

2013

DEPARTMENT OF
VETERANS AFFAIRS

Franchise Fund Annual Report



Providing World
Class Support
Services to Our
Federal Customers

Providing World Class Support Services to Our Federal Customers



VA Franchise Fund FY 2013 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 2013 ANNUAL REPORT

Table of Contents

4-34 **Management's Discussion and Analysis**

- 4 Mission, Vision, and Values
- 5 Members of the VA Franchise Fund Network
- 9 Letter to Stakeholders
- 10 Our Stakeholders
- 12 Meeting VA Franchise Fund Objectives
- 29 Goals, Objectives, and Performance Measures
- 33 Financial Statement Analysis

35-38 **Auditor's Reports**

- 35 Independent Auditor's Report on the Financial Statements
- 36 Independent Auditor's Report on Internal Control Over Financial Reporting
- 37 Independent Auditor's Report on Compliance with Laws and Regulations

39-47 **Consolidated Financial Statements**

- 39 Consolidated Balance Sheet
- 40 Consolidated Statement of Net Cost and Changes in Net Position
- 41 Combined Statement of Budgetary Resources
- 42 Notes to the Consolidated Financial Statements

Contributors

- Enterprise Operations
- Financial Services Center
- Records Center and Vault
- Debt Management Center
- 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.

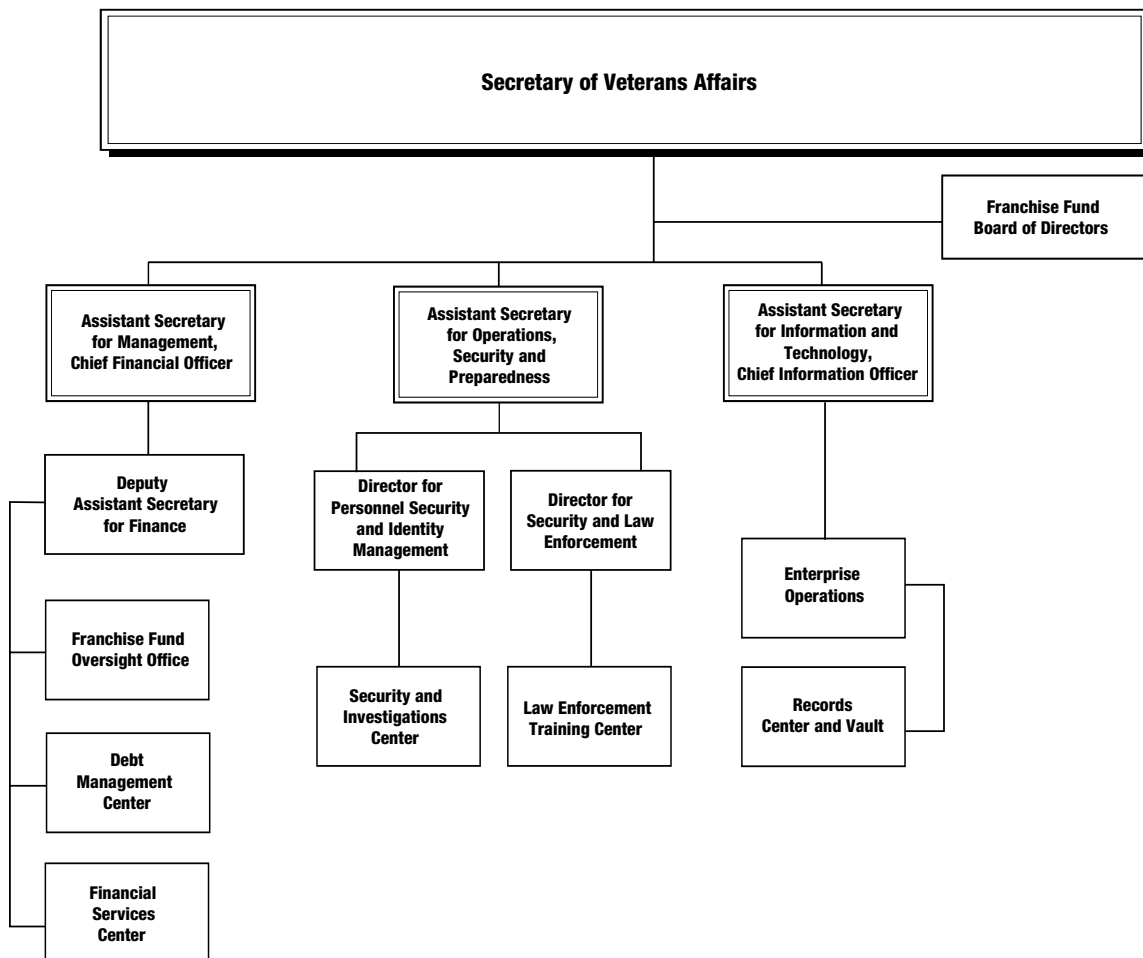
Excellence

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.

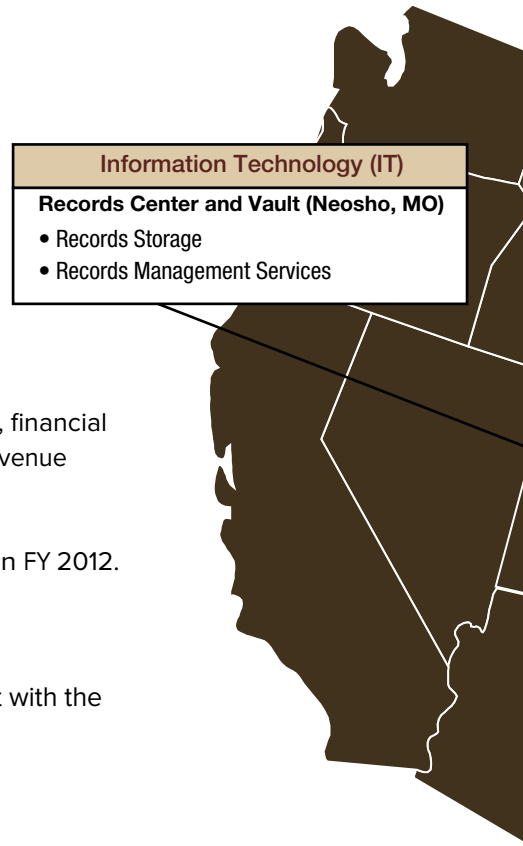
Business Segments

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 2011 through FY 2013.

The IT segment generated \$265 million in revenue in FY 2013, compared to \$229 million in FY 2012.

The FM segment generated \$211 million in FY 2013, compared to \$189 million in FY 2012.

The S&LE segment ended FY 2013 with over \$22 million in revenue which is consistent with the \$22 million in revenue reported at the end of FY 2012.

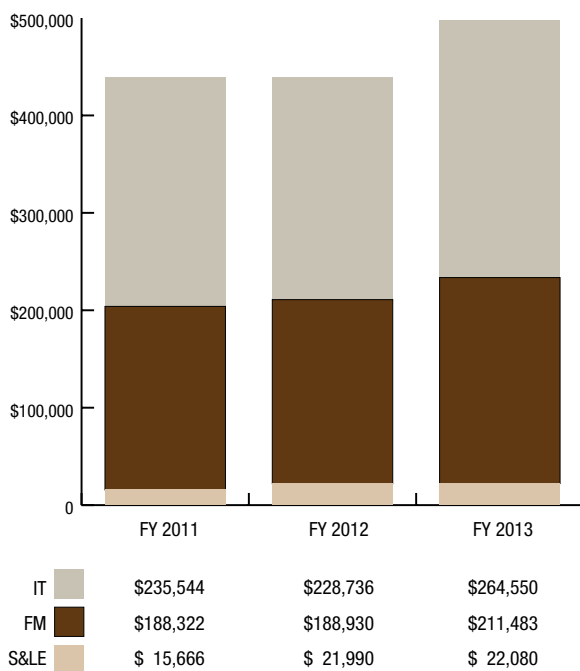


Information Technology (IT)

Records Center and Vault (Neosho, MO)

- Records Storage
- Records Management Services

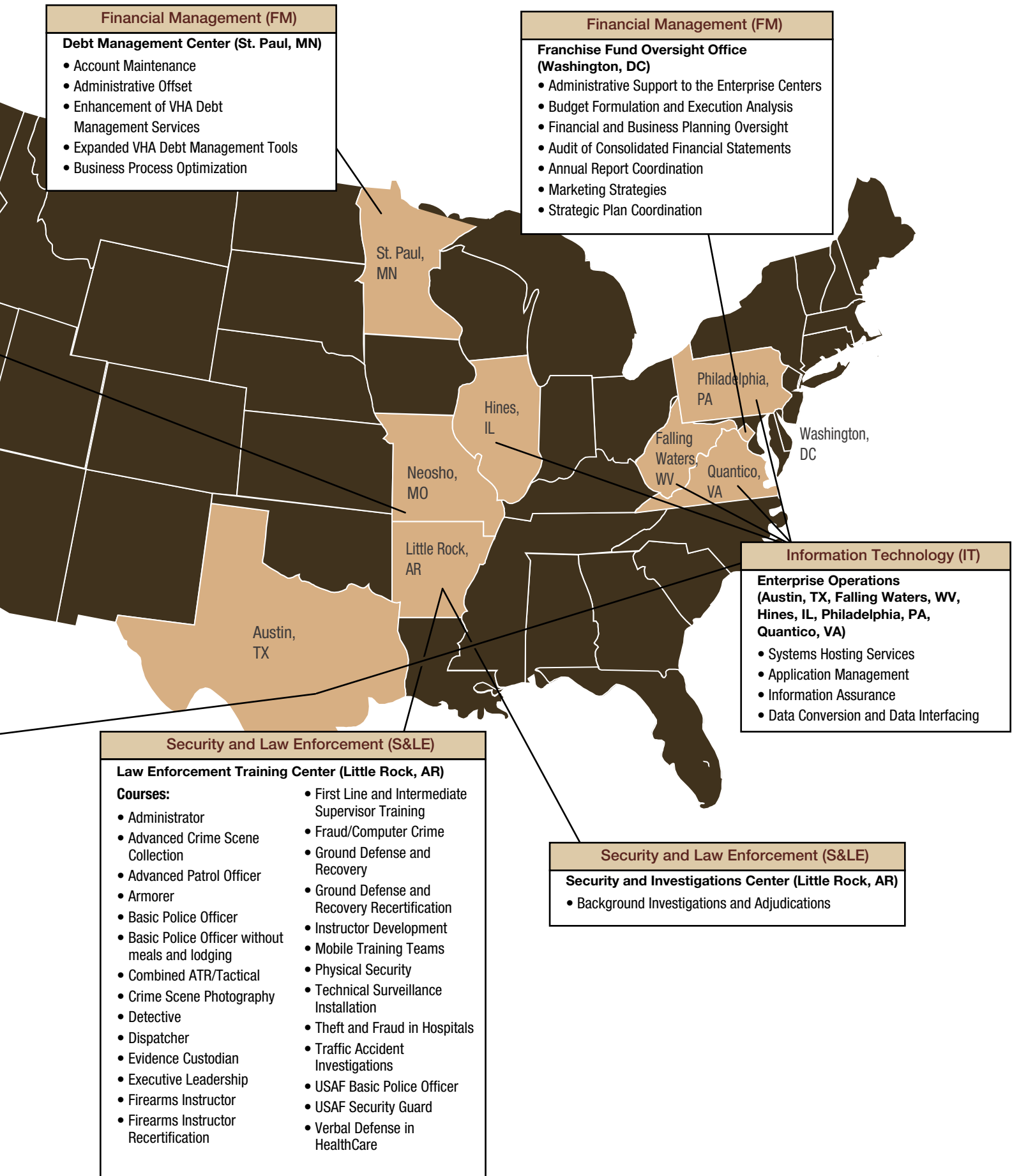
VA Franchise Fund
Revenue Trend by Major Segments
(Dollars in thousands)



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 Payroll, Travel and Payments
- Payroll Processing
- Permanent Change of Station and Temporary Duty Travel
- Vendor File Maintenance
- Common Administrative Services
- Accounting Training
- Consulting



MEMBERS OF THE VA FRANCHISE FUND NETWORK



Thomas Grahek,
Director,
Debt Management
Center



Chris Shorter, Executive
Director, Enterprise
Operations



Teresa Riffel, Director,
Financial Services
Center



Monica Pullin, Director,
Franchise Fund
Oversight Office



Robert Cagle, Director,
Law Enforcement
Training Center



David Kubacki, Director,
Records Center and
Vault



Joshua Blockburger,
Director, Security and
Investigations Center

Information Technology

Enterprise Operations (EO). Comprised of data centers in Austin, TX; Falling Waters, WV; Hines, IL; Philadelphia, PA; and Quantico, VA; the EO 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 EO supports over 300 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits and supply functions. In addition, the EO 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 for Federal customers.

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. The DMC's main services can be divided into two core areas, account maintenance and administrative offset.

The DMC's account maintenance services provide a complete debt management and collection program. From establishment through disposition of the receivables, the DMC provides a full spectrum of administrative services to properly handle their customers' accounts receivable needs. The DMC also manages the administrative offset process for both internal benefit offsets and those referred to the Department of Treasury (Treasury) for offset under the Treasury Offset Program (TOP).

Financial Services Center (FSC). Located in Austin, TX, the FSC provides a full range of financial and accounting services. These services include financial reports and accounting, invoice payments, credit card payments, medical claims adjudication and payment processing, vendor file maintenance, discount subsistence purchases, and payroll processing. The FSC also provides customer support help desks for payroll, 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 3,300 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 quality background investigations and timely adjudications for VA employees in public trust positions and all risk levels for VA contractors nationwide. Additionally, the SIC provides security checks for appointees, high-level award recipients centralized to the Secretary of VA, and supports the Personal Identification Verification (PIV) process for employees, contractors, and affiliates of the Department.

LETTER TO STAKEHOLDERS



Helen Tierney,
Executive in
Charge, Office of
Management, and
Chief Financial
Officer

On behalf of the Franchise Fund, I invite you to examine our FY 2013 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 world class support services to VA and other government agencies (OGA). We ended FY 2013 with total revenue of \$498 million, which is a significant increase from FY 2012 revenue.

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

- ◆ Attaining an unqualified audit opinion of our financial statements for the 16th consecutive year.
- ◆ The VA deployed the Enterprise Management Framework (EMF), which enables enterprise-wide reporting of IT service management information including release, configuration, change, and incident management (EO).
- ◆ Exceeding FY 2013 performance goal of 95 percent of Veterans or beneficiaries who contacted DMC without receiving a busy signal by increasing the number of toll-free phone lines and financial specialist phone agents (DMC).
- ◆ Continuing to make improvements to reduce reconciliation differences between VA and its trading partners, the VA's Intragovernmental Accounting section processed over \$575 million in corrections during FY 2013 (FSC).
- ◆ Continuing the Mobile Training Team (MTT) concept in FY 2013. This enabled LETC to export specific training to field locations, saving our customers over \$170 thousand in travel and tuition (LETC).
- ◆ Clearing the background investigation backlog and adjudicating investigations within 20 days, which resulted in the total number of investigative actions exceeding 22,000 for the first time in history (SIC).
- ◆ Improving the VA's current Records Retrieval System (RRS). RRS is the online application used by VA RCV and its VA customers to record and monitor incoming VA records, temporary file withdrawals and returns, and permanent file recalls (RCV).

These successful endeavors are examples of the Franchise Fund **providing world class support services to our Federal customers**. 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 2013 Annual Report. We look forward to the coming year and are confident that we will continue to demonstrate sound business practices.

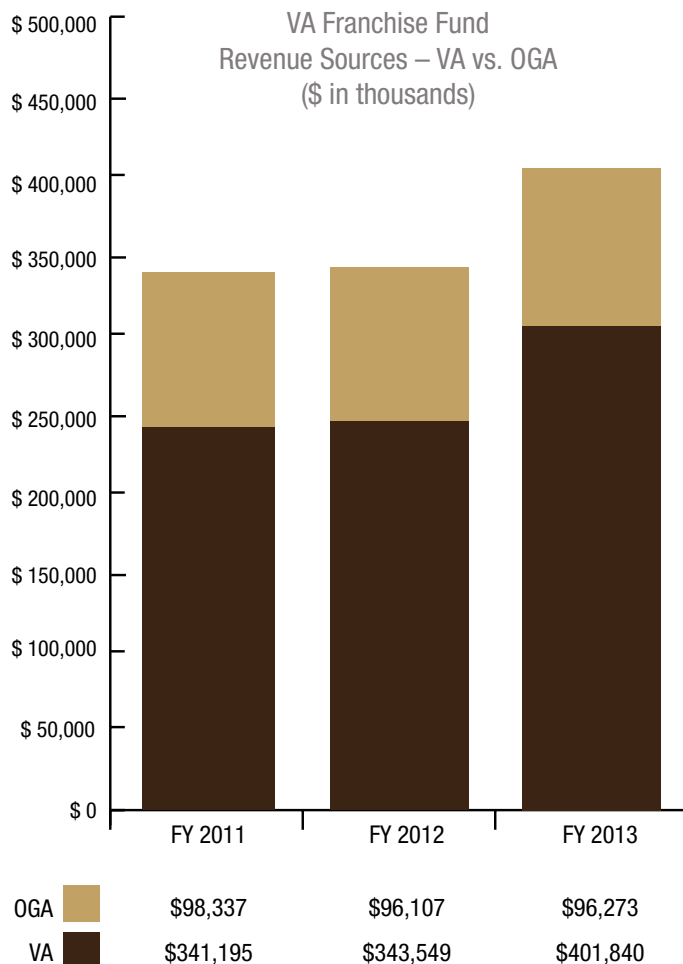
Helen Tierney

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



External Stakeholders

- ◆ Veterans and their families
- ◆ Office of Management and Budget
- ◆ Congressional authorization and appropriations committees and subcommittees
- ◆ Veterans Service Organizations
- ◆ Private sector vendors
- ◆ Department of Agriculture
- ◆ Department of Defense
- ◆ Department of Health and Human Services
- ◆ Department of Homeland Security
- ◆ Department of the Interior
- ◆ Environmental Protection Agency
- ◆ Government Accountability Office
- ◆ National Archives and Record Administration
- ◆ Postal Rate Commission

Internal Stakeholders

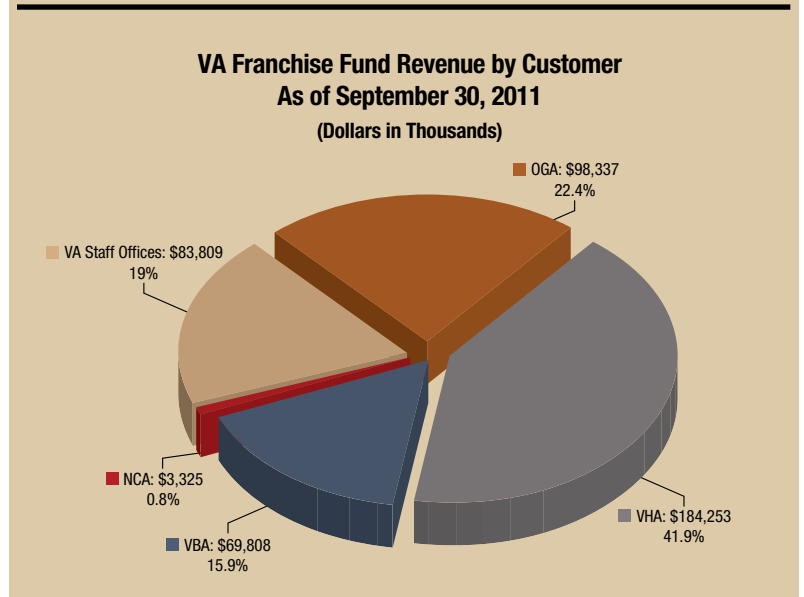
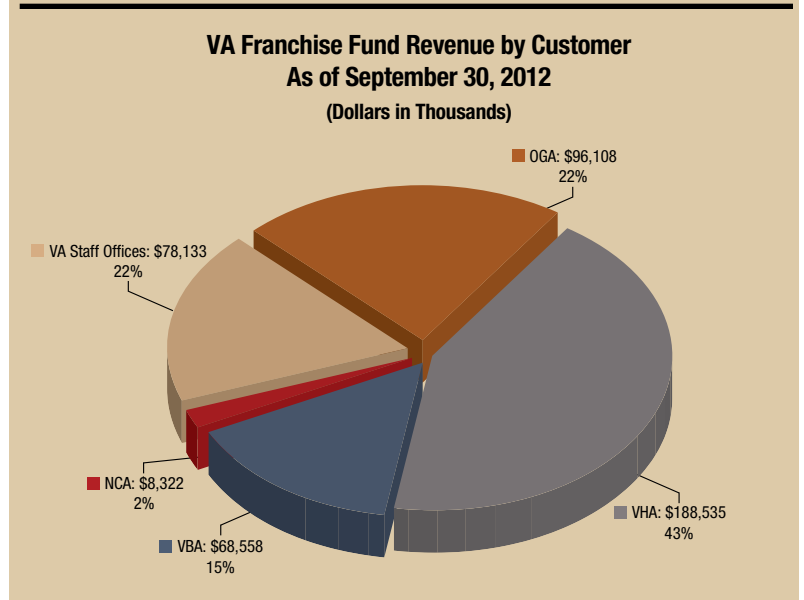
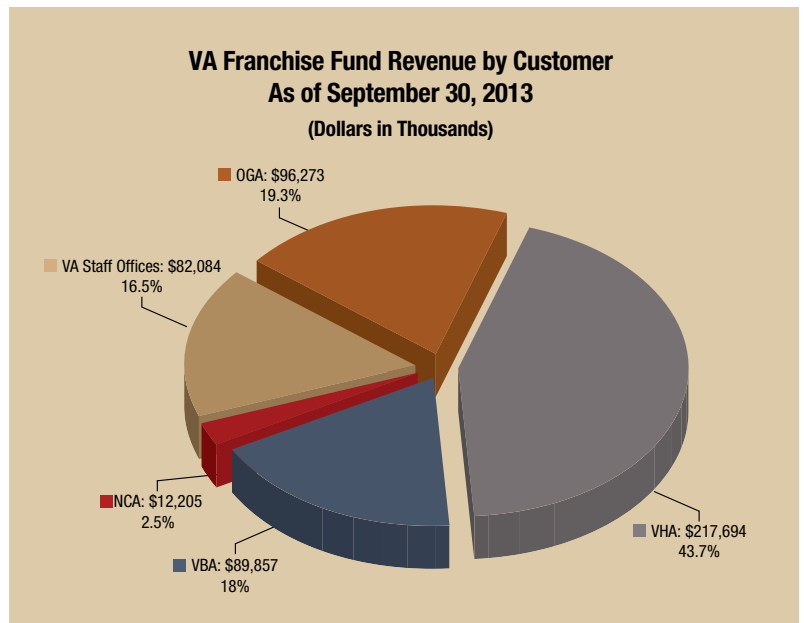
- ◆ Veterans Benefits Administration (VBA)
- ◆ Veterans Health Administration (VHA)
- ◆ National Cemetery Administration (NCA)
- ◆ VA Staff Offices

COMPARISON OF CUSTOMER REVENUE FROM FY 2011–2013

Approximately four-fifths of our revenue comes from VA customers. The remaining one-fifth 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 remained consistent between FY 2012 and FY 2013. The Franchise Fund ended FY 2013 with \$96 million, which is consistent with FY 2012 levels of \$96 million. This consistent revenue was maintained due to the FSC's increased number of claims submitted and processed for Immigration and Customs Enforcement Health Services Corps (IHSC) and the Office of Refugee Resettlement (ORR) which offset revenue decreases from the Department of Energy's permanent withdrawal of its entire inventory of records stored at the RCV as well as the LETC's significant decrease in OGA student attendance due to travel reduction and budget sequestration.

During FY 2012 to FY 2013, EO discontinued providing support to the Department of Justice and the General Services Administration. As a result of this, EO's OGA revenue decreased by \$.5 million from FY 2012 to FY 2013.



MEETING VA FRANCHISE FUND OBJECTIVES INFORMATION TECHNOLOGY SEGMENT – EO

EO Supports Major Transformation Initiatives

The Enterprise Operations (EO) continues to support the Secretary of VA's transformation initiatives, and remains committed to Continuous Readiness in Information Security (CRISP), the former Deputy Secretary's initiative to eliminate the information security material weakness noted during previous VA financial statement audits. The EO is host of the Enterprise Management Framework (EMF), which enables enterprise-wide reporting of IT service management information including release, configuration, change, and incident management.



Cloud Delivery Model

The EO's new cloud delivery model leverages many technology components and practices already in existence to deliver functionality in shorter timeframes and support the efforts of VA IT projects to deploy working business functionality in less than six months. Within the cloud, development servers are created instantly, as needed by developers, rather than being hindered by administrative delay. The EO cloud is home to VA Product Development's integrated development environment, providing a secure, standardized computing platform to enable the creation of cutting-edge applications.

Cost Containment Strategies

The EO's primary cost containment effort is the continued use of server virtualization. As more and more applications migrate to the EO, the first consideration for hosting is on virtualized servers. Virtualization has proven to reduce costs in several areas. These include:

Physical Servers: Virtualization saves by cutting the need to invest in physical server hardware by a ratio of 10:1.

Labor: By reducing the number of physical servers, less labor is needed to rack and cable physical servers, provision virtual guest servers, and manage computer resources.



Energy Consumption: By reducing the number of physical servers, less energy is required to power servers and cool the EO computer rooms.

Space: Investment in IT capital expenditures, server racks, and labor to rack and stack physical servers in computer room space is reduced due to the elimination of physical server sprawl.

Resource Flexibility: Computer resources i.e., CPU, memory, Input/Output (IO) network and disk, and disk space can easily be changed (added or deleted) in the guest virtual environments, as well as guests environments can be migrated from one physical server to another.

The EO helps contain costs by continuing to standardize enterprise storage. The EO has completed a technical refresh of its enterprise storage with Hitachi. This new technology has several features that are helping to contain costs, including less investment in storage hardware and software management tools. These storage tools also lead to reduced labor costs because management of the enterprise storage farm can be accomplished with fewer administrators. Further, by standardizing on Hitachi, the need for labor expertise for multiple vendors' storage technology is reduced. Finally, the newer technology allows for storage virtualization by enabling the EO to manage other storage technologies with Hitachi tools.

OMB Exhibit 300 Project Support

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

Decision Support Legacy application enables hospitals to compute their costs for treating individual patients and providing specific services, to view corporate data for management and quality improvement purposes, and to conduct clinical studies.

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



VETSNET provides a system that will support claims processing from establishment, development, and rating, to award and payment. VETSNET will provide for more streamlined, accurate processing of claims and availability to Veteran data, including claims history. This translates into better, timelier service to Veterans through the improved access to Veteran and claim data, on-time updates, and immediate status on pay.

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

Enrollment applications include Enrollment Database, Enrollment System Redesign, Health Eligibility Center, Eligibility Phase II Priority Letters, and Operation Enduring Freedom.

VA Computing Infrastructure and Operations applications include Customer User Provisioning System, Delegation of Authority, Electronic Data Interchange, Freedom of Information Act Reporting, Information Collection Budget, and Remote Customer System Use.

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

Health Data Repository (HDR) is a clinical data repository of clinical information that resides on one or more independent platforms and is used by clinicians and other personnel to facilitate patient-centric care. The data in HDR is retrieved



from existing VistA files and organized in a format that supports the delivery of care, regardless of the patient's location or where the patient has been treated in the past.

Loan Guaranty Maintenance and Operations include applications Lockbox Funding Fee, Loan Guaranty Processing, Mortgage Loan Accounting Center, and Customer Owned Assets.

Compensation and Pension Maintenance and Operations include the Beneficiary Identification & Records Locator System/Veterans Assistance Discharge System (BIRLS/VADS), Benefits Delivery Network Maintenance and Operations, Insurance System Maintenance and Operations, Burial Operations Support System, Automated Monument Application System, VA Enterprise Architecture, Capital Asset Management System, and Program Integrity/Data Management.

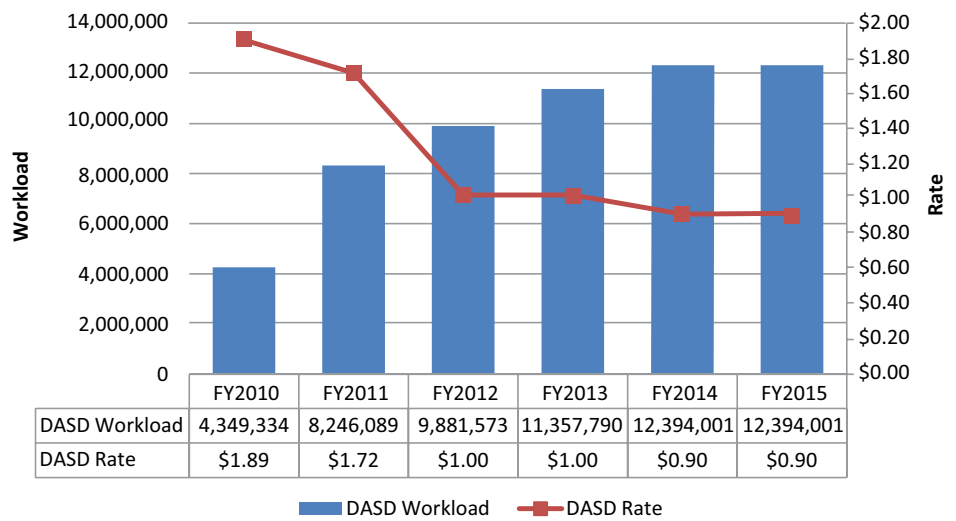
Other applications include Allocation Resource Center, FEE Basis Treatment/Central Fee (FEE), Pharmacy Re-Engineering, VA Talent Management System, HealtheVet-Vista, and MyHealtheVet.

Direct Access Storage Device (DASD) Trends

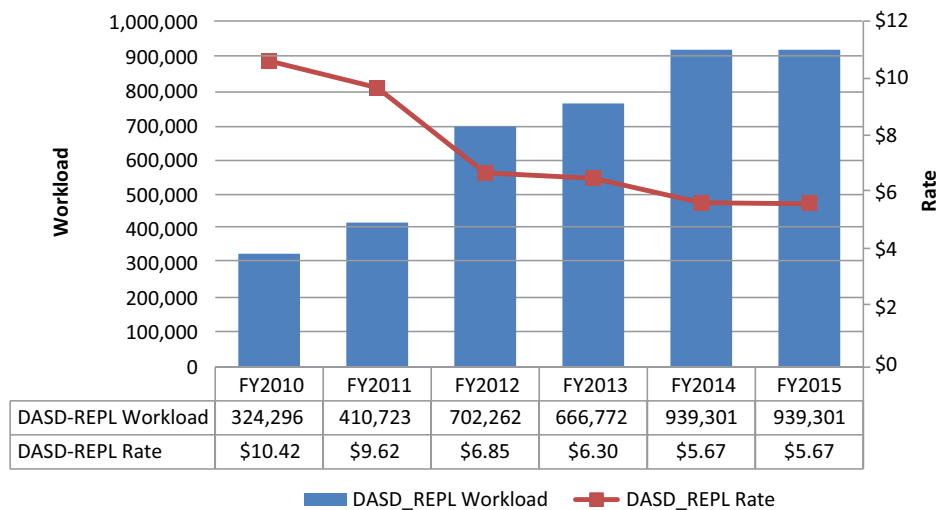
The EO has an established enterprise DASD environment that meets mainframe and open systems storage performance and data volume requirements, protects data against hardware failure, creates data snapshots, and replicates data to remote sites for contingency planning and disaster recovery. Industry-wide decreases in hardware costs per unit and the use of best practices have resulted in a continued decline in DASD rates. In FY 2012, the EO implemented Hitachi hardware and software installations at the EO data centers in Austin, Hines, and Philadelphia. 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 2014 and FY 2015 rates. As a result of increased workloads in FY 2012 and FY 2013, the DASD rate was reduced to \$1.00. Based on current workload projections, the DASD rate will decrease to \$.90 in both FY 2014 and FY 2015. The EO anticipates additional DASD workload from recent initiatives such as MHV and Surgical Quality & Workflow Management (SQWM). In addition, several legacy applications are expecting increases in DASD workload. The applications include Loan Guaranty (LGY), VBA Corporate (CRP), ESSENCE (ESE), and Administrative Data Repository (ADR). FY 2015 plans are to move from a single rate for disk storage to tiered rates

based on disk performance. Customers will gain the ability to match the performance they pay for to the performance needed for each application. The top disk storage tier will provide the ultimate disk storage performance by exploiting the latest disk technologies such as solid state drives. Additional tiers will be slower, but they will also have lower rates. This will give customers the ability to store data that meets their performance requirements at the lowest possible cost per gigabyte.

DASD Trends



DASD-REPL Trends*

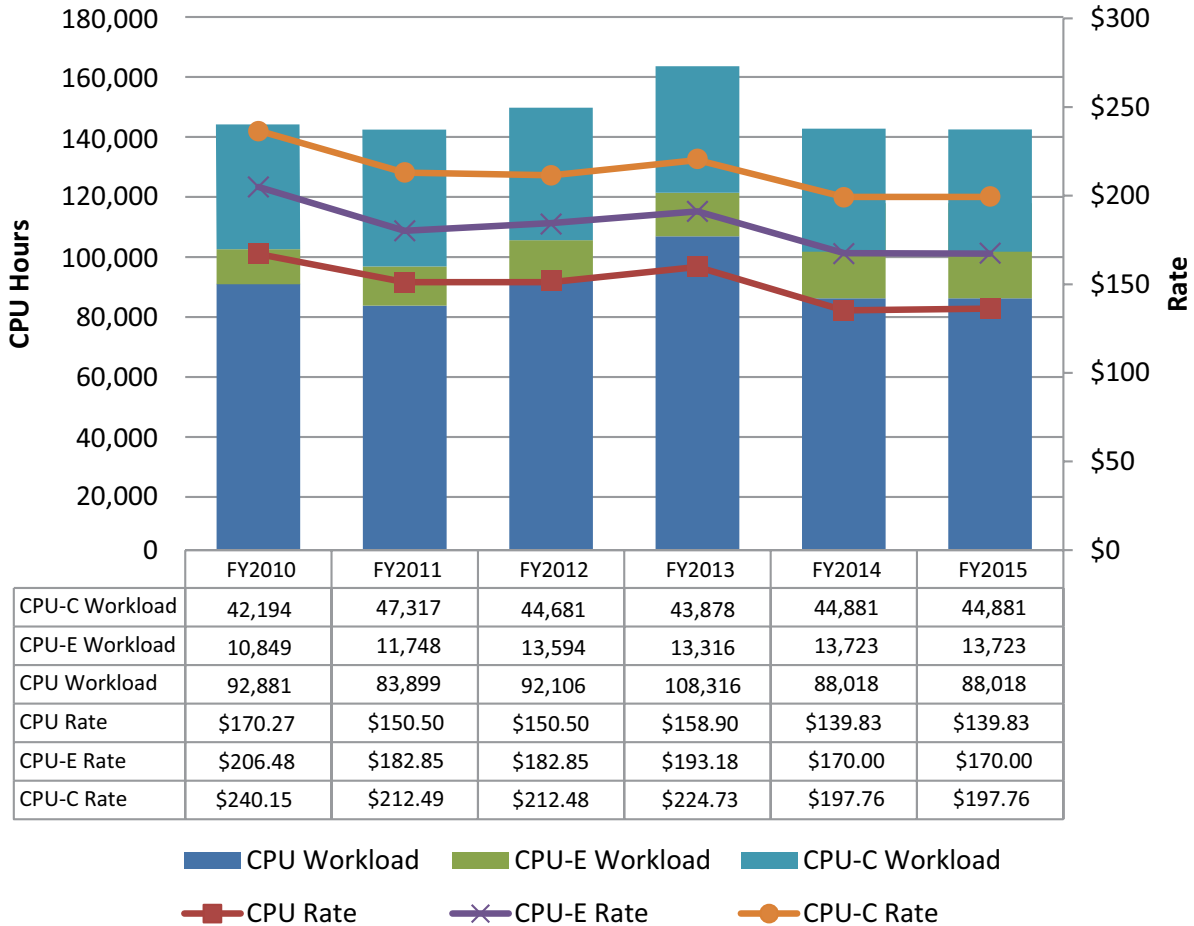


*DASD-REPL denotes data storage that is electronically vaulted to a remote data center for application data recovery in the event of a disaster.

Central Processing Unit (CPU)

Rate trends are illustrated in the CPU chart below. With workloads relatively stable between FY 2010 and FY 2014, the EO was able to reduce the CPU rate in FY 2011 and hold constant in FY 2012. Increases in estimated FY 2013 costs resulted in moderate increases in the CPU rates; however, costs in FY 2014 are expected to decrease resulting in a rate reduction. As FY 2015 CPU costs are expected to remain constant, rates should remain unchanged from FY 2014 to FY 2015.

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 - RCV

Records Destruction

In late FY 2012, VHA provided approval for a substantial volume of records to be destroyed. Previously, these records were required to be retained for possible litigation reasons. In prior years, the RCV projected annual records destructions in the 250-1,000 cubic feet range. With the records VHA has recently approved, the RCV anticipates destroying approximately 18,000 cubic feet of records. The on-site shredder cannot accommodate this volume, nor does RCV have the manpower to process and shred these. The RCV staff accomplished the on-site shredding and destruction of over 8,700 cubic feet of records. In August 2013, our contracting support staff awarded a contract to a commercial vendor to handle the remaining volume. Our agreements with our customers dictate VA-witnessed destructions and RCV intend to meet our obligations.



Records Retrieval System

The RCV staff are currently working with EO programmers to implement improvements to our current Records Retrieval System (RRS). RRS is the online application used by the RCV and its VA customers to record and monitor incoming VA records, temporary file withdrawals and returns, and permanent file recalls. The initial improvement rolled out was an update to the log-in system. Due to the implementation of PIV card log in to Active Directory, many VA customers would forget their Active Directory password or their passwords would expire. As the RRS required the entry of Active Directory log in information and passwords, RRS customers required a great amount of assistance from the RCV and their local IT support to reset passwords and gain entry. The new roll-out has resulted in the elimination of support requests. Several customers expressed their gratitude and satisfaction with the new system.



Safety Management

RCV has an outstanding safety record, with no accidents or incidents occurring in over eight years. The floors of the RCV storage facility are concrete and limestone, and RCV technicians are often required to climb 12-15' high ladders. Thanks to diligent staff and safety guidelines, there have been no injuries in the reporting period.

Information Technology Segment Plans for 2014 and Beyond

In FY 2014, the EO plans to purchase servers and upgrade a mainframe server to provide hardware on which to create virtual servers and for use in disaster recovery. The EO will also repurpose an IBM server for use as a virtual machine. The EO plans to purchase storage for the disaster recovery environment and upgrade the virtual tape library used for backup. In addition, the EO plans to modify the chilled water system; purchase Voice over Internet Protocol (VoIP) phone systems and peripherals, a security camera, and a motor control center; modify the existing electrical distribution system and replace the generator fuel system, expand UPS, develop a centralized monitoring system for the computer room environment, and upgrade existing roof security. The EO also plans to install an automated system to monitor facility infrastructure, harden the building perimeter to prevent vehicle penetration, and replace the fire suppression system.

◆ **Servers.** Historically, the EO has been required to upgrade server platforms for which vendors provide warranty and/or on-going maintenance service only for a limited time and as the equipment ages, the cost of maintenance dramatically increases or is not available because the vendor has completely discontinued support. It is imperative that the EO have a vendor supported platform to be able to resolve problems or have parts replaced quickly, minimizing impact to our customers. Additionally, while vendors may still provide maintenance on aging equipment, at times hardware changes that can be made to an existing platform are limited. This limits the EO's ability to adapt/enhance the platforms to support any approved programmatic changes and if alternatives don't exist, it forces a platform upgrade.

Currently, the EO plans to upgrade servers at data centers located at Philadelphia, Hines, Culpepper, and Quantico to keep the applications being supported by these platforms on vendor supported hardware, satisfy our customers' production and disaster recovery needs, and to control the maintenance costs, enabling the EO to continue to provide cost-effective services to customers. If these platforms are not upgraded, the risk of significant and adverse customer impacts increases dramatically and jeopardizes the EO's ability to satisfy its service level agreements. These physical mainframe resources will also be used to create virtual servers. Overall, the ability to transition an application from running on a physical server to a virtual one can be affected/constrained by a variety of factors

(cost, security, application software, vendor support, physical location), and on occasions when a virtual server environment is unable to support requirements, a physical server would still be required. In addition, the EO will move all production IT systems from CRDC in Falling Waters, WV to CRRC in Martinsburg, WV.

Going forward, the EO will continue to have a need to upgrade existing platforms though the number of physical platforms is decreasing due to the EO's aggressive move towards virtualization of servers, e.g. consolidating customer environments onto fewer hardware platforms.

◆ **Disk Storage.** The EO storage environment consists of three main sites: Austin, TX; Hines, IL; and Philadelphia, PA (with disaster recovery/replication capabilities between the three), a smaller site at Quantico, VA (with DR capability to Culpepper, VA), and a standalone site at Martinsburg, WV. Additional capacity procurements for the existing Enterprise Storage environments will address the current and future consolidated storage needs of each of the EO data centers. Associated costs will be partially offset by reduced maintenance costs as older storage equipment is retired.

◆ **Enterprise Backup (EBU).** The EO began executing a comprehensive enhancement of the tape backup environment in FY 2012. The EO will continue to replace existing backup capabilities with a uniform solution to improve performance while providing high availability and standardization across data centers. The EBU solution has the available capacity to support additional projects as they come online within each the EO data center.

◆ **Network.** The network currently consists of six pairs of chassis-based switches distributed across the computer room floors in the data centers. This requires several cables to be run under the floors (home runs) to the locations of the switches. In the future, the EO will remove the cabling from under the computer room floors to support the installation of water-chiller pipes for cooling. In an effort to accomplish this, the EO will move to a "POD-Based" design for network cabling. This will keep all copper cabling locally within the pods. The only cabling permitted outside a pod will be fiber installed in overhead trays. Also, the pod design is modular and allows expansion by simply ordering another pod and fitting it into the overall design. The new pod architecture allows us to complete the backup network, offer 10GB connectivity to our customers, and consolidate equipment, minimizing future costs.

◆ **Data Center Facilities.** The EO plans to maintain, expand, and improve various data center facility infrastructures in order to ensure services to Veterans are not interrupted. All aspects of infrastructure support will be enhanced. The perimeter of each campus will be hardened against outside physical threats and inside the perimeter our security will be enhanced to mitigate unauthorized intrusions. Personnel safety systems will be upgraded to protect staff, and communication systems will be updated to support newer technology opportunities, increasing efficiency in operations. Modifications to electrical systems are planned to enable the EO to handle increased loads, which will support IT growth and data center consolidation efforts. In addition, mechanical systems will be upgraded with newer technologies that provide higher reliability and enable the EO to conserve energy, reducing our carbon footprint. When

all projects are completed, the EO will be positioned to provide substantially improved services to Veterans as well as reduce costs to the Government for years to come.

◆ **Projected Warehouse Capacity Limits:** Based on current business trends, RCV anticipates reaching maximum capacity in the middle of FY 2014. In late FY 2012, the RCV staff explored the possibility of acquiring new space, but based on financial reasons, waning customer commitments, and OMB guidance, expansion is not feasible. The RCV anticipates meeting its revenue goals for the current fiscal year, as well as FYs 2014-2015 by providing continued customer support with the current inventory. The RCV will work directly with customers to destroy approved records and provide storage space when space becomes available.

FINANCIAL MANAGEMENT SEGMENT – FSC

Vendor File Maintenance

The FSC maintains the FMS vendor file with over 2 million records. The FSC processed over 1.4 million requests to modify the vendor file in FY 2013. Additionally, the FSC answered over 44,000 customer service requests related to the FMS vendor file in 2013. In FY 2011, VA embarked on a renewed effort to eliminate paper check payments. The FSC continues to support this effort by contacting medical and commercial vendors who receive checks and by disseminating notification to 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 to electronic payments. The FSC supported this effort in FY 2013 by developing a data transfer mechanism that uses data from VBA systems to make electronic payments to Veterans. The FSC continues to support this effort by maintaining FMS Automated Veteran Input System (AVIS) which is used to add Veterans' banking information to the FMS vendor file. The FSC tracks and monitors the number of check versus EFT payments and vendor conversions based on the monthly payment files. Continued focus on enrolling vendors to receive electronic payments has increased the VA electronic payment percentage to 84 percent for medical providers and 98 percent for non-medical vendors.

Centralization of Payments

During FY 2013, 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 processes over 1 million commercial vendor payments annually. 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 has implemented 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 throughout VA. The portal streamlines the

process for initiating and approving travel documents required by relocating employees who are 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 in FY 2013 showed a 64 percent reduction in document processing time. Relocating employees benefit from this process improvement through increased time available for move preparations and through the receipt of timely counseling on PCS entitlements. In FY 2013, the FSC established over 2,354 station users in the travel portal at 393 VA stations and successfully processed 869 employee moves electronically using the PCS Travel Portal.

The FSC has also put into production the first phase of a PCS claims automation initiative. Employees can now view a list of their authorized entitlements, select that document and populate the needed 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. During FY 2013, 2,856 claims were processed through the PCS portal with an average time of 2.75 days; an 81 percent improvement in claims document processing time.

Financial and Accounting Training

The FSC provides training to VA personnel in the areas of Finance and Accounting. The FSC staff offers Financial Management System (FMS), Construction Accounting, Fixed Assets, Agent Cashier, Standard General Ledger, Integrated Funds Distribution Control Point Activity Accounting and Procurement (IFCAP) and SF 224 training on site in Austin as well as remotely at locations in the field. The FSC classes are well received and consistently receive high scores on student evaluations.

Electronic-Business

The FSC continues to support VHA Chief Business Office (CBO) EDI Revenue Office initiatives by processing medical claims and insurance verifications transactions and sending them to VA clearinghouses, Emdeon and MedData. Claims status messages and reports submitted through the EDI process are sent to VA Medical Centers. Furthermore, the

FSC processes medical claims, remittance advice, and explanation of benefits from PNC Bank or Trailblazer, and sends them to VA medical centers for processing in the integrated billing and accounts receivable Veterans Health Information Systems and Technology Architecture (Vista) modules. The FSC also works with its partners such as Vista developers, Emdeon, MedData, and CBO Project Managers to research issues, provide solutions, reach a consensus on action plans, and implement necessary changes.

The FSC's Electronic Commerce Division (ECD) adopted procedures leading to their recognition with a Capability Maturity Model Integration (CMMI) Level 3 certification—the only VA organization to hold this certification. This industry-standard certification signals the FSC's commitment to product quality and production efficiency. The CMMI methodology integrates the entire spectrum of software development including software engineering, testing and project management to improve product and service quality, optimizing project schedules, reducing lifecycle costs and increase customer satisfaction. It also provides information to assess process performance, prioritize improvement actions, and better link projects to business objectives.

ECD continues to use the CMMI methodology to support all software development initiatives and has shared artifacts, processes, and procedures with other services within the FSC. This has enabled those services to become more efficient in their development process. After going through a rigorous appraisal process, ECD was re-certified as a CMMI Level 3 organization in September 2012.

Purchased Care Pilot

VHA is one of the world's largest health care delivery organizations. VA manages authorization, claims processing, and reimbursement for services acquired from Non-VA healthcare providers through the Fee Basis (Fee) program. The use of Fee is generally only authorized when appropriate VA services and/or facilities are not available or cannot be economically provided to the Veteran due to geographical inaccessibility. The VHA CBO, Purchased Care, developed a comprehensive set of requirements to outline a vision for the future state of purchased care.

The FSC contracted with a Lead System Integrator in April 2012 to deliver the future state system for the project. The FSC acquired a Commercial Off-the-Shelf (COTS) package in support of CBO to meet their future state requirements. PegaSystems is used for business rules, claims adjudication workflow, and correspondence generation, supporting the

future system. The FSC is supporting the development of the future system as well as interface development for 14 identified interfaces. This initiative stands to reduce an estimated \$500 million of erroneous payments annually for this program and represents a major challenge.

Disaster Recovery

The FSC also maintains a capability to respond to and survive any disaster, by maintaining a disaster recovery site at the FSC Waco Payment Center located 100 miles away from the FSC's primary Austin, TX site. This recovery site is in a different communication and utility grid, enhancing its survivability. The FSC utilizes a "mirrored" data storage capability which greatly reduces the time required to restore access to and functionality of the FSC major systems/applications. These major systems/applications are tested annually at the Waco recovery site. In FY 2013, the FSC's annual test included a highly successful complete failover test of all major system/applications as well as the FSC network and telecommunications.

Medical Claims Processing

At VHA CBO's request, the FSC undertook a major medical claims payment project, currently in development, that has the potential to significantly expand the FSC's Medical Claims Payment product line. The project is designed to develop a system to process all types of Fee Basis claims starting with one Veterans Integrated Service Network (VISN) as a pilot. The FSC is developing an automated process, which includes an eligibility check process, that integrates data from existing VA data systems to automate the process of determining a Veteran's eligibility for care, an internet-based Referral and Authorization System for medical centers to manage care for Veterans, and using a newly procured off-the-shelf business process management tool and claims adjudication software to create a highly automated claims adjudication processing system. Upon pilot completion, the FSC anticipates a decision to implement a nationwide process. In addition to this project, the FSC supports the VHA CBO Dialysis contract program claims processing project.

The FSC provides the Department of Homeland Security and the Department of Health and Human Services with an integrated, end-to-end medical claims payment processing application in conjunction with document processing through an Optical Character Reader. State-of-the-art technology is being applied to automate and Web-enable this application. This application represents a full life-cycle; automated service from the time an invoice reaches the

FSC through generation of payment, and fully complies with the "Prompt Payment Act" (PPA) and Health Insurance Portability and Accountability Act of 1996 (HIPAA).

Commercial Vendor Payments

VA continued to enhance its vendor payment processes throughout 2013. Overall VA interest penalties paid per million dollars disbursed decreased from \$38 per million in FY 2012 to \$23 per million in FY 2013. At the same time, VA earned 95 percent (\$5.6 million) of its available discounts. The FSC interest penalties paid per million dollars disbursed also improved from \$12 per million in FY 2012 to \$11 per million in FY 2013, another new record low performance level. Additionally, the FSC earned 95 percent (\$4.9 million) of its available discounts.

VA also continued to gain efficiencies and improve performance from 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 2013, collections of improper payments totaled \$15.8 million from payment recapture audits. The FSC was able to identify and take action on \$60.8K in improper payments for the Franchise Fund in FY 2013. Improved payment oversight enabled VA to identify and cancel over \$21.8 million in potential improper payments prior to disbursement. Of the \$21.8 million canceled for VA, \$386K was attributable to the Franchise Fund.

FINANCIAL MANAGEMENT SEGMENT - DMC

Debt Collection

The DMC collects debts arising from a beneficiary's participation in VBA education, compensation, pension, and loan guaranty benefit programs. Under the education benefit program, 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 contacts the debtor as soon as possible after creation of a debt. They request payment in full or attempt to establish a satisfactory repayment agreement if the beneficiary is unable to make a lump sum payment. If benefits are available for offset, the DMC notifies the debtor and satisfies the debt administratively through internal offset. If the DMC's collection efforts are unsuccessful, they ensure that debts are promptly referred to the Department of the Treasury for further collection under the Treasury Offset Program (TOP) or through Treasury's cross servicing programs.

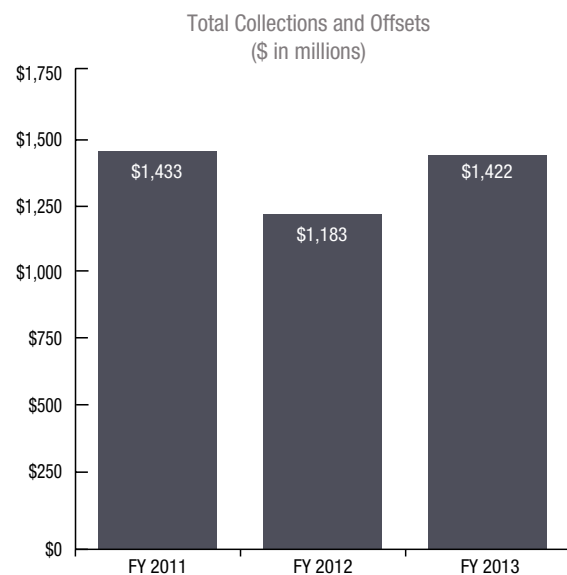
The DMC operates a centralized debt collection program for VBA and provides administrative offset services to VHA. As a leader in the Federal debt management community, and a complete accounts receivable resource, the DMC oversees the entire collection process for VBA employing every collection tool available to Federal agencies.

VHA and the DMC partnered to initiate an expansion of the debt collection tools used in the collection of first party medical debts. This year was the first phase of that partnership that led to the decision to modify VistA and the related interfaces to launch Administrative Wage Garnishment, Private Collection Agencies, and Treasury Debt Collection tools. The DMC has procured services for this modification in phase two, increasing revenue as a result of this partnership with VHA.

DMC also expanded its partnership with VBA adding a new debt collection tool, Administrative Wage Garnishment, resulting in \$3.1 million in garnished wages during FY 2013.

Centralized Processing of Debt Disputes

Prior to April 2013, schools had two options for disputing their debts. They could either contact their VBA Regional Processing Office (RPO) or the DMC. Recognizing the issues this caused through the numerous inquiries the DMC received, the DMC collaborated with VBA to streamline the process. In April 2013, VBA and the DMC collaborated and issued VA-wide guidance on a new dispute process. The DMC is now the single point of contact for schools for any established debts being disputed. This allows schools to communicate with one single VA entity, which should reduce confusion or duplication of efforts. This new process ensures collection efforts are suspended during the dispute process. Additionally, this provides clear oversight in tracking and addressing outstanding disputes. As part of this new process, the DMC is sending acknowledgement of the dispute to the school, and following up with any change in status in an effort to provide the feedback the schools requested. These changes have greatly improved customer service.



This chart depicts collections/offsets for FY 2011 - FY 2013. The amounts reflect collections/offsets on benefit debts as well as offsets for VHA medical debts. Please note that the VHA numbers for FY 2013 include collections from both Medical Care Cost Recovery (MCCR) and Treasury Offset Program (TOP).

Customer Collaboration/Partnership

This fiscal year, the DMC experienced a substantial workload increase as a result of the Post 9/11 GI Bill Program (Chapter 33). Although this program was implemented in August 2009, FY 2013 was the first year colleges and universities were referred to the Treasury Offset Program (TOP). Within a very short period of time of these debts being referred to the Department of the Treasury, the DMC saw a significant increase in e-mail and telephone communication. As a result, VBA and the DMC partnered to help streamline and improve the schools' interaction with VA. This partnership resulted in a number of process and programmatic enhancements that have significantly helped schools navigate through this education program. Outreach to schools and educational program coordinators increased throughout the year including inviting institutional feedback that has been included in

procedural enhancements within our processes. Outreach efforts in 2013 included contact with over 3,400 Veteran Service Organization and school officials. This is an increase of 55 percent over FY 2012 accomplishments.

Improving Customer Service

The DMC continues to aggressively move forward, with our participation in Secretary Shinseki's Veterans Relationship Management (VRM) initiative, encompassed in VA's Strategic Plan. In FY 2013, the DMC increased its toll free telephone lines from 96 to 144 and increased service hours by 30 minutes a day providing customer service for 10.5 hours daily. This enhancement coupled with future software improvements such as call routing, call transfers, waiting time announcement, virtual hold, scheduled call back and interactive voice response with self-service options, will significantly enhance the customer experience.

Financial Management Segment Plans for FY 2014 and Beyond

◆ **FSC Projected Revenue Trend.** Revenue from VHA CBO will continue to increase in FY 2014 and FY 2015 as Fee Basis Modernization healthcare claims processing (HCP) is released and deployed at VISN 11 sites. A national rollout decision to deploy Fee Basis Modernization nationwide is scheduled for FY 2015. In addition, Payroll Support Services revenue is projected to increase during this time frame as the FSC begins overseeing the operations and maintenance of the VA Time and Attendance System (VATAS).

◆ **SAM/CARS Implementation.** The FSC's Financial Accounting Service (FAS) is implementing the Treasury Shared Accounting Module (SAM) to validate or derive Treasury Account Symbol-Budget Event Type Code (TAS-BETC) data for cash transactions from the point of origin for and Central Accounting Reporting Module (CARS) to report cash transactions with a TAS-BETC to Treasury at point of origin for Agency Location Codes (ALCs) managed by FAS. The three ALCs managed by FAS are 36000102, 36000200 and 36001200. CARS replaces the requirement for monthly submission of an SF 224, Statement of Transactions, eliminates all Statement of Differences (SODs), and allows for daily reclassification of transactions if the TAS-BETC is incorrect or transactions are reported to default TAS-BETCs. Implementation

involves three areas: Collections, IPAC, and Payments. In FY 2013, FAS successfully implemented SAM and CARS for Collections and IPAC in ALCs 36000102 and 36000200. Implementation of SAM and CARS Payments for ALCs 36000102 and 36000200 and all three areas for ALC 36001200 will continue into FY 2014.

◆ **Veterans Relationship Management (VRM).** In late FY 2013 and into FY 2014, the DMC will implement the next phase to support VA's strategic goal of VRM. The VRM phone center technology and processes will include:

- skills-based call routing
- supervisory monitoring
- call transfers
- call recording for customer service improvement and audit trail
- call wait-time announcement
- centralized performance monitoring
- virtual hold
- scheduled call back
- inter-active voice response

Coupling these technological tools with our improvements in incoming call capacity we are setting our eyes on becoming further, a customer service center of excellence.

SECURITY AND LAW ENFORCEMENT SEGMENT – SIC

Automation Advancements

The SIC continues to work through e-Government initiatives to improve its processes. In FY 2012, the SIC began the process to develop a Web-based automated “Request” tool that would provide a consolidated method to request and track employee and contractor background investigations. The Web-based application is the Personnel Security and Suitability System (PSSS). It is anticipated in FY 2014; PSSS will replace the current Contractor Request Database and the SIC SharePoint Portal for uploading documents. It will provide the requestor an automated tool to track the current status of the background investigation that will be available twenty-four/seven/three hundred and sixty-five days a year. Currently, the only method of obtaining the status of an investigation is to call the SIC help desk during business hours. Additionally, adjudication certificates of investigation (COI) will be uploaded in PSSS as a secure method of delivery of sensitive material containing personally identifiable information (PII). This will make the COIs available for future re-printing immediately in the field should the need arise.

Office of Personnel Management (OPM) Connect:Direct

The SIC completed the process of receiving all completed OPM investigation case files in an electronically encrypted PDF format file utilizing the computer program Connect:Direct. This electronic delivery eliminates the requirement for OPM to mail paper copies of completed investigation case files to the SIC, reducing delivery time from 7 to 10 days to within 24 hours of completion. This allows the cases to be adjudicated, 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.

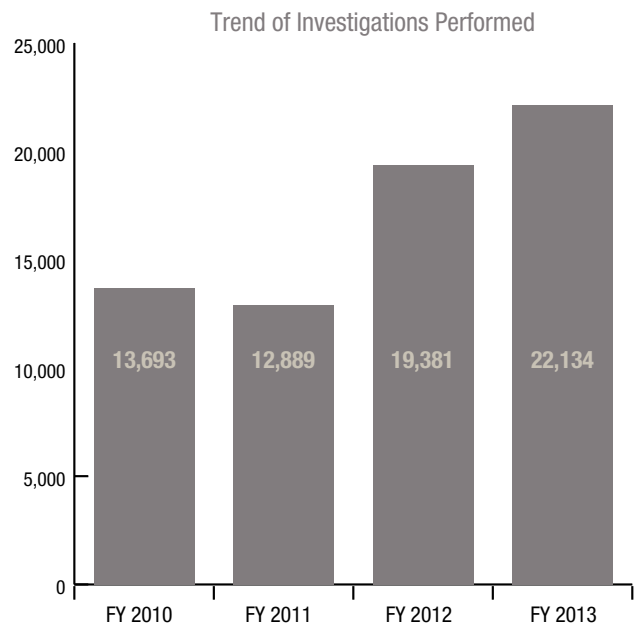
Dedicated Support Teams

In FY 2013, the SIC developed a support team to provide clients with Homeland Security Presidential Directive 12 (HSPD-12) credentialing validation, which is necessary before a PIV card can be issued to contractors. This team will validate all contractors ensuring that they have either a background investigation completed or scheduled at OPM to the requesting PIV issuing facility.

Additionally, a second team was developed to provide expedited and dedicated background investigation processing for the Office of Information and Technology (OIT), per their request and agreement in a service level agreement (SLA). The OIT Direct Support Team will provide immediate and continuous background investigation processing to OIT at an expedited level as the SIC increases its projected level of production by 20 percent.

SIC Investigations

During FY 2013, the emphasis placed by the CRISP is a major reason background investigations continue to increase over previous levels. In addition, Executive Order 13488 Reciprocity on Excepted Service and Federal Contractor Employee Fitness and Reinvestigation of Individuals in Positions of Public Trust, has increased the requirement for re-investigation of Moderate Level Public Trust positions in addition to the requirement for high risk positions. Even though the requirement is not fully implemented by OPM, the SIC is already experiencing an increased work flow and revenue stream. FY 2013 demonstrated increases in the total number of background investigations and for the first time in the history of the SIC, total investigation actions exceeded 22,000.



SECURITY AND LAW ENFORCEMENT SEGMENT – LETC

Accreditation

◆ **Federal Law Enforcement Training Accreditation (FLETA):** In FY 2013, LETC had additional programs accredited by the FLETA Board, the VA Basic Police Officer Course (BPOC) and Instructor Development program. The VA BPOC received **SIX** best practice recommendations from the assessment team, the most achieved by any institution since FLETA began accreditation in 2005. In addition, the LETC Director is now a member of the FLETA Board of Directors.

◆ **Successful Curriculum Review:** During FY 2013, the LETC's programs were re-evaluated for continued compliance by the University of Arkansas Little Rock (UALR). The Chancellor and faculty of the University Criminal Justice Program evaluate the course curriculum every two years. VA BPOC students are eligible to receive nine semester hours of credit through the University of Arkansas system after successful completion of the course (increased from six with the expansion of the BPOC). The LETC also received University credit for its United States Air Force (USAF) BPOC in FY 2012, with reevaluation due in FY 2014. Students successfully completing the course are eligible to receive six credit hours.



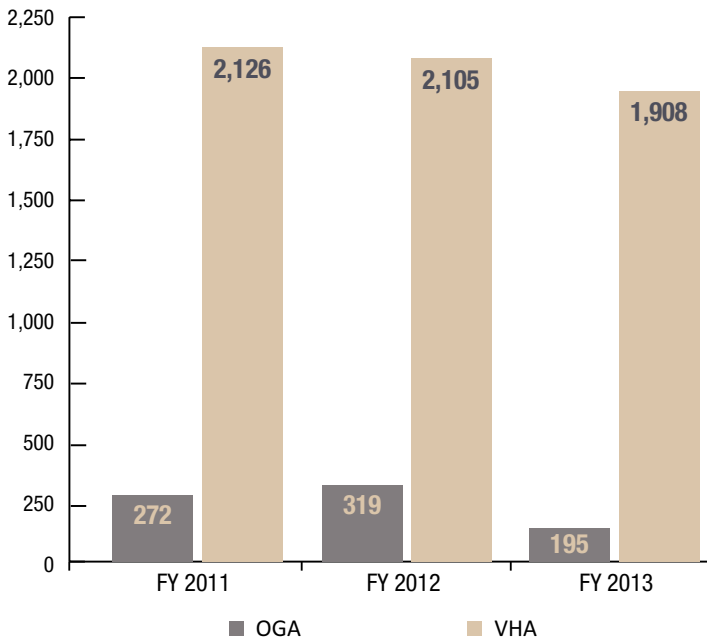
Training

The LETC is the only Federal provider offering specialized training dealing with assaultive patients and policing in a healthcare environment (mandated by Title 38 U.S.C.) Located on a VA campus, the LETC provides police officers the opportunity to train in an environment similar to the one in which they currently work. In FY 2013, the LETC trained over 2,103 law enforcement professionals, down from 2,424 in FY 2012 and 2,397 in FY 2011. The 13 percent decrease in enrollment in FY 2013 is contributed to budget reductions, sequestration and initiatives to improve efficiencies in the government with a heavy emphasis placed on the reduction of travel and training.

In FY 2013, 1,908 VA police officers and 195 police officers from other government agencies received basic and specialized training at the Little Rock campus. This is a 13 percent decrease from FY 2012, when the LETC trained 2,105 VA and 319 OGA police officers.



Number of Police Officers Trained



◆ **Training Enhancements**

The LETC identified methods to meet the training needs for its customers, while reducing cost by implementing new courses that in some instances, enables the LETC to export specific training to field locations, saving customers travel and tuition funds.

Some new courses include:

◆ **Fraud/Computer Crime Course** is a 40-hour course which prepares law enforcement officers to properly protect and seize computer components that possess evidentiary value, and to identify and investigate fraudulent activity common within a VA medical center.

◆ **Ground Defense and Recovery Recertification Course** is a 40-hour block of instruction designed which recertificates law enforcement officers as ground defense and recovery instructors in the field. The course provides refresher materials covering how to properly train police officers in the use of the baton and application of unarmed defensive techniques. Recertification is required not more than three years from the previous certification date.

◆ **Mobile Training Teams – 3 Days (Min 10 students).**

This course is targeted towards dispatchers, administrators, evidence custodians and similar positions. It is 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 the 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 the 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 an 8-hour class that provides a multi-disciplinary approach to educating participants in verbal de-escalation techniques. This course utilizes 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 the LETC instructors' travel-related expenses.



Security and Law Enforcement Segment plans for 2014 and Beyond

◆ **Training.**

In FY 2014, the LETC will prepare additional instructor and investigative programs for FLETA accreditation. Accreditation enhances customer confidence in the quality of the programs and increases marketability.

The LETC will establish an OGA Advisory Council. It will be comprised of senior OGA HQs and field leadership from customer agencies. This group will be used as a platform for direct input from senior OGA leadership to ensure training is developed in response to those needs.

◆ **Process Improvement.**

The LETC is in the final stages of completing the Web-based conversion of its Veterans Affairs Police Software (VAPS) program. The conversion will eliminate the use of the citrix platform and server farm, and incorporate enhanced functions and operability. Eliminating the citrix server farm will also significantly reduce costs starting in FY 2015. In FY 2014, The LETC will fully deploy the VAPS program. When fully deployed, VAPS enhancements will significantly reduce duplication in several areas of police administration. As VAPS is capable of integrating with our proposed student management system, we will reduce duplication further as crossover information can automatically be housed and updated in both systems.

◆ **New OPM Requirement.**

OPM has developed a new Suitability Training course; all Government Adjudicators will be required to successfully

complete this training by obtaining a passing score on an end of course test. OPM is charging a fixed price per adjudicator to attend (plus travel costs) and the estimate is \$1.2M to train adjudicators under the current VA configuration. The Personnel Security and Suitability (PSS) Office in charge of policy is updating a draft of VA 0710 Handbook to state that employee NACIs and adjudication only NACIs may be forwarded to the SIC. The usage of the SIC expertise will offer availability to VA customers an alternative to the expense of training vast amounts of Adjudicators.

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

The SIC will continue the development of this system that will be available across the VA enterprise to administrations, staff offices, contracting officers, contracting officer representatives (CORs), and personnel security specialists, and will contain employee National Security and Public Trust position background investigation information and all contractor background investigation information. Deployment of PSSS is planned for FY 2014 and will:

- Provide one end-to-end system with all background investigation information
- Facilitate a path that ensures complete packets are submitted
- Reducing processing time
- Allow complete transparency 24/7/365 on an individual case status to authorized VA personnel in the field
- Allow the field access to Adjudication certificates as the need arises

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 all applications processing support and general support are of the highest quality.
- ◆ Ensuring debt management collection services for delinquent consumer debt meet customer needs and requirements.
- ◆ Ensuring financial services meet customer needs and requirements.
- ◆ Ensuring 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 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 FYs 2010–2013. 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

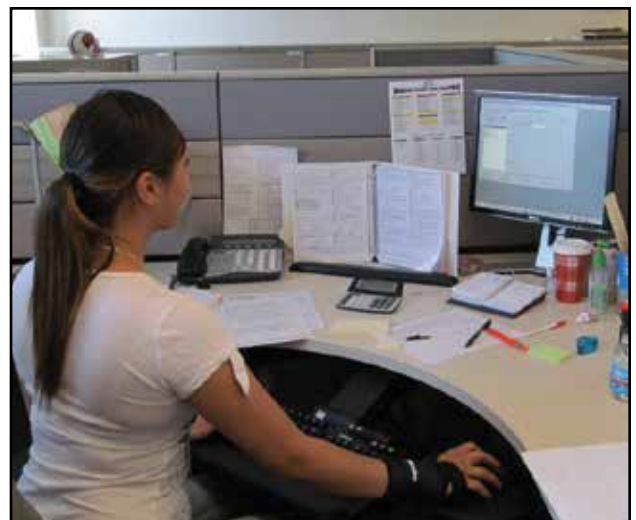
Performance Measure	Actuals				Plan	Were 2013 Goals Achieved or Exceeded?	
	2010	2011	2012	2013	2013	Yes	No
Ranking within top 12.5% in the Information Technology Customer Satisfaction database ¹	N/A	N/A	N/A	N/A	N/A		N/A
Total collections per dollar spent on collection activities	\$149	\$136	\$98	N/A		✓	
Percentage of Veterans or beneficiaries who contacted DMC without receiving a busy signal	N/A	N/A	N/A	99%	95%	✓	
Payment processing accuracy rate ²	98.9%	99.3%	99.4%	99%	99.4%		✓
Class graduation rate	97.2%	96.6%	97.8%	97.5%	95%	✓	
Percent of investigations that are completed within the established timeframes	98.0%	94.0%	80%	92%	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%	99.9%	✓	
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	✓	

¹ For a decade, EO contracted with Gartner to conduct an information technology customer satisfaction survey of its customers. During that time period, EO consistently scored in the top 15 percent of organizations, both public and private, in Gartner's database. OIT is now conducting a centralized customer satisfaction survey covering all IT services, eliminating the need for EO to conduct its own survey. Beginning in 2011, VA used the American Customer Satisfaction Index survey. The survey results do not have any performance measures applicable to EO. Customer satisfaction was addressed at the OIT level and was not specific to EO. The only EO-specific results related to employee satisfaction. We'll request that OIT add EO-specific customer satisfaction questions in addition to specific performance measures, such as availability (i.e. up time), to VA's semi-annual survey.

² Based on internal audits of FSC processed payments, FSC's payment processing accuracy rate fell slightly below the 99.4% goal. Audit reviews indicate errors with processing certified invoices with discount terms offered and vendor selection caused the overall payment accuracy rate on sampled payments to fall slightly to 99 percent.

PERFORMANCE HIGHLIGHTS DURING FY 2013

- ◆ The EO strives to keep personnel trained in the latest technology and to maintain a technical infrastructure with current business trends. In doing so, the EO continues to pursue new technological capabilities such as the implementation of virtual server technology.
- ◆ The DMC exceeded our performance goal of 95 percent of Veterans or beneficiaries who contacted the DMC without receiving a busy signal in FY 2013, by increasing the number of phone lines on the Toll-free line from 96 to 144 and increasing the total number of financial specialist phone agents to 56.
- ◆ The FSC's intragovernmental accounting section continued to make the corrections to reduce reconciliation differences between VA and its trading partners. During FY 2013 the FSC processed over \$575 million in corrections.
- ◆ The LETC has steadily worked during FY 2013, to ensure that training standards met the accreditation requirements from the University of Arkansas at Little Rock (UALR).
- ◆ The RCV streamlined its online Records Retrieval System (RRS) to synchronize with the VA-wide network login. Registered users need only log into the VA network then visit the RRS website to access RRS.
- ◆ The SIC's background investigations continued to increase over previous levels due to continued emphasis placed by the CRISP. The backlog of background investigations has been cleared and the SIC has met the OPM requirement of adjudicating investigations within 20 days and suitability background investigations within 90 days of case completions.
- ◆ For the 16th 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 16th consecutive year (1998-2013), 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 2013 and FY 2012. 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 \$313 million as of September 30, 2013. This is an increase of \$51 million (19 percent over the previous year's total assets of \$262 million). The increase in asset balances is largely due to the EO and FSC. EO along with the other Enterprise Centers increased the timeliness of collections from customers. The FSC increase is due to a new capital lease and the progress of a software project in development.

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

	(Dollars in Thousands)	
	2013	2012
Fund Balance with Treasury	\$200,527	\$160,214
Property, Plant and Equipment, Net	72,576	63,148
Accounts Receivable, Net	38,859	36,493
Other Assets	1,403	2,339
Total Assets	\$313,365	\$262,194

Liabilities

The Fund had total liabilities of \$96 million as of September 30, 2013. This represents an increase of \$12 million (14 percent over the previous year's total liabilities of \$84 million). The increase in accrued payables from September 2012 to September 2013 is due to the FSC. The FSC's accrued payables increase was due to service order accruals resulting from an increase in business.

Department auditors found VA was not reporting accrued liabilities in accordance with federal financial reporting guidelines. The Fund has reclassified the balances of accrued liabilities for services as accounts payable in the general ledger.

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

(Dollars in Thousands)		
	2013	2012
Accounts Payable	\$77,542	\$66,414
Other Liabilities	18,166	17,635
Total Liabilities	\$95,708	\$84,049

Net Position

The Fund's net position increased by \$39.6 million in FY 2013 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was \$217.7 million in FY 2013, which yielded a 22 percent increase from FY 2012's ending net position of \$178.1 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 gain of \$25.8 million in FY 2013, 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 \$585 million, a \$28.2 million increase from the FY 2012 level of \$556.8 million.

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

(Dollars in Thousands)		
	2013	2012
Beginning Unobligated Balance	\$111,647	\$103,411
Spending Authority earned & collected	504,344	442,573
Change in Receivable from Federal Sources	2,392	4,886
Change in Unfilled Customer Orders	(33,372)	5,921
Total Budgetary Resources	\$585,011	\$556,791

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 2013 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

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

Report on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2013 and 2012, and the related consolidated statements of net cost, changes in net position, and the combined budgetary resources, for the years then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VA Franchise Fund as of September 30, 2013 and 2012, and its consolidated net costs, changes in net position, and the combined budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the VA Franchise Fund's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the VA Franchise Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the VA Franchise Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In our fiscal year 2013 audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the VA Franchise Fund's financial statements are free from material misstatement, we performed tests of its compliance with applicable provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. Our fiscal year 2013 audit, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

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 auditor to perform the audit of the VA's consolidated financial statements for the years ending 2013 and 2012. The VA's consolidated financial statements include the VA Franchise Fund. The VA's FY 2013 *Independent Auditor's Report* dated November 26, 2013, identified a material weakness over the VA's "Information Technology (IT) Security Controls (Repeat Condition)". In addition, the independent auditor's report concluded that VA's financial management systems do not substantially comply with the Federal financial management requirements as required by FFMIA Section 803(a) and also with the Debt Collection Improvement Act of 1996 (DCIA).

Management's Responsibility for Internal Control and Compliance

VA Franchise Fund's management is responsible for (1) evaluating effectiveness of internal control over financial reporting based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, (3) ensuring VA Franchise Fund's financial management systems are in substantial compliance with FFMIA requirements, and (4) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal controls over financial reporting to plan the audit, (2) testing whether VA's financial management systems substantially comply with the FFMIA requirements referred to above, (3) testing compliance with applicable provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing, and (4) applying certain limited procedures with respect to the MD&A and other RSI.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

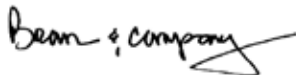
— BROWN & COMPANY CPAS, PLLC —

We did not test compliance with all laws and regulations applicable to VA Franchise Fund. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to VA Franchise Fund's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of VA Franchise Fund's internal control or on compliance. These reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering VA Franchise Fund's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

This report is intended solely for the information and use of the management of the VA 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
December 11, 2013

— BROWN & COMPANY CPAS, PLLC —

CONSOLIDATED FINANCIAL STATEMENTS

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
 CONSOLIDATED BALANCE SHEET
 AS OF SEPTEMBER 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 200,527	\$ 160,214
Accounts Receivable (Note 3)	38,843	36,473
Other Assets (Note 5)	1,402	2,335
Total Intragovernmental Assets	<u>240,772</u>	<u>199,022</u>
Public		
Accounts Receivable (Note 3)	16	20
General Property, Plant and Equipment, Net (Note 4)	72,576	63,148
Other Assets (Note 5)	1	4
Total Public Assets	<u>72,593</u>	<u>63,172</u>
Total Assets	<u>\$ 313,365</u>	<u>\$ 262,194</u>
LIABILITIES		
Intragovernmental:		
Accounts Payable	16,783	20,276
Other Liabilities (Note 7)	7,759	10,089
Total Intragovernmental Liabilities	<u>24,542</u>	<u>30,365</u>
Public		
Accounts Payable	60,759	46,139
Other Liabilities (Note 7)	10,407	7,546
Total Public Liabilities	<u>71,166</u>	<u>53,684</u>
Total Liabilities	<u>\$ 95,708</u>	<u>\$ 84,049</u>
NET POSITION	<u>\$ 217,657</u>	<u>\$ 178,145</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 313,365</u>	<u>\$ 262,194</u>

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

CONSOLIDATED FINANCIAL STATEMENTS

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
 CONSOLIDATED STATEMENT OF NET COST
 FOR THE YEARS ENDED SEPTEMBER 30, 2013 and 2012

(Dollars in Thousands)

	<u>2013</u>	<u>2012</u>
PROGRAM COSTS:		
Gross Costs Intragovernmental	\$ 208,616	\$ 200,955
Less: Earned Revenue-Intragovernmental	(498,113)	(439,656)
Net Program Costs - Intragovernmental	<u>\$ (289,497)</u>	<u>\$ (238,701)</u>
Costs Not Assigned to Programs	263,729	239,096
NET COST OF OPERATIONS	<u><u>\$ (25,768)</u></u>	<u><u>\$ 395</u></u>

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
 CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEARS ENDED SEPTEMBER 30, 2013 and 2012

(Dollars in Thousands)

	<u>2013</u>	<u>2012</u>
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	\$ 178,145	\$ 170,446
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	6,457	411
Imputed Financing	7,287	7,683
Total Financing Sources	<u>13,744</u>	<u>8,094</u>
Net Cost of Operations	<u>25,768</u>	<u>(395)</u>
Net Change	39,512	7,699
NET POSITION	<u><u>\$ 217,657</u></u>	<u><u>\$ 178,145</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, 2013 and 2012

(Dollars in Thousands)

BUDGETARY RESOURCES:	2013	2012
Unobligated Balance brought forward, October 1	\$ 111,647	\$ 103,411
Spending Authority from offsetting collections	473,364	453,380
Total Budgetary Resources	\$ 585,011	\$ 556,791
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	\$ 477,202	\$ 445,144
Unobligated Balance, end of year	107,809	111,647
Total Budgetary Resources	\$ 585,011	\$ 556,791
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations, brought forward, October 1 (gross)	\$ 165,901	\$ 157,955
Uncollected customer payments from Federal sources, brought forward	(117,334)	(87,690)
Obligated balance start of year (net)	\$ 48,567	\$ 70,265
Obligations Incurred	\$ 477,202	\$ 445,144
Outlays (gross)	(461,578)	(437,198)
Change in Uncollected Customer Payments from Federal Sources	28,527	(29,644)
Obligated Balance, end of year, (net)	\$ 92,718	\$ 48,567
Obligated Balance, end of year		
Unpaid obligations, end of year (gross)	\$ 181,525	\$ 165,901
Uncollected customer payments from Federal sources, end of year	(88,807)	(117,334)
Obligated Balance, end of year, (net)	\$ 92,718	\$ 48,567
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, gross	\$ 473,364	\$ 453,380
Actual offsetting collections	(501,891)	(423,736)
Change in Uncollected Customer Payments from Federal Sources	28,527	(29,644)
Budget Authority, net	\$ 0	\$ 0
Outlays, gross	\$ 461,578	\$ 437,198
Actual offsetting collections	(501,891)	(423,736)
Net Outlays	\$ (40,313)	\$ 13,462

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 2013 and 2012

(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: Enterprise Operations, 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) 2013 and 2012 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.

N. Subsequent Events

Subsequent events have been evaluated through the auditors' report date which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

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,

	2013	2012
Fund Balance with Treasury	\$ 200,527	\$ 160,214

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

	2013	2012
Unobligated Apportionment		
Available	\$ 107,809	\$ 111,647
Unavailable		
Obligated Balance not yet Disbursed	\$ 92,718	\$ 48,567
Total Unexpended Apportionment	\$ 200,527	\$ 160,214

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,

	2013	2012
Intragovernmental Accounts Receivable	\$ 38,843	\$ 36,473
Public Accounts Receivable	16	20
Total Accounts Receivable	\$ 38,859	\$ 36,493

Note 4. General Property, Plant and Equipment**General PP&E as of September 30, 2013:**

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	\$ 3,774	\$ (238)	\$ 3,536
Structure	581	(82)	498
Furniture & Equipment	18,889	(4,775)	14,114
ADP Equipment	68,927	(43,037)	25,891
Capital Lease Equipment	2,119	(293)	1,826
Software	19,165	(16,602)	2,563
Software in Development	16,010	0	16,010
Leasehold Improvements	24,974	(16,836)	8,138
Total PP&E	\$ 154,439	\$ (81,863)	\$ 72,576

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
Total PP&E	\$ 134,838	\$ (71,690)	\$ 63,148

Note 5. Other Assets

Other Assets as of September 30,

	2013	2012
Intragovernmental		
Advance Payment – Federal	\$ 1,402	\$ 2,335
Total Intragovernmental	\$ 1,402	\$ 2,335
Public		
Advance to Employees	\$ 1	\$ 4
Advance Payment – Other	0	0
Total Public – Other Assets	\$ 1	\$ 4
Total Other Assets	\$ 1,403	\$ 2,339

Note 6. Federal Employee Benefits

Imputed Expenses – Employee Benefits as of September 30,

	2013	2012
Civil Service Retirement System	\$ 1,804	\$ 1,785
Federal Employees Retirement System	1,077	1,130
Federal Employee Health Benefits	4,391	4,752
Federal Employee Group Life Insurance	15	16
Total Imputed Expenses – Employee Benefits	\$ 7,287	\$ 7,683

Note 7. Other Liabilities

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

Other Liabilities as of September 30,

	2013	2012
Intragovernmental		
Accrued Expenses – Federal	\$ 10	\$ 0
Accrued VA Contributions for Benefits	513	400
Advances – Federal	7,236	9,689
Total Other Intragovernmental Liabilities	\$ 7,759	\$ 10,089
Public		
Accrued Salaries & Benefits	\$ 2,164	\$ 1,601
Accrued Funded Annual Leave	6,199	5,945
Capital Lease Liability	2,044	0
Total Other Public Liabilities	\$ 10,407	\$ 7,546

Note 8. Leases

The Franchise Fund has operating leases and capital leases of \$2,118.5. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund's FY 2013 operating lease costs were \$13,903.9 for real property rentals and \$2,442.9 for equipment rentals. The Franchise Fund's FY 2012 operating lease costs were \$11,415.8 for real property rentals and \$348.8 for equipment rentals. The following chart represents the Franchise Fund's estimate for operating lease costs for the next 5 years, assuming a range of 3.1 percent annual increases in cost.

OPERATING LEASES			
Fiscal Year	Percentage Increase	Real Property	Equipment
2014	3.1	\$ 14,335	\$ 2,519
2015	3.1	\$ 14,779	\$ 2,597
2016	3.1	\$ 15,237	\$ 2,677
2017	3.1	\$ 15,710	\$ 2,760
2018	3.1	\$ 16,197	\$ 2,846

Note 9. Intragovernmental Costs and Exchange Revenue

Costs and Exchange Revenue as of September 30,

	2013	2012
Intragovernmental costs	\$ 208,616	\$ 200,955
Less: Earned Revenue – Intragovernmental	(498,113)	(439,656)
Net Intragovernmental Cost	(289,497)	(238,701)
Indirect Administrative Cost	263,729	239,096
Total Net Cost of Operations	\$ (25,768)	\$ 395

Earned Revenue: Revenue earned by VA Franchise Fund (VAFF) for fees charged for services for the period ended September 30, 2013 was \$498,113. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2012 was \$439,656.

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. Disclosures Related to the Statements of Budgetary Resources

Apportionment Categories of Obligations Incurred Direct VS. Reimbursable Obligations

Category A, Direct/Reimbursable, consists of amounts requested to be apportioned by each calendar quarter in the fiscal year. Category B, Direct/Reimbursable, consists of amounts requested to be apportioned on a basis other than calendar quarters, such as activities, projects, objects, or a combination of these categories. The VA Franchise Fund obligations are apportioned by activity.

Reimbursable Obligations as of September 30,

	2013	2012
Category B, Reimbursable Obligations	\$ 477,202	\$ 445,144

Undelivered Orders at the End of a Period

The amount of budgetary resources obligated for undelivered orders for fiscal years ended September 30, 2013 and 2012 was \$95,336 and \$91,804, respectively.

Note 11. 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

	2013	2012
<i>Resources Used to Finance Activities:</i>		
Budgetary Resources		
Obligated		
Obligations Incurred	\$ 477,202	\$ 445,144
Less: Spending Authority from Offsetting Collections and Adjustments	(473,364)	(453,380)
Net Obligations	3,838	(8,236)
Other Resources		
Transfers in/out	6,457	411
Imputed Financing from Costs Subsidies	7,287	7,683
Net Other Resources Used to Finance Activities	13,744	8,094
Total Resources Used to Finance Activities	17,582	(142)
<i>Resources Used to Finance Items not Part of the Net Cost of Operations:</i>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	(35,967)	19,490
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(23,378)	(28,093)
Resources that Fund Expenses Recognized in Prior Periods	4	(2)
Total Resources Used to Finance Items not Part of the Net Costs of Operations	(59,341)	(8,605)
Total Resources Used to Finance the Net Cost of Operations	(41,759)	(8,747)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	13,950	9,184
Bad Debts	2	0
Loss on Disposition of Assets		(42)
Other	2,039	(0)
Total Components that Will Not Require or Generate Resources	15,991	9,142
Total Components that Will Not Require or Generate Resources in the Current Period	15,991	9,142
Net Cost of Operations	\$ (25,768)	\$ 395

Note 12. Reclassification – Accounts Payable

During 2013, VA identified certain transactions within Other Liabilities that are more appropriately included within Accounts Payable based on Treasury USSGL guidance. The corrections resulted in the reclassification of \$20 million of Intragovernmental Other Liabilities to

Intragovernmental Accounts Payable and \$40 million of Public Other Liabilities to Public Accounts Payable for 2012 in the Consolidated Balance Sheet to conform to the 2012 presentation. The reclassifications had no other effect on net position, net costs or budgetary resources in the Consolidated Financial Statements.

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND

Debt Management Center

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Phone: 612-970-5700
Fax: 612-970-5687
E-mail: dmc.ops@va.gov
Internet: www.va.gov/debtman

Enterprise Operations

1615 Woodward Street
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Financial Services Center

Enterprise Business Management Section (104)

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Law Enforcement Training Center

2200 Fort Roots Drive, Building 104
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Phone: 501-257-4160
Fax: 501-257-4145
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Internet: http://www.osp.va.gov/Law_Enforcement_Training_Center_LETC.asp

Records Center and Vault

1615 Woodward Street
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Internet: www.rcv.va.gov

Security and Investigations Center

2200 Fort Roots Drive, Building 192
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Internet: http://www.osp.va.gov/Security_and_Investigations_Center_FF.asp



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

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