FY 2015

DELIVERING REMARKABLE VALUE AND EXCEPTIONAL SERVICES TO OUR FEDERAL CUSTOMERS

DEPARTMENT OF VETERANS AFFAIRS

FRANCHISE FUND
ANNUAL REPORT

Delivering Remarkable Value and Exceptional Services to Our Federal Customers

VA FRANCHISE FUND FY 2015 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:
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Franchise Fund Oversight Office
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DEPARTMENT OF VETERANS AFFAIRS
FRANCHISE FUND FY 2015 ANNUAL REPORT

TABLE OF CONTENTS

Contributors

- Debt Management Center
- Financial Services Center
- Records Center and Vault
- Enterprise Operations
- Law Enforcement Training Center
- Security and Investigations Center
- Franchise Fund Oversight Office

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.

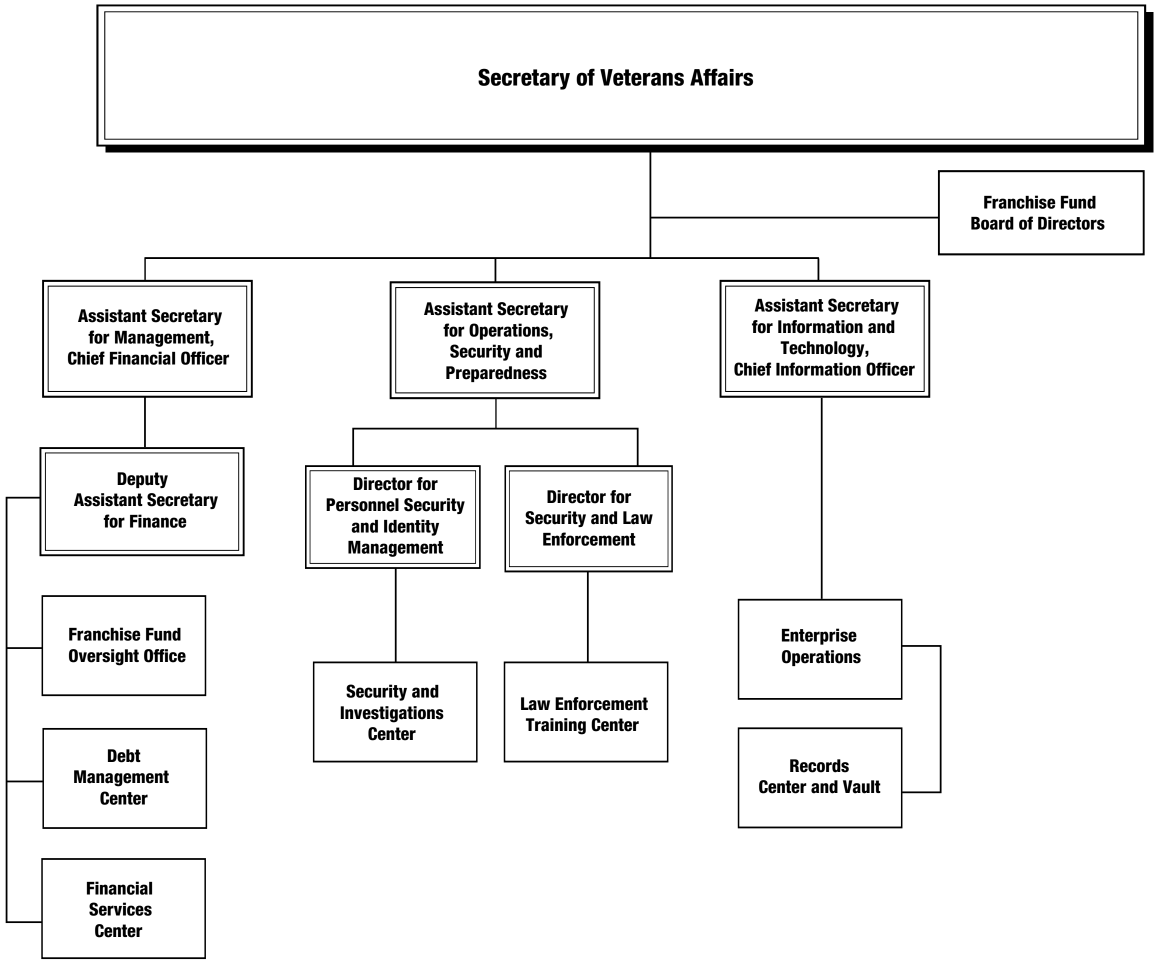
Excellence

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 consists 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; the Office of Operations, Security, and Preparedness; and the 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

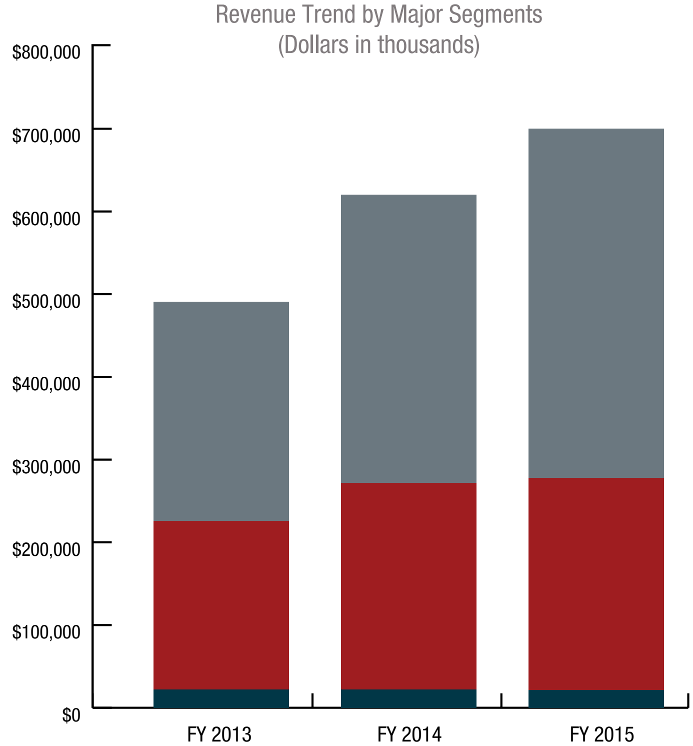
The VA Franchise Fund consists of three major segments: information technology (IT), financial management (FM), and Personnel Security and Law Enforcement (PS&LE). The chart below shows the revenue among our segments for FY 2013 through FY 2015.

The IT segment generated $425 million in revenue in FY 2015, which is a significant increase from $349 million in FY 2014.

The FM segment generated $254 million in FY 2015, which is a slight decrease from $256 million in FY 2014.

The (PS&LE) segment ended FY 2015 with over $27 million in revenue which is a notable increase from the $21 million in revenue reported at the end of FY 2014.

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



	FY 2013	FY 2014	FY 2015
IT	$264,550	$349,449	$424,984
FM	$211,483	$256,446	$253,657
PS&LE	$ 22,080	$21,351	$27,003

Financial Management (FM)

Financial Services Center (Austin, TX)

- Financial Reports and Accounting
- Construction Accounting
- Credit Card Payments
- Vendor File Maintenance
- Customer Care Center
- Rejects and Adjustments
- Prime Vendor Subsistence
- Electronic Commerce/Electronic Data Interchange
- Document Management System
- Payroll Support Services
- Travel Services
- Common Administrative Services
- Financial Systems Oversight
- FMS Service Requests
- Audit Services
- Purchased Care Claims Services
- Combo II Services
- Consulting
- VA Conference Tracking and Reporting

Financial Management (FM)

Debt Management Center (St. Paul, MN)

- Account Maintenance
- Administrative Offset/Expanded Tools
- Enhancement of VHA Debt Management Services
- Expanded VHA Debt Management Tools
- Business Process Optimization
- Employee Salary Offset Hearings
- Grant Waivers

Financial Management (FM)

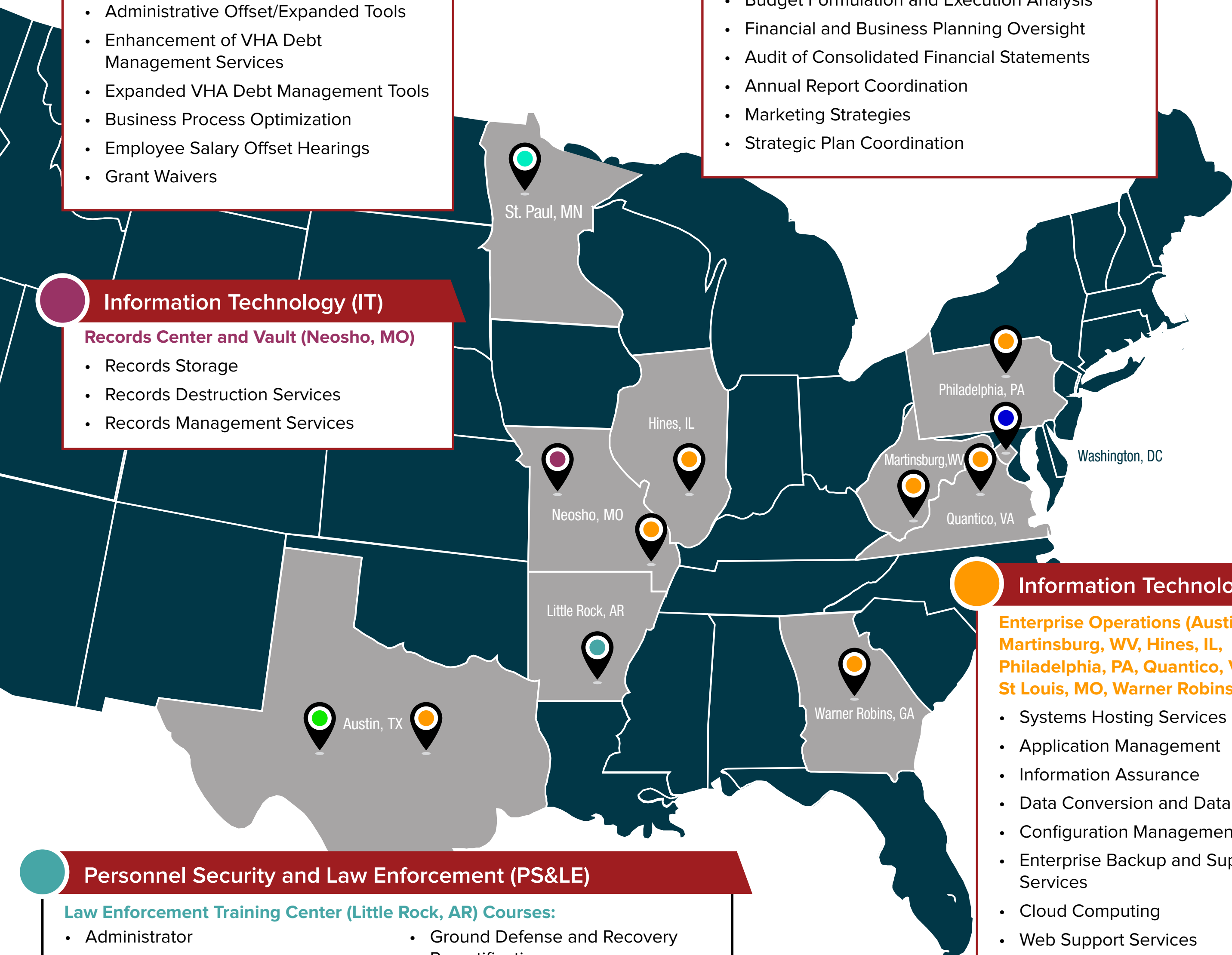
Franchise Fund Oversight Office (Washington, DC)

- Administrative Support to the Enterprise Centers
- Budget Formulation and Execution Analysis
- Financial and Business Planning Oversight
- Audit of Consolidated Financial Statements
- Annual Report Coordination
- Marketing Strategies
- Strategic Plan Coordination

Information Technology (IT)

Records Center and Vault (Neosho, MO)

- Records Storage
- Records Destruction Services
- Records Management Services



Information Technology (IT)

Enterprise Operations (Austin, TX, Martinsburg, WV, Hines, IL, Philadelphia, PA, Quantico, VA, St Louis, MO, Warner Robins, GA)

- Systems Hosting Services
- Application Management
- Information Assurance
- Data Conversion and Data Interfacing
- Configuration Management
- Enterprise Backup and Support Services
- Cloud Computing
- Web Support Services
- Security Support Services

Personnel Security and Law Enforcement (PS&LE)

Law Enforcement Training Center (Little Rock, AR) Courses:

- Administrator
- Advanced Patrol Officer
- Armorer
- Basic Police Officer
- Combined ATR/Tactical
- Crime Scene Investigation
- Crime Scene Photography
- Daily (In-Residence) Costs
- Detective
- Dispatcher
- Evidence/Alternate Custodian
- Executive Leadership
- Firearms Instructor
- Firearms Recertification
- First Line and Intermediate Supervisor Training
- Fraud/Computer Crime
- Ground Defense and Recovery
- Ground Defense and Recovery Recertification
- Instructor Development
- Introduction to Executive Protection
- Introduction to Police Supervision
- MEB/OC/DT/Instructor
- Mobile Training Teams
- Physical Security
- Police Service Program Compliance
- Self-Defense Awareness for VA Employees
- Tactical Firearms Instructor
- Technical Surveillance Installation
- Traffic Accident Investigation
- USAF Basic Police Officer
- Verbal Defense in HealthCare
- USAF Security Guard

Personnel Security and Law Enforcement (PS&LE)

Security and Investigations Center (Little Rock, AR)

- National Security Background Investigations and Adjudications
- Public Trust Background Investigations and Adjudications
- Low Risk Background Investigations and Adjudications
- Reciprocation of a Prior Adjudication from other Federal Agency
- Security Check for Candidate Requiring Approval of the Secretary
- Special Agreement Check (Fingerprint) Adjudication
- Fingerprint Submission
- Reissuance/Copy of Certificate of Investigation/Eligibility

MEMBERS OF THE VA FRANCHISE FUND NETWORK


Vikki Soukup, Director, Debt Management Center


Chris Shorter, Executive Director, Enterprise Operations


Teresa Riffel, Director, Financial Services Center


Monica Pullin, Director, Franchise Fund Oversight Office


James Ward, Director, Law Enforcement Training Center


David Kubacki, Director, Records Center and Vault


Joshua Blockburger, Director, Security and Investigations Center

Information Technology

Enterprise Operations (EO). Composed of data centers in Austin, TX; Martinsburg, WV; Hines, IL; Philadelphia, PA; Quantico, VA; St Louis, MO; and Warner Robins, GA; 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. EO supports over 300 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefit and supply functions. In addition, 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, Minnesota, on the historic grounds of Ft. Snelling, the DMC is a leader in the Federal debt management community. The DMC provides general debt collection services for VA, overseeing the entire collection process for the VBA and over the last several years, increasing debt collection services for the VHA.

Financial Services Center (FSC). Composed of several locations in Austin, TX, Waco, TX and Washington, DC, the FSC provides a full range of financial and accounting services. These services include financial reports and accounting, commercial vendor payments, credit card payments, medical claims adjudication and payment processing, vendor file maintenance, discount subsistence purchases, payroll processing, and VA conference tracking and reporting. In addition to providing these services, the FSC also provides customer support help desks for payroll, travel and payment processing, data analytics, 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.

Personnel Security and Law Enforcement

Law Enforcement Training Center (LETC). The LETC, located in Little Rock, AR, 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 3,500 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

Edward J Murray

Interim Assistant Secretary for Management and Interim Chief Financial Officer

On behalf of the Franchise Fund, I invite you to examine our FY 2015 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 exceptional support services to VA and other government agencies (OGA). We ended FY 2015 with total revenue of $706 million, which is a moderate increase from FY 2014 revenue.

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

- Attaining an unqualified audit opinion of our financial statements for the 18th consecutive year.
- Involving customers in the planning of activities and programs during FY 2015 in order to facilitate continuous process improvement while satisfying customer expectation and business needs. (EO)
- Implementing a state-of-the-art phone system during FY 2015 to support improved Veteran access and self-service options. The system provides significantly more data and information, increasing the DMC's ability to conduct analysis and make better management decisions. (DMC)
- Providing reliable payment services to VA customers, including over 300 VA facilities, during FY 2015. Payment services included processing over 1.2 million invoices valued at $13.5 billion according to the prompt payment act rules and regulations. (FSC)
- Implementing "Acadis", a registration and training management Web-based software package during FY 2015. This system allows LETC customers to track training events, enroll and cancel courses, be placed on a priority wait list for fully booked courses and receive system-hosted monthly sustainment training. (LETC)
- Leveraging Personnel Suitability and Security System (PSSS) capabilities during FY 2015. This initiative scheduled for delivery in 2016 will satisfy VA's requirement for a cost-effective case management system for cases processed through the SIC, ensuring the consolidation of all security and suitability background investigation case information. (SIC)
- Continuing to serve RCV's customers with their long-term storage needs, although the RCV has operated at maximum storage capacity during FY 2015. System enhancements and continuously improving customer service initiatives have ensured a high degree of customer satisfaction now and well into the future. (RCV)

These successful endeavors are examples of the Franchise Fund **delivering remarkable value and exceptional services to its 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 VA Franchise Fund FY 2015 Annual Report. Effective FY 2016, the Franchise Fund will be governed by the VA Support Services Governance Board. As the Franchise Fund looks forward to this coming year, I am confident it will continue to demonstrate sound business practices under the new governance structure.

Edward J Murray

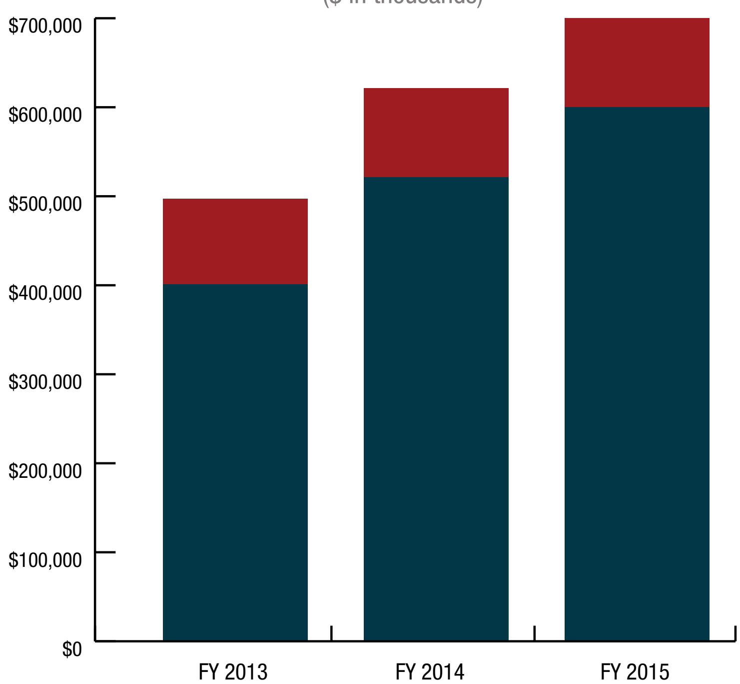
OUR STAKEHOLDERS

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 OMB, Congressional authorization and appropriations committees and subcommittees, and Veterans Service Organizations. Other stakeholders include VA and OGA.

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.

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



	FY 2013	FY 2014	FY 2015
OGA	$96,273	$105,333	$99,382
VA	$401,840	$521,913	$606,262

External Stakeholders

- Veterans and their families
- Office of Management and Budget
- Congressional authorization and appropriations committees and subcommittees
- Veterans Service Organizations (VSO)
- Private sector vendors
- Department of Defense (DOD)
- Department of Health and Human Services (HHS)
- Department of Homeland Security (DHS)
- Department of the Interior (Interior)
- Government Accountability Office (GAO)
- Postal Regulatory Commission

Internal Stakeholders

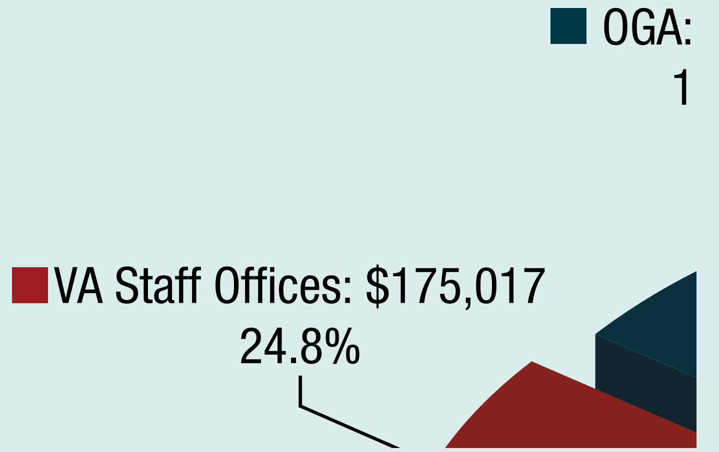
- Veterans Health Administration (VHA)
- Veterans Benefits Administration (VBA)
- National Cemetery Administration (NCA)
- VA Staff Offices

COMPARISON OF CUSTOMER REVENUE FROM FY 2014–2015

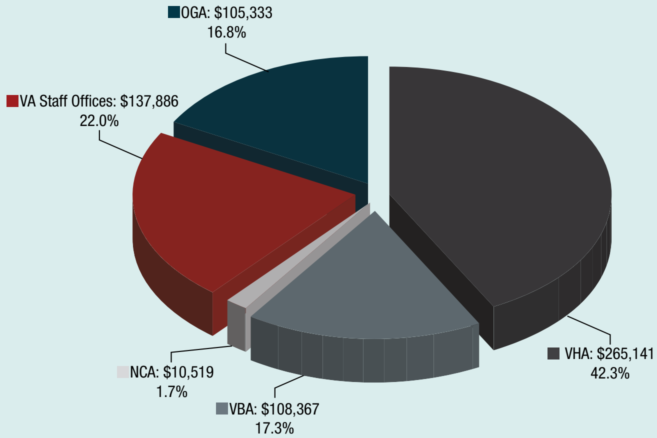
Approximately 86 percent of our revenue comes from VA customers. The remaining 14 percent comes from a wide variety of OGA customers. Within VA, VHA programs provide the most revenue to the Enterprise Centers.

Revenue from OGA customers decreased between FY 2014 and FY 2015. The Franchise Fund ended FY 2015 with $99 million in revenue, a decrease from FY 2014 levels of $105 million. This $6 million revenue decrease was due to reduced business from several of the FSC's OGA customers. During FY 2015, while the FSC earned over $6 million in OGA revenue from the Federal Mediation and Council Service (a new customer), the FSC also incurred a $12 million reduction in OGA revenue from two major customers. This loss of revenue was the result of reduced business from both HHS - Office Of Refugee Resettlement and DHS - Immigration and Customs Enforcement. The net result was a $6 million reduction in OGA revenue during FY 2015.

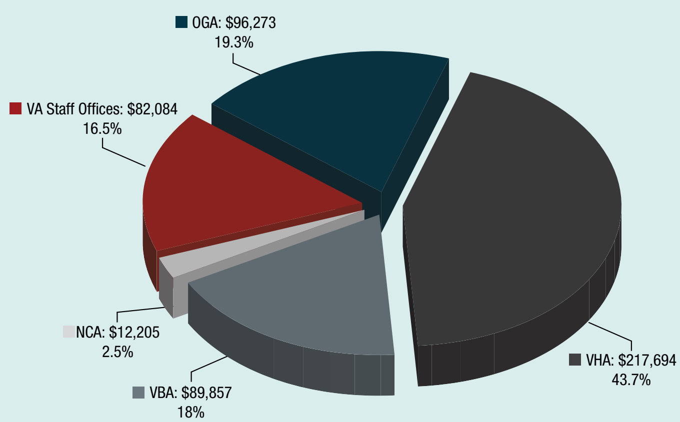
VA Franchise Fund Revenue by Customer
As of September 30, 2015
(Dollars in Thousands)



VA Franchise Fund Revenue by Customer
As of September 30, 2014
(Dollars in Thousands)



VA Franchise Fund Revenue by Customer
As of September 30, 2013
(Dollars in Thousands)



MEETING VA FRANCHISE FUND OBJECTIVES

INFORMATION TECHNOLOGY SEGMENT – EO

Technological Enhancements

EO strives to provide the latest, cutting edge technologies and services at a price that fully recovers cost, while remaining in line with EO's direct competitors. Year after year, EO has been able to leverage new technologies and economies of scale in order to lower rates and continue to provide higher quality service to Veterans while maximizing taxpayer dollars. Some examples of this include EO's cloud environment, tiered storage, extensive use of virtualized servers, and the solar array at the Austin Information Technology Center (AITC).

EO's use of virtualization first for servers provides for:

- Better use of computer resources due to flexibility in resource allocations (i.e. ability to quickly add or decrease processor and memory resources to virtual machines/servers)
- Quicker provisioning as no need for acquisition of physical hardware
- Fewer physical servers required therefore decrease in need for data center space
- Fewer physical servers therefore lower power and cooling consumption; which is a cost savings on electricity

EO's data centers are high density per square foot consumers of electricity. Being proactive, EO has taken steps to reduce its carbon footprint wherever possible. A 15,000 square foot rooftop solar array capable of generating 200 kilowatts of electricity was installed lowering both energy costs and the carbon footprint. EO is also evaluating future opportunities such as electric car charging stations and the use of fuel cells. In an effort to find more ways to save energy, EO is measuring and monitoring how efficiently its data centers use energy.

Mainframe Upgrade

EO upgraded its mainframe hardware with a technical refresh of the Austin z196 production platform. The delivery of the software and hardware for the z196 technical refresh occurred in September 2015 with a planned production installation of December 2015.

Network Infrastructure Upgrade

EO performed a technical refresh to implement the Point of Delivery (PoD) Architecture to maximizing and increasing scalability, customization, provisioning and management. This allowed EO to accommodate various customer requirements and sustain scalability as user requirements grow, without sacrificing initial investments, particularly within the Cloud environments. The benefit of the project ensures that EO Network Infrastructure is the most up-to-date, in order to provide EO's customers with the service they expect.

Cloud Delivery Environment

EO's cloud service continued to grow and mature at a steady pace in FY 2015. Additional infrastructure was deployed at multiple regional and core cloud sites in response to the increased demand for Infrastructure as a Service (IaaS). EO's technical staff continues to examine, streamline, and improve processes in order

to align and deliver cloud services more effectively. EO anticipates significant reduction of Time-to-Market (TTM) as rapid deployment services are introduced.

Ever-changing Security Vulnerabilities

EO continues to see new security vulnerabilities identified and exploited in the commercial products currently available and in use at EO. These vulnerabilities, when not identified, increase the risk of improper disclosure of data, unauthorized modification of data, or disruption of services. Not only is the number of known vulnerabilities increasing, but the speed at which exploits are released has also increased, necessitating more automated methods for vulnerability identification and remediation. EO's highly automated security controls provide its customers with a high level of assurance that the next major computer virus will have little effect on operations. EO works closely with the Office of Information and Technology's (OI&T) Field Security Office to ensure its efforts are synchronized with VA's overall security program, and EO maintain all current security standards and patches. EO also works closely with industry to identify and mitigate newly identified vulnerabilities.

Storage Standardization

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 Hitachi, the need for labor expertise for multiple vendors' storage technology is reduced. Finally, the newer technology allows for storage virtualization by enabling EO to manage other storage technologies with Hitachi tools. This keeps Hitachi competitive in future storage procurements because EO is not restricted to solely using Hitachi technology.

Efficient Delivery of Common Administrative Support Services

EO works diligently to continuously enhance the delivery of its product offerings and improve customer satisfaction by:

- Providing customers with highly efficient production and disaster recovery alternatives. EO migrates toward virtualization of servers while continuing to implement upgrades to existing servers.
- Expanding and improving data center facility infrastructures. EO continues to upgrade security VA-wide to improve communication systems, and modify electrical and mechanical systems.
- Maintaining sufficient storage capacity and enhancing backup environment across EO. EO procures

additional storage for data centers and continues to replace backup capabilities with a uniform solution during the transition to the storage on demand acquisition model.

- Implementing resource capacity planning. EO develops tools, consolidates capacity data, and establishes processes to obtain reports on resource availability as demands are identified from customer requirements or through data center consolidation.
- Providing customers with results-oriented, efficient, and effective administrative support services including but not limited to infrastructure, platform, and security services.

EO maintains the availability of critical system and datacenter infrastructures. EO assures that its teams adhere to operations and maintenance standards and vulnerabilities are identified and addressed accordingly. EO mitigates critical deficiencies to minimize or eliminate potential downtime. Planned outages, downtime and maintenance windows are managed to planned schedules, scope, and impact. Change orders and automated notification reports are managed for all issues and impacts to maintain proper communication to customers and users.

EO has implemented key initiatives which have resulted in more efficient use of its resources, allowing EO to meet customer needs at competitive prices during FY 2015. These key initiatives include:

- **Virtualized servers:** EO's use of virtualization has resulted in cost savings and increased customer satisfaction.
- **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 EO's 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., Central Processing Units (CPU), memory, network, and disk space) can easily be changed (added or deleted) in the guest virtual environments. Additionally, guest environments can be migrated from one physical server to another.

INFORMATION TECHNOLOGY SEGMENT - RCV

Document Scanning

To serve Veterans promptly, the RCV provides frequently needed documents in a timely manner. Some examples of emergency documents include copies of advance health care directives, DD-214s for Veteran burials or determination of a homeless Veterans' eligibility for VA benefits. The RCV's standard file return via express mail carrier is within 2-3 business days, but the RCV strives to expedite the return of these emergency requests. Previously, the RCV staff would fax or email copies of these documents to its customers. To avoid any potential security or privacy concerns, the RCV worked with EO to upgrade the RCV telecommunications network to accommodate the scanning of these documents to the Records Retrieval System (RRS). The RCV can get these directives or DD-214s uploaded to RRS within two hours of the request for its customers to view, print, or download.

System Improvements

The RCV has improved the automated email functionality of RRS, an online application used to record and monitor incoming VA records, temporary file withdrawals and returns, and permanent file recalls. If a VA customer requests a file that has already been returned or is not located in the specified box, RRS will automatically send an email, notifying the user that the file is unavailable. Additionally, when the RCV's staff processes emergency document requests and the information is available online, RRS will automatically send a notification email. All emails sent through RRS include a link to the RRS database for additional information.

The emails for emergency documents contain a direct link to the scanned document, allowing the customer to download, print, or view the records. In all cases, contact information for the RCV is provided if additional information is required. Previously, these emails were done manually by the RCV's technicians. The RCV staff continues to work directly with customers who need assistance with accession numbers or any other records concerns.

Customer Satisfaction Survey

The RCV conducts an annual survey of its RRS users. The 2015 survey, conducted in June, netted a 94 percent satisfaction rating, which is a slight improvement over prior years' surveys. One of the respondents commented: "Outstanding! No other facility matches the response I have received from RCV team members." Many RCV customers provided feedback and suggestions for improving the scanning and file return processes. The RCV Business Office and management will continue to work with its customers over the next months to determine how it can best meet its customers' needs.

INFORMATION TECHNOLOGY SEGMENT PLANS FOR 2016 AND BEYOND

Enterprise Operations

Storage on Demand
The Storage on Demand initiative will become an available service offering during FY 2016. We have developed an acquisition strategy for services and commodities, aligned with the Department's Strategic Vision, which will provide this baseline service to EO data centers with possible future expansion into other areas. This plan supports the cloud initiative and the National Data Center consolidation plan by providing a common, modular and scalable approach with just-in-time delivery of services for its customers. The approach looks to maximize existing infrastructure and services, and leverages a holistic method to lifecycle management, providing a cost effective, reliable, and expandable solution.

Cloud Delivery Environment
EO's private cloud delivery environment will be extended to two additional locations in support of better service levels to national projects such as Veterans Health Information Systems and Architecture (VistA) Evolution (VE) in FY 2016. VE will be the umbrella project for all electronic health record technology delivery in FY 2016. By putting infrastructure closer to consolidated health care data at the National Data Center Program (NDCP) and regional data centers, latency caused primarily by distance is reduced. This also provides a more consistent interface to customers who need data center hosting services nationwide.

Records Center and Vault

Warehouse Storage Capacity
Although the RCV has reached its maximum storage capacity, it is well-positioned to continue serving the its customers with their long-term storage needs. The majority of records stored at the RCV need to be maintained for 75 years after the Veteran's last medical visit. The RCV anticipates providing storage well into the 21st century. The RCV facility encompasses over 400,000 square feet of subterranean, climate-controlled space. Of this space, almost 395,000 square feet is dedicated to storage. The remaining storage space will be used for scanning, destruction, staging and off-loading, as well as office space.

FINANCIAL MANAGEMENT SEGMENT – FSC

Dialysis National Contract

The Dialysis Project processed 133,000 dialysis claims for Veterans in FY 2015. This contract involved 21 Veterans Integrated Service Networks (VISNs), 146 VA Medical Centers (VAMCs), 23 contractors and approximately 6,000 providers of dialysis services to our Veterans. The vast majority of annual claims were processed in less than 30 days with an average of 12 days or less. An average of 99.3 percent of these claims was paid timely in FY 2015. The Dialysis National Contract (DNC) Operational team has reviewed an estimated $5.5 billion in total charges, in which an estimated $365 million will have been disbursed to contracted providers. Of paramount importance is the assurance that providers get paid timely and accurately. This ensures they can continue to provide dialysis services to our Veterans in need.

The DNC operational team has developed, tested, and completed a claims processing rules engine that interprets complex Medicare payment methodologies. This rules engine automatically processes claims for payment or denial based on data submissions on the invoices. The rules engine reduces hours spent manually interpreting/processing complex medical claims, increases auto-adjudication to 82 percent, and improves FSC's accuracy ratios by limiting manual user intervention.

Choice

In FY 2015, VHA Chief Business Office (CBO) entrusted the FSC to help meet the increase in claim volumes received following the passing of the Veterans Access, Choice and Accountability Act of 2014 (Public Law 113-146). The FSC began processing Choice Veteran registrations and authorizations in February 2015, and Choice claims in May 2015. CBO was able to redirect resources to VISNs with a standing backlog of claims and other business processes based on FSC's assistance of the Choice program. While the FSC processed Choice claims, CBO was able to keep VA field offices and CBO resources focused on processing FBCS medical claims backlog instead of redirecting them to process Choice claims. The FSC is currently processing Choice claims within 30 days, 100 percent of the time. This timeliness lends itself to a good working rapport between VA and the contractors managing healthcare for our Veterans.

Fee Basis Claims System

In FY 2015, the FSC supported 15 VISNs, a significant increase from the two we supported last fiscal year. This success is due to the increase in production, averaging four times the number of claims processed than were processed in FY 2014. The CBO has gained efficiencies and reduced backlog as a result of the FSC's support.

Charge Cards Transition to "chip–and–PIN"

Throughout FY 2015, the Charge Card Operations Division (CCOD) collaborated with US Bank to replace all purchase, fleet, and individually billed travel cards with new "chip-and-PIN" cards. The cards are embedded with a secure microchip and authenticated automatically using a unique PIN code as part of the Improving the Security of Consumer Financial Transactions Executive Order signed by President Obama.

Camp Lejeune Family Member Medical Claims

In partnership with CBO, the FSC launched the Camp Lejeune Family Member Program (CLFMP) on October 24, 2014. From August 1, 1953, through December 31, 1987, family members living at the U.S. Marine Corps Base Camp Lejeune, North Carolina, were potentially exposed to drinking water contaminated with industrial solvents, benzene, and other chemicals. On August 6, 2012, the Honoring America's Veterans and Caring for Camp Lejeune Families Act of 2012 was signed into law. This law (H.R. 1627, now Public Law 112-154) requires the Department VA to provide health care to Veterans who served on active duty at Camp Lejeune and to reimburse eligible family members for eligible health care costs related to one or more of 15 specified illnesses or conditions. The FSC provides end-to-end claims processing services to Camp Lejeune family members. The FSC has provided personal support to family members who require one-on-one assistance and guidance navigating through CLFMP. The FSC's services include call center support, family member enrollment, eligibility, claims adjudication and payment processing. The turnaround time for processing a medical claim is 12 days and 99.7 percent of claims are processed within 30 days. The Camp Lejeune Family Member Program call center has taken in over 5,000 calls since the beginning of the program with a 0.1 percent abandoned call rate.

Data Analytics

The FSC launched a data analytics initiative focused on providing visual analytics technology to assist with fraud detection/prevention, internal controls testing, continuous monitoring, and business process improvement of VA purchase card data. The FSC conducted extensive market research while working with various VA organizations to develop descriptive and diagnostic analytics models. Data analytics provides the FSC with a powerful capability that can be used for operational oversight, cost savings, and overall improvements of products and services offered by the Center.

Electronic Content Management

The FSC completed the implementation of the Electronic Content Management (ECM) system during FY 2015. The ECM system replaced the legacy document management system and provides enhanced capability for electronic document storage, retrieval, and records management. The ECM system, which consists of the IBM FileNet product along with service oriented architecture, was successfully integrated with the Invoice Payment Processing System (IPPS) for the future use of 10,000 FSC customers.

Improper Payments Elimination and Recovery Improvement Act (IPERIA) Services

VA enhanced its commercial vendor payment process with the completion of the IPPS implementation. Internal reviews indicated payment accuracy and timeliness exceeded 99 percent, while the annual IPERIA audit results for the Supplies and Materials program indicated an accuracy rate of 98.4 percent. 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. During FY 2015, the FSC was able to identify and take action on $25.5 thousand in improper payments for the Franchise Fund. Improved payment oversight enabled VA to identify and cancel over $7.9 million in potential improper payments prior to disbursement. Of the $7.9 million canceled for VA, none was attributable to the Franchise Fund.

Purchase Card

During FY 2015, FSC processed 5.9 million purchase card transactions, representing over $3.6 billion in purchases. In FY 2015, the electronic billing and payment process for card accounts earned VA over $78 million in credit card refunds, which is a nine percent increase compared to FY 2014 levels. These refunds are returned to VA entities for use in Veterans programs.

Centralization of Permanent Change of Station

The FSC manages an automated Web-based Permanent Change of Station (PCS) Travel Portal that expedites processing Intra-Agency Transfer Requests and Requests for Permanent Duty throughout VA. The portal streamlines the process for initiating and approving travel documents required by relocating employees who are authorized PCS travel entitlements. Human Resource, Budget and Approving Officials use the Web-based application with electronic flow of documents and electronic signature functionality in lieu of the former labor-intensive manual process. Results in FY 2015 continue to show a reduction in document processing time.

Relocating employees have benefited from this process improvement through increased flexibility available for move preparations and receipt of timely counseling on PCS entitlements. The FSC has established over 4,600 station users in the PCS Travel Portal at 354 VA stations. The FSC continues to implement business process improvements for efficient ways to improve the processing of PCS claim documents.

Travel Management Centers

VA's Travel Management Centers (TMCs) serve Veterans and employees who travel frequently. The billings for the Central Billed Accounts (CBAs) are transmitted electronically from each TMC and payment is sent daily through the Department of the Treasury's Electronic Certification System. During FY 2015, the travel management program processed over 378,000 transactions, disbursed payments of over $51 million and earned over $1 million in refunds.

Prime Vendor Payment System

VA's Prime Vendor Payment System automates payments under a nationwide prime vendor centralized purchasing contract. The system provides VAMCs with an efficient process to order supplies at low, negotiated contract prices and guarantees delivery within 24 hours, thereby eliminating the need for warehousing large volumes of supplies. During FY 2015, 147 VAMCs used the Prime Vendor System to electronically process over 614,000 payments valued at $6.1 billion.

VA-wide Temporary Duty Travel – e-Gov Travel Service 2

The FSC provides program management for VA's e-Gov Travel Service 2 (ETS2), a government-wide, Web-based, world-class travel management service. The FSC executed over $145 million in 2015, supported over 120,000 users while processing over 127,000 temporary duty (TDY) vouchers. The ETS2 benefits include enhanced tools to facilitate accountability over travel reservations and approvals, a conference reporting tool for conference administration, and future enhancements for mobile technology.

Per the National Archives and Records Administration (NARA), ETS users are required to have access to their ETS travel documents up to six years and three months after travel is complete. To ensure compliance with NARA requirements, the FSC created and implemented VA's FedTraveler.com TDY Historical Documents portal in October 2014 for FedTraveler.com travel data and receipts.

FINANCIAL MANAGEMENT SEGMENT – DMC

Customer Collaboration/Partnership

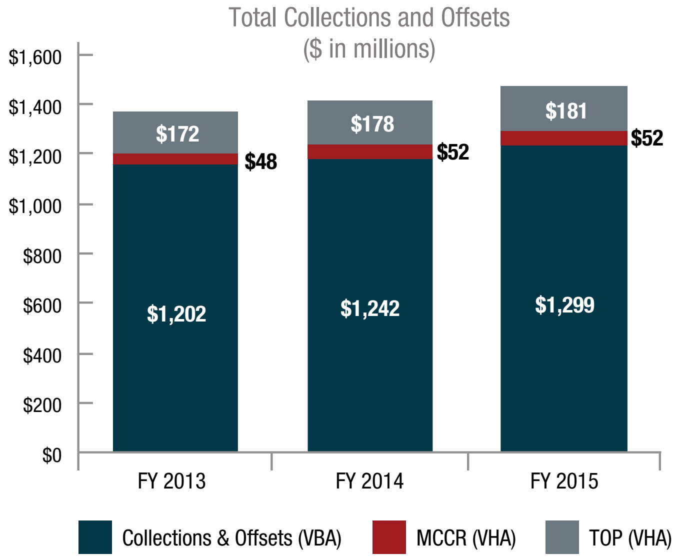
The DMC expanded collaboration and partnership efforts with its VA and OGA customers. These efforts included: processing Veterans Retraining and Assistance Program (VRAP) refunds for VBA, collaborating with VHA to establish an internal process for the Homeless Providers Grant and Per Diem Program, and partnering with VA's Office of Financial Policy and Office of General Counsel to establish guidelines and procedures for coordinating VA employee debt hearings. The DMC's FY 2015 efforts resulted in the DMC being recognized by Treasury as a benchmark for debt collection activities.

Paperless Business Processes

The DMC developed a paperless solution for processing cross-servicing disputes and administrative wage garnishment hearings. This new process eliminates the receipt of over 175 facsimiles and four certified mail transactions per month and increases security of Veteran Personally Identifiable Information (PII).

Debt Collection Programs

The DMC increased debt collection services offered to all three VA pillars: VBA, VHA and NCA. VBA debt collections increased over the past four years due to the post 9/11 GI Bill, and other education programs. The increase in the Veteran population receiving benefits directly resulted in an increase in revenue for the DMC.



This chart depicts collections/offsets for FY 2013 - FY 2015.

DMC Fraud Investigation

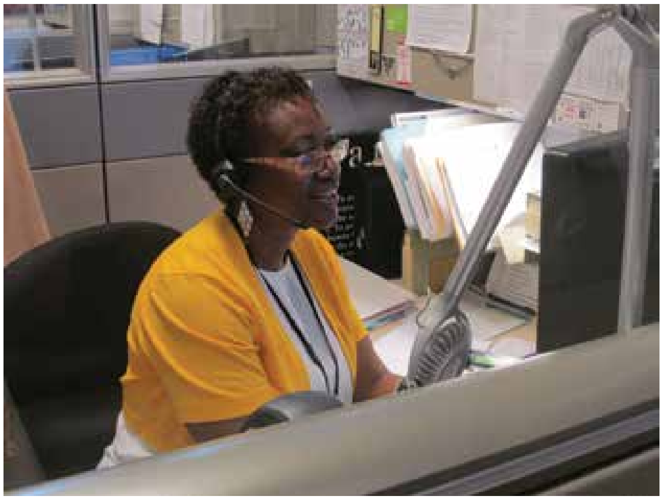
The DMC's fraud team continues to research and analyze potential fraud cases, working with the U.S. Attorney's Offices to collect benefit monies fraudulently claimed and/or retained on behalf of beneficiaries. In FY 2015, the DMC recovered a large amount of beneficiary overpayments; in one case the DMC supported the recovery of $685 thousand. In another case, through partnership with VBA, the DMC eliminated an erroneous debt of over $200 thousand, and reinstated benefits for a Veteran's widow.

Enhanced Customer Service Call Functions

The DMC, in partnership with the Department's Veteran Relationship Management program (VRM), enhanced the quality of Veteran-facing engagements by implementing a new phone system. The new system provides enhanced options for transferring calls, work-level tracking and call recording. It also provides significantly more data and information increasing the DMC's ability to conduct analysis.

To provide more distinctive customer service, the DMC established a dedicated congressional inquiry line. This line provides congressional staff direct contact with the DMC's congressional liaisons, improving access and reducing response time.

The DMC is working toward achieving the "one call solves it all" mentality in its national call center. The goal is to reduce the amount of times a Veteran has to call to resolve their debt questions and decrease the call wait times by leveraging new and innovative technology and processes.



FINANCIAL MANAGEMENT SEGMENT PLANS FOR FY 2016 AND BEYOND

Financial Service Center

VA Time and Attendance System

The VA Time and Attendance System (VATAS) is a Web-based commercial-off-the-shelf (COTS) system based on Kronos' WebTA software and customized to meet VA's Title 38 and Title 5 employees. VATAS records time and attendance data and transmits that to Defense Finance and Accounting Services (DFAS), VA's payroll service provider. During FY 2015, VATAS has been deployed to VA Central Office and VBA. Additional deployments of VATAS to VHA are scheduled in FY 2016, allowing VA the ability to have centralized reporting and increased internal controls over time card processing.

Healthcare Claims Processing

The FSC supported VHA and non-VA healthcare providers through the Care in the Community program. The use of non-VA healthcare 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. As part of the VHA CBO Purchased Care initiative, the CBO partnered with FSC to develop and deliver its future state requirements. These requirements represent three distinct functional components:

1. Enrollment and Eligibility System (EE) applies business rules to automatically enroll Veterans into health plans and groups based on the Veteran's eligibility. In FY 2015, EE was integrated with the fee-basis-claims system (FBCS) to fill an existing FBCS capability gap for EE determination. This FBCS functionality was piloted to VISNs 10 and 23 and will be deployed nationwide in the first quarter of FY 2016.

2. The Referral and Authorization System (RAS) provides referral templates to automatically invoke rules for approving Veterans' authorizations for non-VA Purchased Care. In FY 2016, RAS will be integrated into the Dialysis National Contract system to provide functionality to automate referral data entry processing, improve process efficiency, and reduce human errors due to manual referral entry. The RAS user base was extended incrementally in May 2015, in preparation for the RAS national rollout which will begin in the first quarter of FY 2016.

3. The Claims Payment Processing System will provide claims adjudication based on appropriate payment methodologies and fee schedules with seamless integration with EE and RAS during adjudication. The FSC delivery of this capability is pending a VA Leadership decision on the path forward for future-state non-VA Care medical claims processing.

VA-wide Temporary Duty Travel – e-Gov Travel Service 2

In mid-FY 2015, FSC began planning the last phase of VA's ETS2 implementation, which includes the migration of the VA Veterans Canteen Service (VCS) to Concur Government Edition (CGE). VCS is scheduled to transition beginning early FY 2016, with a project completion date in the second quarter of FY 2016. VCS has approximately 1,200 users, and processes 5,600 TDY vouchers annually.

The FSC supports the VA-Wide TDY Travel initiative by providing the following services for program sustainment: Global System Administration; support for Local Federal Agency Travel Administrators (FATAs); sponsorship of Superuser conference calls; training for all roles; user acceptance testing of new software releases; Travel Card Management; TDY Travel Voucher Audit; Contracting Officer's Representative support; participation in meetings hosted by GSA such as CGE User Group meetings; Program Change Control Board meetings; and Executive Change Control Board meetings.

Debt Management Center

New Product Offerings

As a leader in debt management, the DMC will provide general debt collection services to VA and other Federal agencies. In support of Secretary McDonald's shared services vision, the DMC will add two new business lines. The first business line will offer general debt management services for any debt types currently not serviced by the DMC. The second business line will manage the Treasury Report On Receivables (TROR). The new proposed business lines will cover any VA entities or Federal agencies requesting service. By supporting the shared services model, organizations leverage the same service provider which will improve efficiency, reduce costs, and increase productivity across VA.

Operational Efficiency

The DMC maintains operational efficiency on debt collection through economies of scale, operational efficiencies and demonstration of "I CARE" values. The DMC responded to more than 20,000 electronic inquiries through the Inquiry Routing and Information System (IRIS) and the DMC email boxes for Veterans and school officials. Congressional liaisons also responded to more than 1,800 congressional inquiries. These touchpoints provide direct feedback to the DMC and allow the DMC to care for Veterans, improve processes and provide unmatched service to all the DMC stakeholders.

Debt Management System Enhancements

The DMC debt management system CARS/CAROLS is currently outdated and improvements are needed to support a 21st Century VA, which is a goal of VA's Leadership. Due to the planning required of a project of such magnitude, methodical steps began in FY 2013. The DMC began working with consultants to develop business requirements. In FY 2014, actions were taken to create the technology roadmap for the enhancement. Results of these efforts will be phased in over the next five to seven years and will include business process re-engineering, establishing an automated workflow system, updating to a modern Web-based system and the integration of CARS/CAROLS into a single system. The expected results of the enhancement include merging various data sources on a unified platform and moving to a service oriented architecture, which will enable new functionality without requiring extensive modifications to the base code. The improved system functionalities will increase the DMC's data analytics capabilities, enhance process efficiencies, and overall marketability to OGA.

PERSONNEL SECURITY AND LAW ENFORCEMENT (PS&LE) SEGMENT – SIC

Automation Advancements

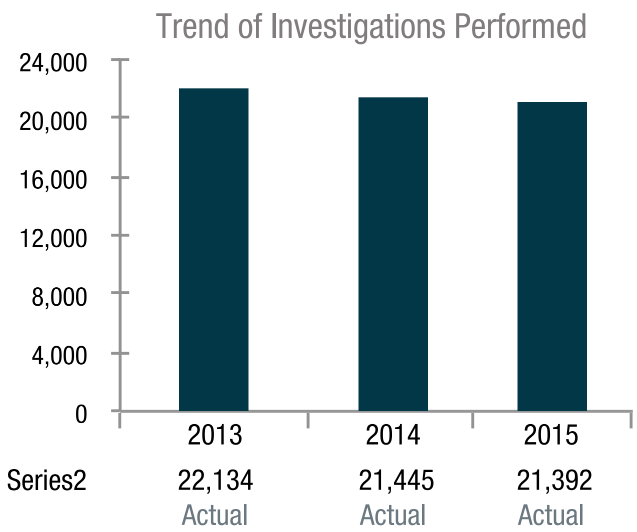
The SIC continues to work through e-Government initiatives to improve its processes. The SIC's development of a Web-based automated "Request" tool provides a consolidated method to request and track employee and contractor background investigations. The Web-based application is the Personnel Suitability and Security System (PSSS). Deployment is anticipated in the first quarter of 2016; PSSS will replace the current Contractor Request Database, the SIC SharePoint Portal, and Security Manager Database. It will provide the requestor an automated tool to track the current status of the background investigation that will be available 24 hours a day, 365 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 (COIs) 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 at no fee as the need arises.

SIC Investigations

The continued emphasis placed by the Continued Readiness in Information Security Program (CRISP), a VA initiative to strengthen information security, is one of the major reasons background investigations continue to increase over previous levels. In addition, OPM's development and implementation of its five-tiered levels of investigation is the next large initiative. Current information from OPM correlates background investigations to the following tiered levels:

Tier	Level	Re-Investigation	Continuous	Req'd Form
Tier V	Top Secret	5 Years	Yes	SF-86
Tier IV	High Risk	5 Years		SF-85P
Tier III	Secret	5 Years		SF-86
Tier II	Moderate Risk	5 Years		SF-85P
Tier I	Low Risk			SF-85

Implementation of the tiered level of investigation in alignment with the publication of 5 CFR 1400, replaced 5 CFR 732 in FY 2015. Federal agencies have 24 months to update all Program Descriptions (PD) utilizing OPM's Position Designation Automated Tool (PDAT) to determine the appropriate level of background investigation required. The SIC has fully complied with OPM's Initial Operating Capacity (IOC) for tiers I, II and III. Tiers I and II IOC were completed in 2015 and Tier III IOC started on October 1, 2015 for FY 2016. Tiers IV and V are scheduled to begin IOC on October 1, 2016 and the SIC is prepared for this IOC. The SIC expects numerous changes to current levels of background investigations across VA requiring new investigations above programmed numbers. The SIC continues to plan and posture for these changes in order to meet this ever-changing environment of personnel security and suitability.



PERSONNEL SECURITY AND LAW ENFORCEMENT SEGMENT – LETC

Implementation of Acadis

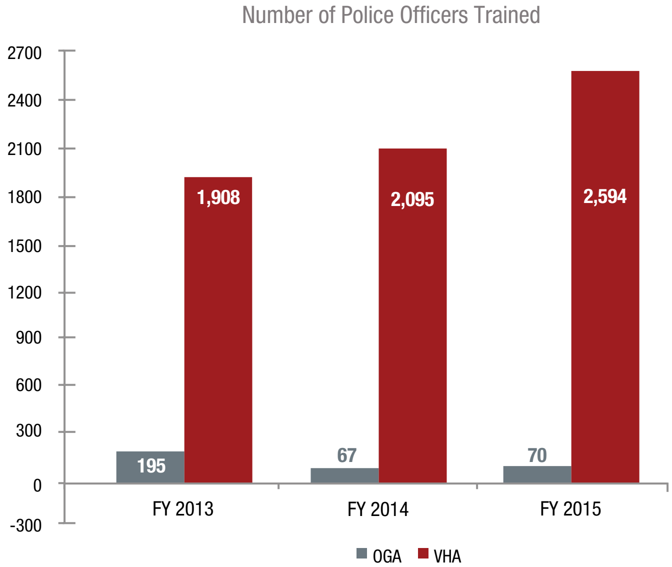
During FY 2015, the LETC made major changes in the efficiency of customer and student registrations for training products offered in-residence and through mobile training teams (MTTs). The most impactful was the implementation of the registration and training management Web-based software package, "Acadis". This system allows our primary customers in VA to register their police officers for training courses offered at the LETC. This system eliminates antiquated manual spreadsheets or email; it reduces the man hours required by the LETC staff and our customers to complete student registration. It also allows our customers to track training events, enroll and cancel from courses, be placed on a priority wait list for fully booked courses and receive system-hosted monthly sustainment training.

Mobile Training Teams

During FY 2015, the LETC continued to expand the use of MTTs for the mandated Advanced Patrol Officer (APO) course and Police Program Inspection (PPI) course. VA customers outside of the VA police force included medical staff and clinicians who took advantage of the MTT modality to receive the LETC's Verbal Defense in Health-care (VDH) training. This customer-service training empowers employees with the skills to verbally interact with Veterans in stressful situations, and use these skills to de-escalate potentially violent encounters. This training is similar to the verbal defense skills taught to VA police, but is more focused on the Veteran and medical staff interaction. The ability to use MTTs allows the LETC to offer more training courses throughout the year without impacting the resources needed to host an in-residence training course. The main purpose is to offer training for large audiences while saving the Department money associated with travel incurred by attending training elsewhere. The approximate saving to VA was over $500 thousand in tuition and travel costs in FY 2015.

Training

During FY 2015, the number of VA police officers trained rose to 2,594 due to the VA hiring surge of police officers. This represents a 24 percent increase from the 2,095 VA students enrolled during FY 2014. OGA student numbers have stabilized due to budget reductions, and are expected to level out in FY 2016 and FY 2017.



Training Enhancements

The LETC has added the following course and services to its catalogue to meet the training needs of its customers:

Course: Self-Defense Awareness for VA Employees
This is an eight hour program that prepares, empowers and familiarizes the VA employee with lifesaving awareness and defensive tactics techniques. The employees are taught the importance of awareness and preparedness to minimize their chances of being a victim. The class is capped at 30 students with a flat tuition cost of $3,500 for the initial day and $2,000 for any subsequent day that the course is taught during the same visit. In addition, the customer reimburses the LETC for the LETC instructors' travel-related expenses.

Service: K-9 Certification and K-9 Establishment
K-9 certification requires payment of an annual maintenance fee to the LETC for certification of a K-9 program, and K-9 establishment is a fee to establish new K-9 teams brought into service each fiscal year. These fees cover reimbursement to the LETC for the FTEE hours associated with creating/updating training materials, reviewing records, providing advice and guidance, moving to a training records platform in Acadis and updating course materials in other classes that have a K-9 aspect.

PERSONNEL SECURITY AND LAW ENFORCEMENT SEGMENT PLANS FOR 2016 AND BEYOND

Security and Investigation Center

Certified Adjudicators

OPM mandated that all government adjudicators be certified according to OPM standards to perform adjudication duties on suitability background investigations. OPM's solution was to develop a Suitability Training two week course requiring a passing score on an end of course test. OPM is charging $2,000 per adjudicator to attend (plus travel costs) and the estimate is $1.2 million 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 Handbook 0710 "Personnel Suitability and Security Program" to state that employee NACIs and adjudication only NACIs may be forwarded to the SIC. Offering the availability to VA customers an alternative to the expense of training vast amounts of Adjudicators.

Fostering Competition

Acquiring a greater share of the Federal marketplace continues to be a focus for the SIC. While the SIC's client base is exclusively VA at this time, the SIC has begun to attract inquiries from OGAs.

The SIC continues to work on improving the efficiency of the background investigation process by incorporating automated processes to minimize costs in completing investigative products. As the SIC evaluates and acquires new automation tools, the focus will be to maximize savings for the clients and streamline the investigative processes through quantitative analysis and benchmarking. Continued refinement and automation of the SIC business processes will facilitate the expansion of services to a growing client base.

Law Enforcement Training Center

Reporting System

The LETC will implement a new Web-based police reporting system called Report Exec to replace VAPS (Veterans Administration Police Software). The implementation of the new reporting system will house all legacy reporting information from VAPS, allowing VA Police to still have access to all data from the prior system. The LETC is planning to implement this system in phases similar to the phased implementation of the Acadis software package. Furthermore, the LETC is hoping to have test facilities identified and data input initiated by October 1, 2015. Full implementation of the first phase will be done throughout FY 2016. During this time, there will be a period when both systems will run simultaneously until all legacy data is converted into the new system. Due to the many modules of this new system, full functionality is anticipated between the fourth quarter FY 2016 and the second quarter FY 2017.

Effective Cost Verification

The LETC will evaluate effectiveness of its cost verification process. This process is designed to ensure that Division Chiefs, Program Managers and other key LETC personnel can develop accurate budgets to capture full cost of each training course or program. This will provide the LETC Business Manager with required financial data concerning equipment needs for training courses.

Strategic Marketing

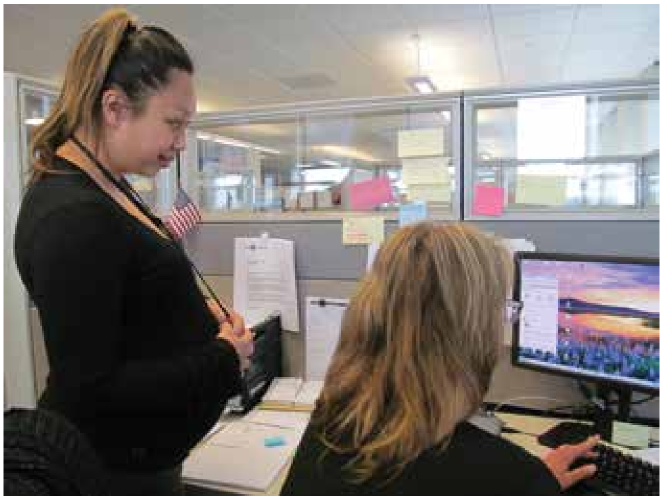
The LETC will expand marketing efforts to attract non-traditional customers. The LETC will continue to aggressively market its unique ability to develop and design agency specific training for OGA customers. The LETC will also continue to offer non-traditional training such as Verbal Defense in Health-care as well as new product lines targeting medical staff training gaps.

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 health- care, 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 fiscal years 2013–2015. 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

	Actuals			Plan	Were 2015 Goals Achieved or Exceeded?	
Performance Measure	2013	2014	2015	2015	Yes	No
Percentage of Veterans or beneficiaries who contacted the DMC without receiving a busy signal (DMC)	99%	96%	99.9%	99%	✓	
Payment processing accuracy rate (FSC)	99%	99.6%	99.6%	99%	✓	
Class graduation rate (LETC)	97.5%	97.8%	97.9%	95%	✓	
Percent of investigations that are completed within the established timeframes (SIC)	92%	94%	99%	90%	✓	
Percent of recalled records that are shipped securely and accurately to requesting facilities within established timeframes (RCV)	99.9%	99.9%	99.9%	99.9%	✓	
Number of audit qualifications for the VA Enterprise Centers (FF)	0	0	0	0	✓	

PERFORMANCE HIGHLIGHTS DURING FY 2015

- During FY 2015, EO has maintained communication plans to assure that customer needs are addressed and staff meets or exceeds customer expectations. EO maintains alignment and open channels of communication with all customers through planning activities such as budget lockdown sessions and high-level meetings. EO will continue to strive for improved customer service in the years to come. (EO)

- During FY 2015, the DMC has actively participated in the VACO subject matter expert (SME) Focus Group for Secretary McDonald's MyVA Single Point of Contact National Call Center Initiative. (DMC)

- The FSC implemented the Invoice Payment Processing System (IPPS) during fiscal year 2015. IPPS is a fully automated digital platform with the ability to import electronic and paper invoices, apply business rules, route through an invoice approval workflow, perform 3-way matching, and create accounting system transactions. IPPS replaced error-prone manual processes resulting in improved timeliness, accuracy, and cost effectiveness. (FSC)

- During FY 2015, the LETC continued to experience a significant increase in VA Police students. In FY 2015, the LETC had 2,629 students versus 2,162 students for FY 2014, a 22 percent increase in VA students. This increase has been largely due to a hiring surge of police officers by VA. (LETC)

- In June 2015, the RCV destroyed all Postal Regulatory Commission (PRC) records that had exceeded their required retention periods. Non-paper records were returned to PRC for disposition. At this time, PRC no longer requires records storage services from the RCV. Due to OMB policy, the RCV is unable to expand its warehouse space and therefore not marketing its services to other OGAs. (RCV)

- Programming for the SIC's Personnel Suitability and Security System (PSSS) Version 1.0 was completed in FY 2015 and is ready for Department wide utilization during the first quarter of FY 2016. PSSS Version 1.0 was developed to replace three SIC legacy systems. PSSS Version 2.0 will meet the requirements for the Department as the Personnel Security Case Management System of Record. (SIC)

- For the 18th 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 18th consecutive year (1998 - 2015), the VA Franchise Fund has received an unmodified "clean" audit opinion.

FINANCIAL STATEMENT ANALYSIS

The consolidated financial statements present the Franchise Fund's financial position, cumulative results of operations, changes in net position, and information on budgetary resources for FY 2015 and FY 2014. 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 balance of $379 million in FY 2015, as compared to a total asset balance of $391 million in FY 2014 for an overall decrease of $12 million or three percent. The decrease in total asset is primarily due to the increase in treasury disbursements by EO.

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

(Dollars in Thousands)	2015	2014
Fund Balance with Treasury	$ 241,119	$ 255,243
Property, Plant and Equipment, Net	72,145	72,647
Accounts Receivable, Net	60,070	61,531
Other Assets	5,837	1,962
Total Assets	$ 379,171	$ 391,383

Liabilities

The Fund's total liabilities during FY 2015 was $101 million, as opposed to $140 million in FY 2014. The decrease in total liabilities of $39 million or 28 percent over the prior year is primarily due to a decrease in accrued payables by EO and a decrease in advances for FSC's OGA customers. The FSC received less in advance from Office of Refugee and Resettlement (ORR) and Department of Homeland Security, Immigration and Customs Enforcement Health Services Corps (IHSC)

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

(Dollars in Thousands)	2015	2014
Accounts Payable	$ 52,372	$ 81,463
Other Liabilities	49,097	58,630
Total Liabilities	$ 101,469	$ 140,093

Net Position

The Fund's net position increased by $26.4 million in FY 2015 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was $277.7 million in FY 2015, which yielded a ten percent increase from FY 2014's ending net position of $251.3 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 $53.6 million in FY 2015, 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 $913 million, a $102 million increase from the FY 2014 level of $811 million.

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

(Dollars in Thousands)	2015	2014
Beginning Unobligated Balance	$ 139,110	$ 107,809
Recoveries of Unpaid Prior Year Obligations	30,108	
Spending Authority Earned & Collected	719,063	613,692
Spending Authority Transferred	(36,030)	
Change in Receivable from Federal Sources	(1,482)	22,677
Change in Unfilled Customer Orders	62,327	66,780
Total Budgetary Resources	$ 913,096	$ 810,958

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.

The Department of Veterans Affairs management was responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123, Management's Responsibility for Internal Control.

The Department, in accordance with the requirements of OMB Circular A-123, Appendix A, had completed its evaluation of the management and financial system internal controls, as of September 30, 2015. As a result of this assessment, the Department provided qualified assurance that managements' internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations were operating effectively in their design and operation. This qualified assurance resulted from the following material weaknesses: Information Technology Security controls, Procurement, Undelivered Orders, and Reconciliations, Care in the Community, and Financial Reporting.

In addition to the material weaknesses discussed above, the Department also noted noncompliance issues related to: (1) Federal Financial Management Improvement Act of 1996 (FFMIA); (2) FMFIA; (3) Title 38 United States Code (U.S.C.) Section 5315 and 31 U.S.C. §3717; (4) Antideficiency Act; and (5) Improper Payments Information Act of 2002 (as amended by Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012).

http://www.va.gov/budget/docs/report/2015VAafrSectionI.pdf

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

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, 2015 and 2014, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted government auditing standards 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02, 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 includes test of compliance with provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements. The purpose was not to provide an opinion on compliance with provisions of applicable laws, regulations, contracts and grant agreements and, therefore, we do not express 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.

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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, 2015 and 2014, and its consolidated net costs, changes in net position, and the combined budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis* (MD&A), and *Required Supplementary Information* (RSI) 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 U.S. generally accepted government auditing standards, 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 providing an opinion on internal control. Accordingly, we do not express such an opinion.

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. During the audit of the financial statements no deficiencies in internal control were identified that were considered to be a material weakness. However, material weaknesses may exist that have not been identified.

The *Department of Veterans Affairs (VA) Independent Audit of VA's Financial Statements for Fiscal Years 2015 and 2014*, dated November 16, 2015, reported four material weaknesses: "Information Technology (IT) Security Controls" (Repeat Comment), "Procurement, Undelivered Orders and Reconciliations," "Purchased Care Processing and Reconciliations," and "Financial Reporting." The audit report also identified two significant deficiencies: accrued operating expenses and CFO organizational structure for

VHA and VA. The material weaknesses and significant deficiencies could have a direct effect on the VA Franchise Fund's internal control over financial reporting.

We also identified other deficiencies in VA Franchise Fund's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant in VA Franchise Fund management's attention. We have communicated these matters to in VA Franchise Fund management and, will report on them separately in a management letter.

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. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the VA Franchise Fund. The objective was not to provide an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

The *Department of Veterans Affairs (VA) Independent Audit of VA's Financial Statements for Fiscal Years 2015 and 2014*, dated November 16, 2015, reported the following conditions with respect to noncompliance with laws and regulations:

- Instances of non-compliance with section 5315, title 38, United States Code, pertaining to the charging of interest and administrative costs, and
- Less than full compliance with IPERA for FY 2014 as reported by the Office of Inspector General.

These conditions could have a direct effect on the VA Franchise Fund's compliance with applicable provisions of laws and regulations.

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, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) 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 No. 15-02 requires testing, and (3) 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 internal control 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.

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 No. 15-02 that we deemed applicable to VA Franchise Fund's financial statements for the fiscal year ended September 30, 2015. 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.

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.

Brown & Company

Largo, Maryland
November 30, 2015

CONSOLIDATED FINANCIAL STATEMENTS

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2015 and 2014

(Dollars in Thousands)

	2015	2014
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 241,119	$ 255,243
Accounts Receivable (Note 3)	60,035	61,517
Other Assets (Note 5)	5,836	1,961
Total Intragovernmental Assets	306,990	318,721
Public:		
Accounts Receivable (Note 3)	35	14
General Property, Plant and Equipment, Net (Note 4)	72,145	72,647
Other Assets (Note 5)	1	1
Total Public Assets	72,181	72,662
Total Assets	**$ 379,171**	**$ 391,383**
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 15,906	$ 23,096
Other Liabilities (Note 7)	37,414	47,519
Total Intragovernmental Liabilities	53,320	70,615
Public:		
Accounts Payable	36,466	58,367
Other Liabilities (Note 7)	11,683	11,111
Total Public Liabilities	48,149	69,478
Total Liabilities	**$ 101,469**	**$ 140,093**
NET POSITION	**$ 277,702**	**$ 251,290**
TOTAL LIABILITIES AND NET POSITION	**$ 379,171**	**$ 391,383**

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, 2015 and 2014

(Dollars in Thousands)

	2015	2014
PROGRAM COSTS:		
Gross Costs Intragovernmental (Note 9)	$ 236,723	$ 245,618
Less: Earned Revenue - Intragovernmental	(705,644)	(627,246)
Net Program Costs - Intragovernmental	(468,921)	(381,628)
Gross Costs Indirect Administrative	415,356	356,702
NET COST OF OPERATIONS	**$ (53,565)**	**$ (24,926)**

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2015 and 2014

(Dollars in Thousands)

	2015	2014
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	**$ 251,290**	**$ 217,657**
BUDGETARY FINANCING SOURCES:		
Transfer Without Reimbursement	(36,030)	0
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	1,159	274
Imputed Financing (Note 6)	7,718	8,433
Total Financing Sources	**(27,153)**	**8,707**
Net Cost of Operations (Note 9)	53,565	24,926
Net Change	**26,412**	**33,633**
NET POSITION	**$ 277,702**	**$ 251,290**

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, 2015 and 2014

(Dollars in Thousands)

	2015	2014
BUDGETARY RESOURCES:		
Unobligated Balance brought forward, October 1	$ 139,110	$ 107,809
Recoveries of Prior Year Unpaid Obligations	30,108	0
Unobligated Balance from Prior Year Budget Authority, Net	169,218	107,809
Spending Authority from offsetting collections	743,878	703,149
Total Budgetary Resources	**$ 913,096**	**$ 810,958**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 11)	775,674	671,848
Unobligated Balance, end of year	137,422	139,110
Total Budgetary Resources	**$ 913,096**	**$ 810,958**
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations:		
Unpaid obligations, brought forward, October 1 (gross)	254,794	181,524
Obligations Incurred	775,674	671,848
Outlays (gross)	(686,813)	(598,578)
Recoveries of Prior year Unpaid Obligations	(30,108)	0
Unpaid Obligations, end of Year	**313,547**	**254,794**
Uncollected payments:		
Uncollected customer payments from Fed sources, brought forward, October 1	138,661	(88,806)
Change in Uncollected Customer Payments from Federal Sources	(71,190)	(49,855)
Uncollected Payments, Fed Sources, End of Year	**$ 209,851**	**$ 138,661**
Memorandum (Non-Add) Entries:		
Obligated Balance, Start of Year	116,133	91,718
Obligated Balance, End of Year	$ 103,696	$ 116,133
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, gross	743,878	703,149
Actual offsetting collections	(708,718)	(653,294)
Change in Uncollected Customer Payments from Federal Sources	(71,190)	(49,855)
Budget Authority, Net	**$ (36,030)**	**$ 0**
Outlays, gross	686,813	598,578
Actual offsetting collections	(708,718)	(653,294)
Net Outlays	**$ (21,905)**	**$ (54,716)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

(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) 2015 and 2014 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, as revised. The Franchise Fund's financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources. The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual method, revenues and other financing sources are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

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 two years or more and the unit price is $100,000 or greater if acquired prior to October 1, 2013 and $1,000,000 or greater if acquired after October 1, 2013. Equipment is depreciated on a straight-line basis over its useful life, usually 5 to 20 years. Software is also subject to the $1,000,000 threshold for capital assets. The costs subject to capitalization are incurred during the software development phase, and include the design of the chosen path, programming development, installation of hardware and testing, and are accumulated in Software in Development until a project is successfully tested and placed in service. The capitalized 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, which generally ranges from 2 to 4 years. Preliminary design phase costs and post implementation costs are expensed as incurred. 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 Departments threshold.

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. Accounts Payable

Accounts payable are classified as either intragovernmental or public. Intragovernmental accounts payable consists of amounts owed to other Federal Government agencies.

Public accounts payable are amounts owed by the Fund for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other entities. Accounts payable do not include liabilities related to on-going continuous expenses such as employee's salaries, benefits, annuities for insurance programs, interest payable which are covered by other liabilities. When the Fund accepts title to goods, whether the goods are delivered or in transit, or incurs costs for services received, the Fund recognizes a liability for the unpaid amount of the goods and services. Intragovernmental and public accounts payable are covered by budgetary resources.

I. 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.

J. 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.

K. 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.

L. 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.

M. 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.

The Fund's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS); the Fund makes contributions according to both plan's 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.

N. Application of Accounting Estimates
The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from the estimated amounts.

O. 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.

P. Transfer of Unobligated Balances
In June 2015, Public Law 114-25 extended authority to the Franchise Fund to provide funding to VA's Construction, Major Projects appropriation to carry out the replacement of the existing VA Medical Center in Denver, Colorado. The Franchise Fund transferred $36,030,000 of unobligated balances.

Q. 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 Available Fund Balance with Treasury for the years ended September 30,

	2015	2014
Fund Balance with Treasury	$ 241,119	$ 255,243

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

	2015	2014
Unobligated Apportionment		
Available	$ 137,422	$ 131,044
Unavailable	0	8,066
Obligated Balance not yet Disbursed	103,697	116,133
Total Unexpended Apportionment	**$ 241,119**	**$ 255,243**

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.

Account Receivable for the years ended September 30,

	2015	2014
Intragovernmental Accounts Receivable	$ 60,035	$ 61,517
Public Accounts Receivable	35	14
Total Accounts Receivable	**$ 60,070**	**$ 61,531**

Note 4. General Property, Plant and Equipment

General PP&E as of September 30, 2015:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	$ 18,273	$ (14,075)	$ 4,198
Structure	581	(141)	440
Furniture & Equipment	19,991	(5,963)	14,028
ADP Equipment	78,498	(55,462)	23,036
Capital Lease Equipment	2,119	(1,352)	767
Software	25,593	(19,478)	6,115
Software in Development	16,994		16,994
Leasehold Improvements	25,123	(18,556)	6,567
Total PP&E	**$ 187,172**	**$ (115,026)**	**$ 72,145**

General PP&E as of September 30, 2014:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	$ 3,774	$ (426)	$ 3,348
Structure	581	(112)	469
Furniture & Equipment	20,156	(4,926)	15,230
ADP Equipment	73,017	(51,416)	21,601
Capital Lease Equipment	2,119	(823)	1,296
Software	20,219	(17,919)	2,300
Software in Development	21,146		21,146
Leasehold Improvements	24,974	(17,717)	7,257
Total PP&E	**$ 165,986**	**$ (93,338)**	**$ 72,647**

Note 5. Other Assets

Other Asset for the years ended September 30,

	2015	2014
Intragovernmental		
Advance Payment – Federal	$ 5,836	$ 1,961
Total Intragovernmental	**$ 5,836**	**$ 1,961**
Public		
Advance to Employees	$ 1	$ 1
Advance Payment – Other	0	0
Total Public – Other Assets	**$ 1**	**$ 1**
Total Other Assets	**$ 5,837**	**$ 1,962**

Note 6. Federal Employee Benefits

Imputed Expenses – Employee Benefits For the Period ended September 30,

	2015	2014
Civil Service Retirement System	$ 1,733	$ 1,791
Federal Employees Retirement System	718	1,953
Federal Employee Health Benefits	5,250	4,673
Federal Employee Group Life Insurance	17	16
Total Imputed Expenses – Employee Benefits	**$ 7,718**	**$ 8,433**

Note 7. Other Liabilities

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

	2015	2014
Intragovernmental		
Accrued Expenses – Federal	$ 55	$ 21
Accrued VA Contributions for Benefits	866	661
Advances – Federal	36,493	46,837
Total Other Intragovernmental Liabilities	**$ 37,414**	**$ 47,519**
Public		
Accrued Salaries & Benefits	$ 3,314	$ 2,758
Accrued Funded Annual Leave	7,411	6,901
Capital Lease Liability	957	1,452
Total Other Public Liabilities	**$ 11,683**	**$ 11,111**

Note 8. Leases

The Franchise Fund has capital leases of $2,119. Due to the number of operating leases, the future commitment for operating leases is not known. The Franchise Fund's FY 2015 operating lease costs were $13,521 for real property rentals and $1,263 for equipment rentals. The Franchise Fund's FY 2014 operating lease costs were $13,281 for real property rentals and $1,794 for equipment rentals. The following chart represents the Franchise Fund's estimate for operating lease costs for the next 5 years, assuming a range of 2.7 to 3.2 percent annual increases in cost.

OPERATING LEASES

OPERATING LEASES			
Fiscal Year	Percentage Increase	Real Property	Equipment
2016	2.7	$ 13,886	$ 1,297
2017	2.9	14,289	1,335
2018	3.1	14,732	1,377
2019	3.1	15,188	1,419
2020	3.2	15,675	1,465

Note 9. Intragovernmental Costs and Exchange Revenue

Cost and Exchange Revenue for the years ended September 30,

	2015	2014
Intragovernmental costs	$ 236,723	$ 245,618
Less: Earned Revenue – Intragovernmental	(705,644)	(627,246)
Net Intragovernmental Cost	(468,921)	(381,628)
Indirect Administrative Cost	415,356	356,702
Total Net Cost of Operations	**$ (53,565)**	**$ (24,926)**

Earned Revenue: Revenue earned by VA Franchise Fund (VAFF) for fees charged for services for the period ended September 30, 2015 was $705,644. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2014 was $627,246.

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 for the years ended September 30,

	2015	2014
Category B, Reimbursable Obligations	$ 775,674	$ 671,848

- **Undelivered Orders at the End of a Period**

The amount of budgetary resources obligated for undelivered orders for fiscal years ended September 30, 2015 and 2014 was $249,771 and $163,230, 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.

FY 15 Reconciliation of Net Cost of Operations to Budget

	2015	2014
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 775,674	$ 671,848
Less: Spending Authority from Offsetting Collections and Adjustments	(773,986)	(703,149)
Net Obligations	1,688	(31,301)
Other Resources		
Transfers in/out	(34,871)	274
Imputed Financing from Costs Subsidies	7,718	8,433
Net Other Resources Used to Finance Activities	(27,153)	8,707
Total Resources Used to Finance Activities	(25,465)	(22,594)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(28,089)	(1,673)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(21)	(13,528)
Resources that Fund Expenses Recognized in Prior Periods	(15,719)	2
Total Resources Used to Finance Items not Part of the Net Costs of Operations	(43,829)	(15,199)
Total Resources Used to Finance the Net Cost of Operations	(69,294)	(37,793)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	15,260	12,984
Bad Debts	0	0
Loss on Disposition of Assets	961	472
Other	(492)	(589)
Total Components that Will Not Require or Generate Resources	15,729	12,867
Total Components that Will Not Require or Generate Resources in the Current Period	15,729	12,867
Net Cost of Operations	$ (53,565)	$ (24,926)

DEPARTMENT OF VETERANS AFFAIRS

FRANCHISE FUND
ANNUAL REPORT

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

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