The DMC and VBA partnered to collect home loan guarantee debt. This partnership allows the DMC to offset home loan debts with benefit compensation through the VETSNET application. There are approximately 2,400 established home loan debt accounts worth \$27 million. Since the pilot began in December 2012, the DMC has established collections on 2,192 accounts and the DMC has recouped over \$2 million. These collections will continue into the future.

### VA Customers - Fraud Initiative

In FY 2012, the DMC and the VA OIG created a fraud initiative task force to promote communication between these organizations. Our mission is to recoup fraudulent payments either through debt collection, criminal, or civil litigation. Since the inception of this task force, hundreds of cases have been referred from the DMC to VA OIG. The cases are being processed and discussed in working sessions that lead to action on the cases. Furthermore, OIG Special Agents are referring cases back to the DMC for collection. This two-way communication has been instrumental in our ability to work fraud cases by eliminating some of these debts from our outstanding collections, adding cases to the OIG for prosecution, and overall, increasing collections.



This chart depicts collections/offsets for FY 2010 - FY 2012. The amounts reflect collections/offsets on benefit debts as well as offsets for VHA medical debts.

## Financial Management Segment Plans for FY 2013 and Beyond

- ◆ **Electronic Content Management (ECM) System.** The FSC will replace our existing Document Management System in FY 2013 with a state-of-the-art ECM system. The ECM system will support our current payment processing and Healthcare Claims Processing (HCP) systems, along with 89 other minor business applications. The FSC currently manages 4 million documents annually and anticipates growth to over 30 million documents due to the expansion of HCP business. The new ECM system will position the FSC to support this increased volume of documents, while increasing document search and retrieval capabilities.
- ◆ **OGA Migration.** The FSC is scheduled to complete a full migration from the legacy Plexis Claims Manager software to the recently procured Plexis Quantum Choice software by the second quarter FY 2013. This software is intended for the product lines that provide support to our OGA customers. It will provide an opportunity to modernize interfaces and business processes allowing significant business process improvements to this product line.
- ◆ **DMC Customer Service Improvement.** In late FY 2013 and into FY 2014, the DMC will implement the next phase to support Secretary Shinseki's Veterans Relationship Management (VRM) initiative. The VRM new phone center software technology and processes will include: call routing, supervisory monitoring, skills-based routing, call transfers, call recording for customer service improvement and audit trail, call waiting-time announcement, centralized performance monitoring, virtual hold, schedule call back, interactive voice response with self-service options, better metrics and reporting capabilities, and flexible configuration for routing. The DMC will begin a VRM pilot for Veteran Self-Selects, which will distinguish simple calls. For instance, a Veteran will be able to request balance verification or, if they want to make a payment, the Veteran will be routed to an appropriate skilled phone agent versus an agent trained to handle more complex calls.



## SECURITY AND LAW ENFORCEMENT SEGMENT – SIC

### Automation Advancements

In FY 2012, the SIC began and completed the development and programming of a Web-based Personnel Security and Suitability System (PSSS) which will be available to VA Administrations, staff offices, contracting officers, contracting officer representatives and personnel security specialists, and will contain all employee and contractor background investigation information. It is designed to provide one end-to-end system with all background investigation information, which is scalable to the access needs of the individual. PSSS will facilitate a path that ensures complete packets are submitted, reduces processing time, and allows complete transparency 24 hours a day on the status of an individual case to authorized VA personnel in the field, which will open communications and reduce call volume to the SIC. Additionally, all adjudication certificates will be available to the field should the need arise. Currently, the only method of obtaining the status of an investigation or to obtain a Certificate of Investigation (COI) is to contact the SIC help desk during business hours. The system is going through final compliance and approval to be placed on the VA network.

### OPM Connect:Direct

During FY 2012, the SIC purchased and began testing the computer program Connect:Direct. This will eliminate the requirement for OPM to mail paper copies of completed investigation case files to the SIC. Connect:Direct will allow the SIC to receive all completed case files electronically in encrypted PDF format. This allows the cases to be adjudicated and reported, and the COI archived much more efficiently by eliminating the handling, parsing and destruction of each individual case file previously received as a paper file.

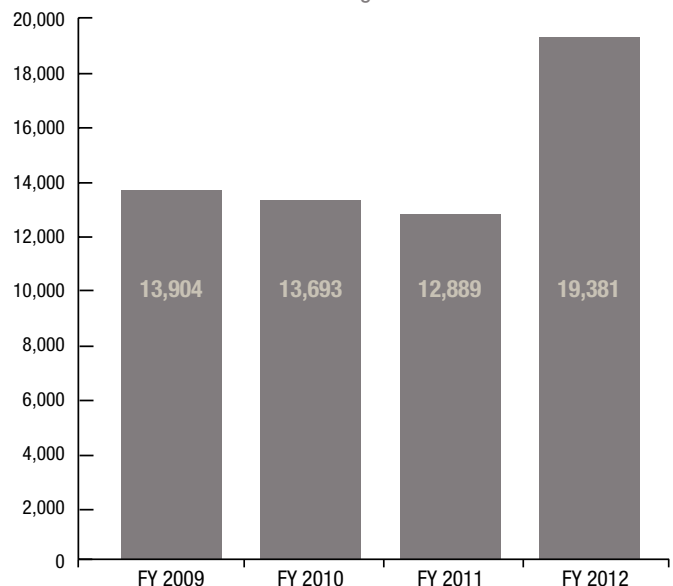
### Finger Print Scanner

The SIC procured and brought online, an approved OPM fingerprint scanner that converts hard card fingerprints to an electronic file. The SIC now has the ability to scan the hard card fingerprints and transmit the digitized file to OPM on the same day as it is received. This eliminates the time it takes to mail the hard card prints and the cost of mailing, and allows for quicker OPM fingerprint results. Once these results are obtained and adjudicated, the employee or contractor can obtain their computer logon ID and password and begin work.

### SIC Investigations

In FY 2012, SIC processing capacity increased as a result of adding additional temporary personnel and streamlining the processing flow of documents. In FY 2012, the SIC processed over 2,000 additional OIT CRISP cases which reflected in the increase of investigations performed. Total requests in FY 2011 had increased because VA's Major Initiatives added over 2,000 background investigations and the requirement to conduct over 1,000 ANACI investigations for the Captain James A. Lovell Federal Health Care Center. At the same time, the SIC's ability to process case files decreased as a result of the full implementation of OPM's automated system e-QIP. The resulting backlog of background investigations from FY 2011 were processed in FY 2012, increasing total FY 2012 output.

Trend of Investigations Performed



## SECURITY AND LAW ENFORCEMENT SEGMENT – LETC

◆ **Administrator Course** is a 24-hour course designed to ensure the VA police service has the ability to effectively and efficiently manage administrative functions in accordance with the inspection guide. Topics addressed are: Record Control Schedule files, means to manage and account for employee time, basic budgeting and fiscal procedures, and communication skills associated with interacting with individuals suffering from mental illness and/or anger management issues.

◆ **Dispatcher Course** is a 24-hour course designed to provide training to individuals performing the duties of a police dispatcher. The course will provide instruction in such areas as National Crime Information Center, Veterans Affairs Police System – entry and queries, communication skills, and operating in a stressful environment.

◆ **Evidence Custodian/Alternate Custodian Course** is a mandatory course for primary and alternate evidence custodians. It is a 24-hour course designed to ensure VA police services properly manage, account for, maintain and accurately document evidence and items taken for safekeeping. It uses the inspection guide as a basis for establishing a firm understanding of the requirements associated with VA's evidence program. Topics addressed are: evidence logs, appointment letters, completion of evidence tags, differentiation of evidence and safekeeping, transmittal of evidence, destruction/return of evidence, and inventory requirements.



◆ **Mobile Training Teams 1 Day (Min 10 students).** Any of LETC's 8-hour courses are offered at a fixed price per student plus customer reimbursement of the LETC instructors' travel-related expenses.

◆ **Mobile Training Teams 3 Day (Min 10 students).** This course is targeted towards dispatchers, administrators, evidence custodians and similar positions. It will be offered at a fixed price per student plus customer reimbursement of the LETC instructors' travel-related expenses.

◆ **Mobile Training Teams 5 Days (Min 10 students).** Any of LETC's 40-hour courses are offered at a fixed price per student plus customer reimbursement of the LETC instructors' travel-related expenses.

◆ **Mobile Training Teams 10 Days (Min 10 students).** Any of LETC's 80-hour courses are offered at a fixed price per student plus customer reimbursement of the LETC instructors' travel-related expenses.

◆ **Verbal Defense In HealthCare** is a new 8-hour class that provides a multi-disciplinary approach to educating participants in verbal de-escalation techniques. This course uses classroom presentation, multi-media and role-playing scenarios to provide students with the means and capabilities to effectively communicate with disruptive individuals, set appropriate boundaries and gain voluntary compliance. The goal of this course is to increase both patient and employee satisfaction and to reduce the potential for violence and injury. The customer reimburses the LETC for instructors' travel-related expenses.



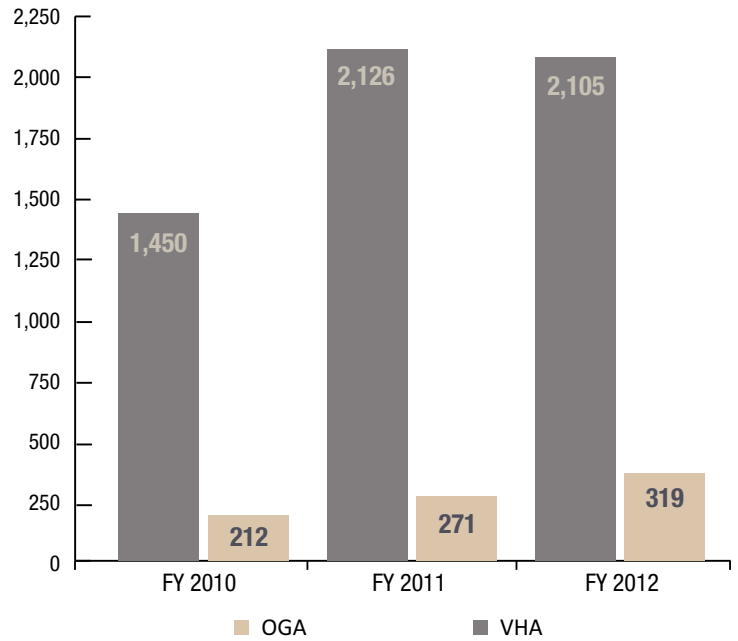
*VA Law Enforcement Training Center*

## Training

There was an overall increase in the total number of police officers trained in FY 2012, although the number of VA police officers trained was slightly lower than the previous year. In FY 2012, 2,105 VA police officers and 319 OGA officers were trained. During FY 2011, the number of VA police officers trained was 2,126 and the number of OGA police officers was 271. In FY 2010, 1,450 VA police officers and 212 police officers from other government agencies received basic and specialized training at the Little Rock campus.

The LETC has developed a cost verification process. This is a formalized process which will analyze cost versus revenue after each course is completed. It is designed to identify gaps and improve accuracy of pricing to ensure we are providing our customers with the highest possible quality at the lowest possible price, while ensuring full cost recovery.

Number of Police Officers Trained



## SECURITY AND LAW ENFORCEMENT SEGMENT PLANS FOR 2013 AND BEYOND

◆ **Training.** The LETC will continue to identify the best possible marketing sources for expanding our OGA customer base and continue to invest in the development of products to meet the needs of non-traditional customers. For example, we are marketing our training services at the Association of Military Surgeons meeting in the first quarter FY 2013. This meeting attracts senior healthcare leadership professionals from all segments of the Federal government. Our ability to tailor training to our customers' specific needs is one of the unique and highly attractive capabilities the LETC has over our Federal competitors.

In FY 2013, the LETC is preparing additional training programs for Federal Law Enforcement Training Accreditation (FLETA) accreditation. Our Basic Police Officer and Instructor Development courses are scheduled for assessment by the Office of Accreditation in the first quarter FY 2013.

◆ **Process Improvement.** In FY 2013, the LETC will implement new processes to improve our accounting and analytic procedures. The LETC will continue to explore and implement processes that provide enhanced revenue and expense tracking and predictive analysis.

The LETC has developed a cost verification process. This is a formalized process which will analyze cost versus revenue after each course is completed. It is designed to identify gaps and improve accuracy of pricing to ensure we are providing our customers with the highest possible quality at the lowest possible price, while ensuring full cost recovery.

The LETC has implemented new processes that enhance our tracking of expenditures and product performance to prevent waste and improve efficiencies. We also proposed to establish a cooperative with our Franchise Fund partners so business managers and senior leaders can work together to identify and benchmark best practices and share marketing strategies.

◆ **Connect: Direct.** The SIC has purchased the approved OPM electronic delivery software, and it is scheduled for full service in FY 2013. This will provide electronic downloads from OPM of closed investigation cases, eliminating hard copies being mailed through the U.S. Post Office.

### **Connect: Direct will result in the following:**

- Reduce the time to receive a completed investigation packet from OPM by as much as 10 working days.
- Reduce the time to complete the adjudication of a background investigation.
- Reduce the overall cost of case transmittal between OPM and the SIC.

### ◆ **Personnel Security and Suitability System (PSSS).**

This system will be available across the VA enterprise to Administrations, staff offices, contracting officers, contracting officer representatives, and personnel security specialists, and will contain all employee and contractor background investigation information.

PSSS will:

- Provide one end-to-end system with all background investigation information
- Facilitate a path that ensures complete packets are submitted
- Reduce processing time
- Allow complete transparency 24 hours a day on an individual case status to authorized VA personnel in the field
- Allow the field access to adjudication certificates as the need arises

◆ **New OPM Requirement.** The Office of Personnel Management (OPM) has developed a new Suitability Training course and is requiring all Government Suitability Adjudicators to successfully complete this training by obtaining a passing score on an end-of-course test to become certified. The SIC has developed a plan for its staff to meet this new requirement. The SIC is reorganizing into two divisions, Contract Security Center (CSC) and Central Adjudication Center (CAC).

- The CSC will provide VA with a single processing center for all contractor background investigations, streamlining customer service, providing one focal point, one process, and a single standard for all contractor investigations within the SIC.
- The CAC will perform determinations for suitability for VA employees and affiliates as well as eligibility for access to national security information (security clearances).

# GOALS, OBJECTIVES, AND PERFORMANCE MEASURES

## VA's Guiding Principles, Strategic Goals, and Integrated Objectives

### Guiding principles

- ◆ **People-centric:** Veterans and their families are the centerpiece of our mission and of everything we do. Equally essential are the people who are the backbone of the Department – our talented and diverse workforce.
- ◆ **Results-driven:** We will be measured by our accomplishments, not by our promises.
- ◆ **Forward-looking:** We will seek out opportunities for delivering the best services with available resources, continually challenging ourselves to do things smarter and more effectively.

### Strategic goals

- ◆ **Improve the quality and accessibility of healthcare, benefits, and memorial services while optimizing value.**
- ◆ **Increase Veteran client satisfaction with health, education, training, counseling, financial, and burial benefits and services.**
- ◆ **Raise readiness to provide services and protect people and assets continuously and in time of crisis.**
- ◆ **Improve internal customer satisfaction with management systems and support services to make VA an employer of choice by investing in human capital.**

### Integrated objectives

- ◆ **VA integrated objective 1:** Make it easier for Veterans and their families to receive the right benefits, meeting their expectations for quality, timeliness, and responsiveness.
- ◆ **VA integrated objective 2:** Educate and empower Veterans and their families through proactive outreach and effective advocacy.
- ◆ **VA integrated objective 3:** Build our internal capacity to serve Veterans, their families, our employees, and other stakeholders efficiently and effectively.



**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 financial services meet customer needs and requirements.
- ◆ Ensuring that VA's work environment is recognized by employees as conducive to productivity and achievement and fosters respect among all.
- ◆ Ensuring high-quality and timely background investigations and adjudications for employees in national security and public trust positions and ensuring that customer identification badges are issued without delay.
- ◆ Ensuring accurate records management and secure archival storage, protection, and retrieval services for Veterans' records and 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 2009–2012. 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.

## PERFORMANCE SUMMARY TABLE

Performance Measure	Actuals				Plan	Were 2012 Goals Achieved or Exceeded?	
	2009	2010	2011	2012	2012	Yes	No
Ranking within top 12.5% in the Information Technology Customer Satisfaction database <sup>1</sup>	3.5%	N/A	N/A	N/A	N/A		N/A
Total collections per dollar spent on collection activities <sup>2</sup>	\$101	\$149	\$136	\$98	\$107		✓
Payment processing accuracy rate	98.6%	98.9%	99.3%	99.4%	98.2%	✓	
Class graduation rate	96.8%	97.2%	96.6%	97.8%	95.0%	✓	
Percent of investigations that are completed within the established timeframes <sup>3</sup>	99.0%	98.0%	94.0%	80%	90%		✓
Percent of recalled records that are shipped securely and accurately to requesting facilities within established timeframes	99.9%	99.9%	99.9%	99.9%	99.0%	✓	
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	✓	

<sup>1</sup> In 2011, VA used the American Customer Satisfaction Index (ACSI) survey, however the survey results do not have any performance measures applicable to the CDCO. As a result of performance measure conversion from 2009 to 2011, performance has not been measured since 2010. The CDCO is working to incorporate CDCO-specific customer satisfaction questions and specific performance measures into VA's ACSI survey and the data is expected to be available in FY 2013.

<sup>2</sup> The DMC did not meet its rate of return goal due to investments in human capital and infrastructure in support of the Secretary's T-16 VRM goal, which significantly improved support to its customers.

<sup>3</sup> OPM requires adjudication of Suitability background investigations within 90 days of the OPM closing date of the investigation at least 90% of the time. The Security and Investigations Center (SIC) did not meet its goal for FY 2012 for adjudicating National Security Clearance investigations within its goal of 20 days of the closing date and 90% of the time per OPM standard. However, the SIC has identified and corrected the cause for non-compliance.

## PERFORMANCE HIGHLIGHTS DURING FY 2012

- ◆ The CDCO cloud delivery model leverages many technology components and practices already in existence to deliver functionality in shorter time frames and support the efforts of VA IT projects to deploy working business functionality.
- ◆ The DMC increased the number of phone agents by 42 percent and added new phone lines to enhance Veterans' access and eliminate busy signals.
- ◆ The FSC processed 5.5 million purchase card transactions, representing over \$3.4 billion in purchases. In FY 2012, the electronic billing and payment process for card accounts earned VA over \$75 million in credit card refunds, which is a 2.75 percent increase over FY 2011 levels. These refunds are returned to VA entities for use in Veterans programs.
- ◆ The LETC academy and program received FLETA accreditation in November FY 2012.
- ◆ RCV's overall rating from its second annual Customer Satisfaction Survey, on a scale from 1 to 5 with 5 being the highest, resulted in improved marks from 4.5 to 4.7. RCV also received high praises for timeliness and excellent customer service.
- ◆ SIC has recovered from its operating loss during FY 2012 by the reorganization of personnel and the implementation of new business processes.
- ◆ For the 15th consecutive year, the audited financial statements of the VA Franchise Fund received an unqualified "clean" opinion.





## 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. 351 5(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 15th consecutive year (1998-2012), the VA Franchise Fund has 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 2012 and FY 2011. 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 \$262 million as of September 30, 2012. This is an increase of \$10 million (4 percent over the previous year's total assets of \$252 million). The increase in asset balances is largely due to the consolidation of four data centers into the Franchise Fund.

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

	(Dollars in Thousands)	
	2012	2011
Fund Balance with Treasury	\$160,214	\$173,676
Property, Plant and Equipment, Net	63,148	44,197
Accounts Receivable, Net	36,493	31,580
Other Assets	2,339	2,537
Total Assets	<u>\$262,194</u>	<u>\$251,990</u>

### Liabilities

The Fund had total liabilities of \$84 million as of September 30, 2012. This represents an increase of \$2.5 million (3 percent over the previous year's total liabilities of \$81.5 million). The increase in accounts payable from September 2011 to September 2012 is due to the CDCO. The CDCO's Accounts Payable - Other Than Federal increased as a result of IT equipment received, but not yet paid.

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

	(Dollars in Thousands)	
	2012	2011
Other Liabilities	\$48,476	\$31,905
Intragovernmental Liabilities	30,365	45,582
Accounts Payable	5,208	4,057
Total Liabilities	<u>\$84,049</u>	<u>\$81,544</u>

### Net Position

The Fund's net position increased by \$7.7 million in FY 2012 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was \$178.1 million in FY 2012, which yielded a 4.5 percent increase from FY 2011's ending net position of \$170.4 million. Net position is the sum of unexpended funds and cumulative results of operations.

### Net Cost

The Fund's net cost of operations incurred a net loss of \$0.4 million in FY 2012, 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 \$556.8 million, a \$17.3 million decrease from the FY 2011 level of \$574.1 million.

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

	(Dollars in Thousands)	
	2012	2011
Beginning Unobligated Balance	\$103,411	\$ 90,933
Spending Authority earned & collected	442,573	453,706
Change in Receivable from Federal Sources	4,886	(7,581)
Change in Unfilled Customer Orders	5,921	37,077
Total Budgetary Resources	<u>\$556,791</u>	<u>\$574,135</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 reported non-compliance with Federal financial management system requirements as a result of the material weakness related to Information Technology (IT) Security Controls. VA also reported non-compliance with Federal accounting standards related to the Debt Collection Improvement Act. The Secretary's signed Statement of Qualified Assurance on internal control may be found on page 1-Part IV in the 2012 Department of Veterans Affairs Performance and Accountability Report ([http://www.va.gov/budget/docs/report/PartIV/2012-VAPAR\\_Part\\_IV.pdf](http://www.va.gov/budget/docs/report/PartIV/2012-VAPAR_Part_IV.pdf)).



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CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Director of  
Department of Veterans Affairs Franchise Fund Oversight Office

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2012 and 2011, 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, 2012 and 2011. 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, 2012 and 2011; 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 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, as revised, that considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Largo, Maryland  
November 30, 2012

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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Director of  
Department of Veterans Affairs Franchise Fund Oversight Office

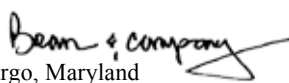
We have audited the financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2012, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United 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 by obtaining an understanding of the effectiveness of internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VA Franchise Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of VA Franchise Fund's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph, and would not necessarily disclose all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, as amended, a deficiency in internal control exist when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. We noted no deficiencies in the effectiveness of VA Franchise Fund's internal control over financial reporting that we considered to be significant deficiencies or material weaknesses, excepted as noted below in the Department of Veterans Affairs agency-wide independent auditor's reports.

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 2012 and 2011. The VA's consolidated financial statements include the VA Franchise Fund. The VA's FY 2012 *Independent Auditor's Report* and *Independent Auditor's Report on Internal Control over Financial Reporting*, dated November 8, 2012, identified a material weakness over the VA's "Information Technology (IT) Security Controls". In addition, the independent auditor's reports identified significant deficiencies over VA's internal control over "Undelivered Orders".

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

  
Largo, Maryland  
November 30, 2012

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

To the Director of  
Department of Veterans Affairs Franchise Fund Oversight Office

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, 2012, and have issued our report thereon dated November 30, 2012. 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. The results of our tests disclosed no instances of noncompliance which are required to be reported herein under *U.S. Government Auditing Standards*, excepted as noted below in the Department of Veterans Affairs agency-wide independent auditor's reports.

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 2012 and 2011. The VA's consolidated financial statements include the VA Franchise Fund. The VA's FY 2012 *Independent Auditor's Report* and *Independent Auditor's Report on Internal Control over Financial Reporting*, dated November 8, 2012, identified a material weakness over the VA's "Information Technology (IT) Security Controls" and a significant deficiency over VA's "Undelivered Orders." The conditions cited in these control deficiencies 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 and VA, the VA Office of Inspector General, 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 30, 2012

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# CONSOLIDATED FINANCIAL STATEMENTS

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND  
 CONSOLIDATED BALANCE SHEET  
 AS OF SEPTEMBER 30, 2012 and 2011

(Dollars in Thousands)

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>Intragovernmental:</b>		
Fund Balance with Treasury (Note 2)	\$ 160,214	\$ 173,676
Accounts Receivable (Note 3)	36,473	31,562
Other Assets (Note 5)	2,335	2,536
Total Intragovernmental Assets	<u>199,022</u>	<u>207,774</u>
<b>Public</b>		
Accounts Receivable (Note 3)	20	18
General Property, Plant and Equipment, Net (Note 4)	63,148	44,197
Other Assets (Note 5)	4	1
Total Public Assets	<u>63,172</u>	<u>44,216</u>
<b>Total Assets</b>	<b><u>\$ 262,194</u></b>	<b><u>\$ 251,990</u></b>
<b>LIABILITIES</b>		
<b>Intragovernmental:</b>		
Other Liabilities (Note 7)	\$ 30,365	\$ 45,582
Total Intragovernmental Liabilities	<u>30,365</u>	<u>45,582</u>
<b>Public</b>		
Accounts Payable	5,208	4,057
Other Liabilities (Note 7)	48,476	31,905
Total Public Liabilities	<u>53,684</u>	<u>35,962</u>
<b>Total Liabilities</b>	<b><u>\$ 84,049</u></b>	<b><u>\$ 81,544</u></b>
<b>NET POSITION</b>	<b><u>\$ 178,145</u></b>	<b><u>\$ 170,446</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 262,194</u></b>	<b><u>\$ 251,990</u></b>

*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, 2012 and 2011

(Dollars in Thousands)

	<u>2012</u>	<u>2011</u>
<b>PROGRAM COSTS:</b>		
Gross Costs Intragovernmental	\$ 200,955	\$ 187,257
Less: Earned Revenue-Intragovernmental	(439,656)	(439,532)
Net Program Costs - Intragovernmental	<u>\$ (238,701)</u>	<u>\$ (252,275)</u>
Costs Not Assigned to Programs	239,096	219,837
<b>NET COST OF OPERATIONS</b>	<u><u>\$ 395</u></u>	<u><u>\$ (32,438)</u></u>

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND  
 CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION  
 FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

(Dollars in Thousands)

	<u>2012</u>	<u>2011</u>
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>		
Beginning Balance	<u>\$ 170,446</u>	<u>\$ 125,551</u>
<b>OTHER FINANCING SOURCES (NON-EXCHANGE):</b>		
Transfers-In	411	4,072
Imputed Financing	7,683	8,385
Total Financing Sources	<u>8,094</u>	<u>12,457</u>
Net Cost of Operations	<u>(395)</u>	<u>32,438</u>
Net Change	<u>7,699</u>	<u>44,895</u>
<b>NET POSITION</b>	<u><u>\$ 178,145</u></u>	<u><u>\$ 170,446</u></u>

*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, 2012 and 2011

(Dollars in Thousands)

<b>BUDGETARY RESOURCES:</b>	<b>2012</b>	<b>2011</b>
Unobligated Balance brought forward, October 1	\$ 103,411	\$ 90,933
Spending Authority from offsetting collections	453,380	483,202
<b>Total Budgetary Resources</b>	<b>\$ 556,791</b>	<b>\$ 574,135</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred	\$ 445,144	\$ 470,724
Unobligated Balance, end of year	111,647	103,411
<b>Total Budgetary Resources</b>	<b>\$ 556,791</b>	<b>\$ 574,135</b>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Unpaid obligations, brought forward, October 1 (gross)	\$ 157,955	\$ 89,926
Uncollected customer payments from Federal sources, brought forward	(87,690)	(61,991)
Obligated balance start of year (net)	\$ 70,265	\$ 27,935
Obligations Incurred	\$ 445,144	\$ 470,724
Outlays (gross)	(437,198)	(402,694)
Change in Uncollected Customer Payments from Federal Sources	(29,644)	(25,700)
<b>Obligated Balance, end of year, (net)</b>	<b>\$ 48,567</b>	<b>\$ 70,265</b>
Obligated Balance, end of year		
Unpaid obligations, end of year (gross)	\$ 165,901	\$ 157,955
Uncollected customer payments from Federal sources, end of year	(117,334)	(87,690)
<b>Obligated Balance, end of year, (net)</b>	<b>\$ 48,567</b>	<b>\$ 70,265</b>
<b>BUDGET AUTHORITY AND OUTLAYS, NET</b>		
Budget Authority, gross	\$ 453,380	\$ 483,202
Actual offsetting collections	(423,736)	(457,503)
Change in Uncollected Customer Payments from Federal Sources	(29,644)	(25,699)
<b>Budget Authority, net</b>	<b>\$ 0</b>	<b>\$ 0</b>
Outlays, gross	\$ 437,198	\$ 402,694
Actual offsetting collections	(423,736)	(457,503)
<b>Net Outlays</b>	<b>\$ 13,462</b>	<b>\$ (54,809)</b>

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## For the Years Ended September 30, 2012 and 2011

(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 (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 one administrative organization: Corporate Data Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and the Franchise 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 VA Enterprise Centers. 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.

#### C. Basis of Accounting

The Franchise Fund's fiscal year FY 2012 and 2011 financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements. The American Institute of Certified Public Accountant's (AICPA) Statement on Auditing Standards No. 91, Federal GAAP Hierarchy, established a hierarchy of GAAP for Federal financial statements.

#### 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. Software is also subject to the \$100,000 threshold for capital assets. The costs subject to capitalization, including design, development, and testing, are accumulated in Software in Development until a project is successfully tested and placed in service. The costs are amortized on a straight-line basis, and the amortization term is in accordance with the planned life cycle established during the software's planning phase. There are no restrictions on the use or convertibility of general PP&E.

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.

### **G. Other Assets**

Other assets are generally made up of advances. There are three types of advances handled by the 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 General Services Administration rent, Government Printing Office printing services, Federal Telecommunications Service, 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 card payments are scheduled, an advance is set up. Charges are then IPACed to the applicable agency to offset the advances.

### **H. 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.

### **I. 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 depreciated and/or amortized over its useful life. Financing sources for these expenses, which derive from both current and prior year appropriations and operations, are also recognized this way.

### **J. 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 Fund's consolidated financial statements.

### **K. 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.

### **L. Pension, Other Retirement Benefits, and Other Post-Employment Benefits**

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and postretirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by the Office of Personnel Management (OPM) to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS); VA makes contributions according to both plan requirements. CSRS and FERS are multiemployer plans. VA does not maintain or report information about the assets of the plans, nor does it report actuarial data for the accumulated plan benefits. That reporting is the responsibility of OPM.

### **M. 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,

	2012	2011
<b>Fund Balance with Treasury</b>	\$ 160,214	\$ 173,676

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.

#### Status of Fund Balance with Treasury

	2012	2011
<b>Unobligated Apportionment</b>		
Available	\$ 111,647	\$ 103,411
Unavailable		
<b>Obligated Balance not yet Disbursed</b>	\$ 48,567	\$ 70,265
<b>Total Unexpended Apportionment</b>	<b>\$ 160,214</b>	<b>\$ 173,676</b>

### Note 3. Accounts Receivable

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 as of September 30,

	2012	2011
<b>Intragovernmental</b> Accounts Receivable	\$ 36,473	\$ 31,562
<b>Public</b> Accounts Receivable	20	18
<b>Total Accounts Receivable</b>	<b>\$ 36,493</b>	<b>\$ 31,580</b>

### Note 4. General Property, Plant and Equipment

#### General PP&E as of September 30, 2012:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	\$ 16,659	\$ (3,201)	\$ 13,458
ADP Equipment	66,697	(36,189)	30,508
Software	17,694	(15,687)	2,007
Software in Development	8,175	0	8,175
Leasehold Improvements	25,613	(16,613)	9,000
<b>Total PP&amp;E</b>	<b>\$ 134,838</b>	<b>\$ (71,690)</b>	<b>\$ 63,148</b>

#### General PP&E as of September 30, 2011:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	\$ 11,504	\$ (3,344)	\$ 8,160
ADP Equipment	57,636	(38,573)	19,063
Software	19,332	(15,212)	4,120
Software in Development	3,149	0	3,149
Leasehold Improvements	26,211	(16,506)	9,705
<b>Total PP&amp;E</b>	<b>\$ 117,832</b>	<b>\$ (73,635)</b>	<b>\$ 44,197</b>

### Note 5. Other Assets

#### Other Assets as of September 30,

	2012	2011
<b>Intragovernmental</b>		
Advance Payment – Federal	\$ 2,335	\$ 2,536
<b>Total Intragovernmental – Other Assets</b>	<b>\$ 2,335</b>	<b>\$ 2,536</b>
<b>Public</b>		
Advance to Employees	\$ 4	\$ 1
Advance Payment – Other	0	0
<b>Total Public – Other Assets</b>	<b>\$ 4</b>	<b>\$ 1</b>
<b>Total Other Assets</b>	<b>\$ 2,339</b>	<b>\$ 2,537</b>

### Note 6. Federal Employee Benefits

#### Imputed Expenses – Employee Benefits as of September 30,

	2012	2011
Civil Service Retirement System	\$ 1,785	\$ 2,335
Federal Employees Retirement System	1,130	845
Federal Employee Health Benefits	4,752	5,189
Federal Employee Group Life Insurance	16	16
<b>Total Imputed Expenses – Employee Benefits</b>	<b>\$ 7,683</b>	<b>\$ 8,385</b>

### Note 7. Other Liabilities

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

#### Other Liabilities as of September 30,

	2012	2011
<b>Intragovernmental</b>		
Accrued Payables – Federal	\$ 20,676	\$ 17,056
Advances – Federal	9,689	28,526
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 30,365</b>	<b>\$ 45,582</b>
<b>Public</b>		
Accrued Payables	\$ 40,931	\$ 23,844
Accrued Salaries & Wages	1,601	1,689
Accrued Funded Annual Leave	5,944	6,372
<b>Total Public Liabilities</b>	<b>\$ 48,476</b>	<b>\$ 31,905</b>

### Note 8. Leases

The Franchise Fund has operating leases and no capital leases. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund’s FY 2012 operating lease costs were \$11,415,819 for real property rentals and \$348,828 for equipment rentals. The Franchise Fund’s FY 2011 operating lease costs were \$10,651,386 for real property rentals and \$561,566 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 2.9 to 3.1 percent annual increases in cost.

OPERATING LEASES			
Fiscal Year	Percentage Increase	Real Property	Equipment
2013	2.9	\$ 11,747	\$ 359
2014	2.9	\$ 12,088	\$ 369
2015	2.9	\$ 12,438	\$ 380
2016	3.0	\$ 12,811	\$ 391
2017	3.1	\$ 13,208	\$ 404

## Note 9. Intragovernmental Costs and Exchange Revenue

### Costs and Exchange Revenue as of September 30,

	2012	2011
Intragovernmental costs	\$ 200,955	\$ 187,257
Less: Earned Revenue – Intragovernmental	(439,656)	(439,532)
Net Intragovernmental Cost	(238,701)	(252,275)
Indirect Administrative Cost	239,096	219,837
<b>Total Net Cost of Operations</b>	<b>\$ 395</b>	<b>\$ (32,438)</b>

**Earned Revenue:** Revenue earned by VA Franchise Fund (VAFF) for fees charged for services for the period ended September 30, 2012 was \$439,656. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2011 was \$439,532.

**Costs:** By law, the VAFF, as an entity of the Department of Veterans Affairs (VA), provides centralized services to other VA entities and other government agencies. However, in certain cases, other VA entities and government agencies incur costs that are directly identifiable to VAFF operations. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting, VAFF recognizes identified costs paid for by other agencies as expenses to VAFF.

## Note 10. Undelivered Orders

The amount of budgetary resources obligated for undelivered orders for fiscal years ended September 30, 2012 and 2011 was \$91,804 and \$105,176, respectively.

## Note 11. Changes in Accounting Estimates

The FSC completed a review of the useful lives of its fixed assets during FY 2012. FSC determined certain asset's useful lives had been underestimated. Therefore, with FSC's Executive Steering Committee approval, the FSC extended the useful lives of those facility assets effective July 2012. The effect of this change in estimate was a one-time reduction in depreciation expense and related accumulated depreciation of \$1.1 million.

## Note 12. 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.

### Reconciliation of Net Cost of Operations to Budget

	2012	2011
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 445,144	\$ 470,724
Less: Spending Authority from Offsetting Collections and Adjustments	(453,380)	(483,202)
Net Obligations	(8,236)	(12,478)
<b>Other Resources</b>		
Transfers in/out	411	4,072
Imputed Financing from Costs Subsidies	7,683	8,385
Net Other Resources Used to Finance Activities	8,094	12,457
<b>Total Resources Used to Finance Activities</b>	<b>(142)</b>	<b>(21)</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	19,490	(31,080)
Resources that Finance the Acquisition of Assets		
Property, Plant and Equipment	(28,093)	(14,454)
Resources that Fund Expenses Recognized in Prior Periods	(2)	16
<b>Total Resources Used to Finance Items not Part of the Net Costs of Operations</b>	<b>(8,605)</b>	<b>(45,518)</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>(8,605)</b>	<b>(45,539)</b>
<b>Components Not Requiring or Generating Resources</b>		
Depreciation and Amortization	9,184	12,335
Bad Debts	0	0
Loss on Disposition of Assets	(42)	766
Other	(0)	(0)
<b>Total Components that Will Not Require or Generate Resources</b>	<b>9,142</b>	<b>13,101</b>
<b>Total Components that Will Not Require or Generate Resources in the Current Period</b>	<b>9,142</b>	<b>13,101</b>
<b>Net Cost of Operations</b>	<b>\$ 395</b>	<b>\$ (32,438)</b>



# Department of Veterans Affairs

## FRANCHISE FUND

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### Corporate Data Center Operations

1615 Woodward Street  
Austin, TX 78772  
Phone: 512-326-6005  
Fax: 512-326-6922  
E-mail: 00b@va.gov  
Internet: [www.cdco.va.gov](http://www.cdco.va.gov)

### Debt Management Center

P. O. Box 11930  
St. Paul, MN 55111  
Phone: 612-970-5700  
Fax: 612-970-5687  
E-mail: [dmc.ops@va.gov](mailto:dmc.ops@va.gov)  
Internet: [www.va.gov/debtman](http://www.va.gov/debtman)

### Financial Services Center

#### Management Support Division (104/00B)

P. O. Box 149975  
Austin, TX 78772  
Phone: 512-460-5110  
Fax: 512-460-5117  
E-mail: [bso@va.gov](mailto:bso@va.gov)  
Internet: [www.fsc.va.gov](http://www.fsc.va.gov)

### Law Enforcement Training Center

2200 Fort Roots Drive, Building 104  
North Little Rock, AR 72114  
Phone: 501-257-4160  
Fax: 501-257-4145  
E-mail: [robert.cagle@va.gov](mailto:robert.cagle@va.gov)

### Security and Investigations Center

2200 Fort Roots Drive, Building 192  
North Little Rock, AR 72114  
Phone: 501-257-4445  
Fax: 501-257-4018  
E-mail: [joshua.blockburger@va.gov](mailto:joshua.blockburger@va.gov)  
[http://www1.va.gov/VABackground\\_Investigations](http://www1.va.gov/VABackground_Investigations)

### Records Center and Vault

1615 Woodward Street  
Austin, TX 78772  
Phone: 512-326-6576  
Fax: 512-326-7442  
E-mail: [aacvarc&v@va.gov](mailto:aacvarc&v@va.gov)  
Internet: [www.rcv.va.gov](http://www.rcv.va.gov)



Contact the Department of Veterans Affairs  
for additional copies of this report or download from the Web:  
[www.va.gov/fund](http://www.va.gov/fund)

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