FY 2016

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 2016 Annual Report

We welcome your comments on how we can make this report more informative. We are particularly interested in your comments on the usefulness of the information and the manner in which it is presented.

Write to:
Department of Veterans Affairs
Franchise Fund Oversight Office
1100 First Street, NE (047F)
Washington, DC 20002
e-mail: vacoefo@va.gov

DEPARTMENT OF VETERANS AFFAIRS
FRANCHISE FUND FY 2016 ANNUAL REPORT

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Contributors

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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 deliver best-in-class services and capabilities to VA's Administrations and Staff Offices so that they can focus on delivering world-class benefits and services to Veterans and eligible beneficiaries.

VA Franchise Fund's Vision

To transform enterprise transactional services and capabilities to best-in-class levels, enabling VA to focus on improving the Veterans' experience and empower VA employees.

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.

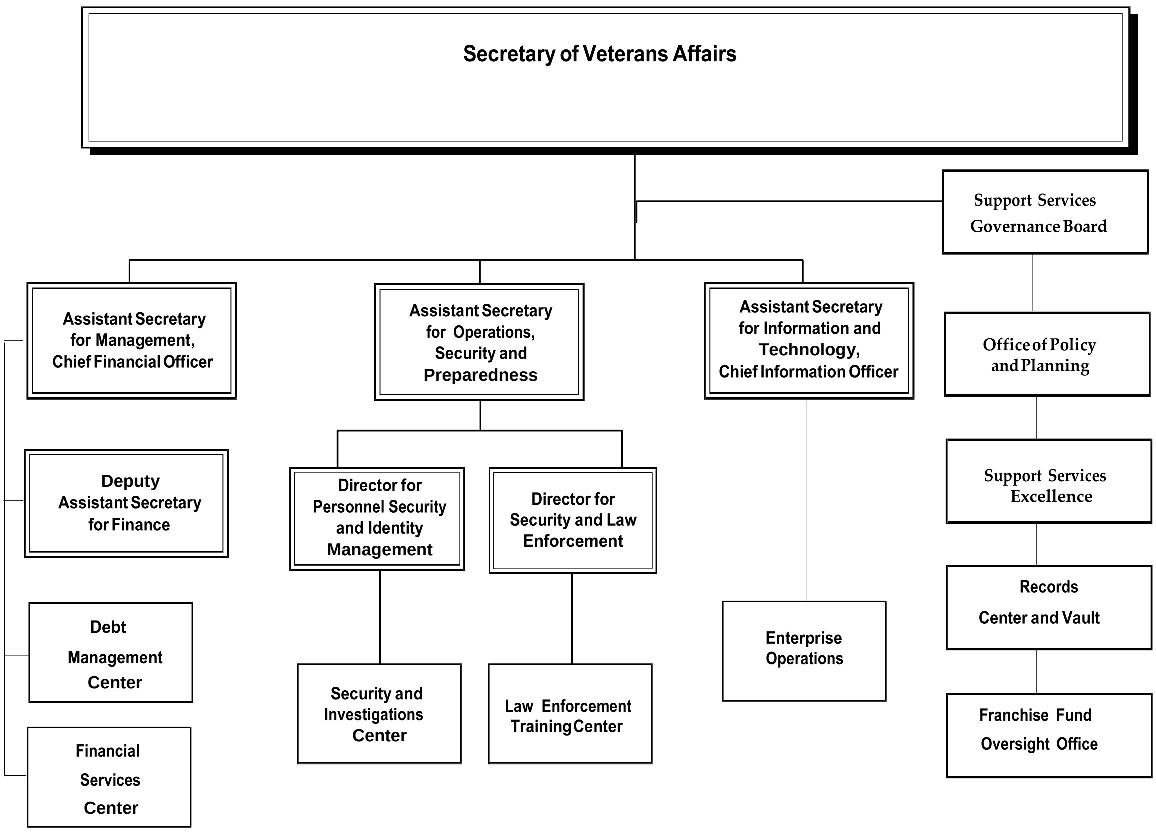
Excellence

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 Director of Support Services Excellence along with 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 was subsumed by the Support Services Governance Board (SSGB) in November 2015 and 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), Personnel Security and Law Enforcement (PS&LE) and Support Services Excellence (SSE). The chart below shows the revenue among our segments for FY 2014 through FY 2016.

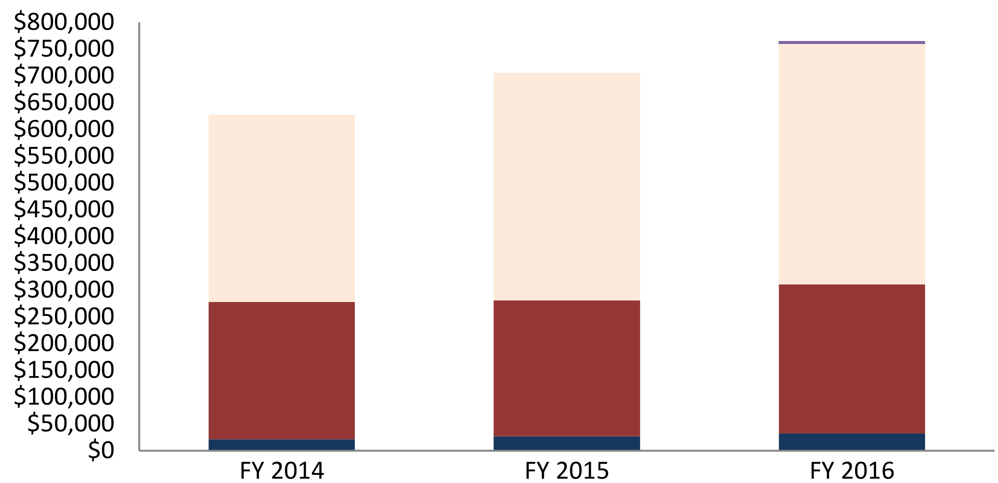
The IT segment generated $489 million in revenue in FY 2016, which is a significant increase from $425 million in FY 2015.

The FM segment generated $278 million in FY 2016, which is a significant increase from $254 million in FY 2015.

The (PS&LE) segment ended FY 2016 with over $32 million in revenue which is a notable increase from the $27 million in revenue reported at the end of FY 2015.

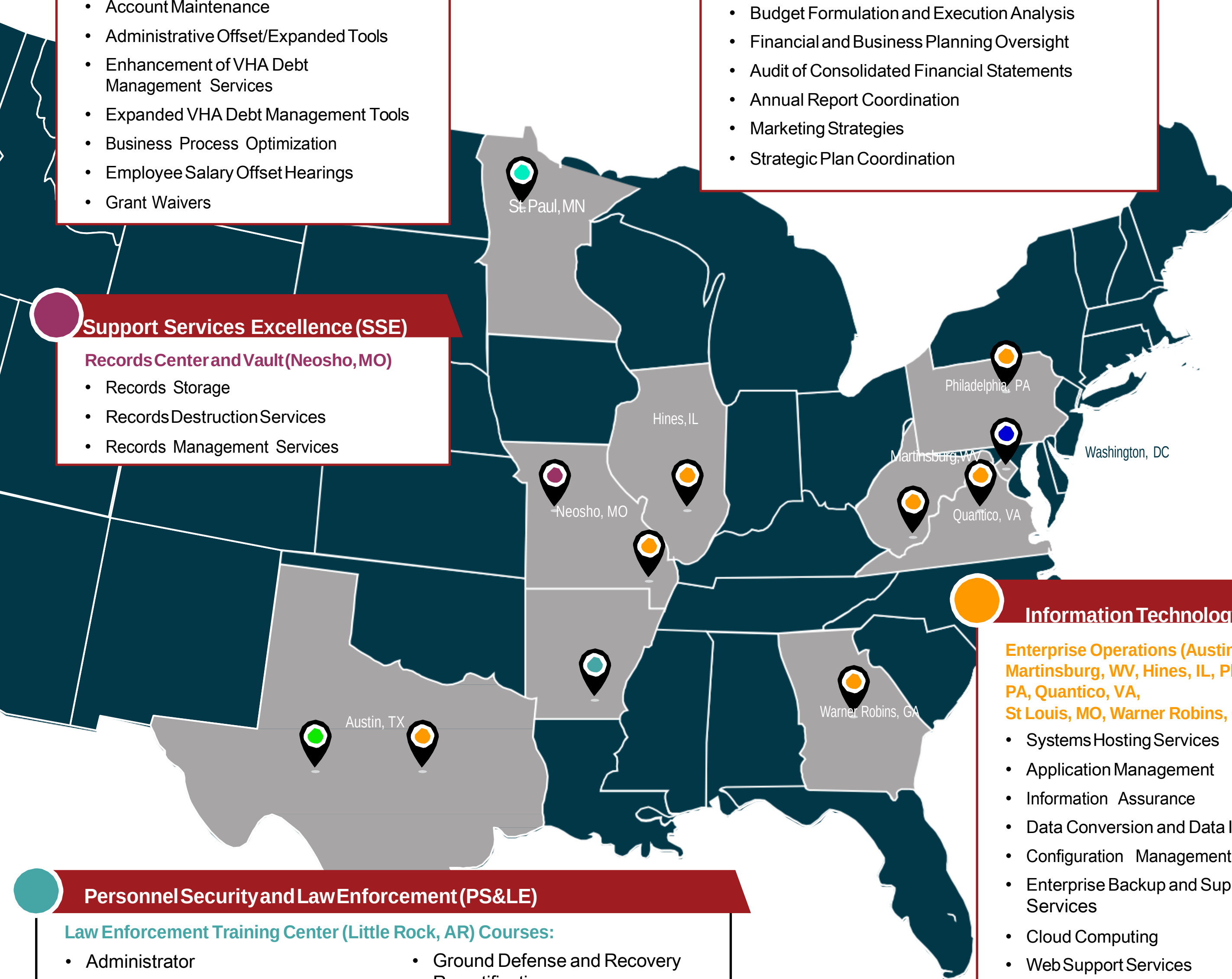
The SSE segment ended FY 2016 with $5 million in revenue. This is a new segment that was established in FY 2016 with subsuming of the Franchise Fund by SSE from the Office of Finance.

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



	FY 2014	FY 2015	FY 2016
SSE	$0	$0	$5,069
IT	$349,449	$424,984	$448,705
FM	$256,446	$253,657	$278,472
PS&LE	$21,351	$27,003	$31,917

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

Support Services Excellence (SSE)

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

Support Services Excellence (SSE)

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

Eddie Pool, Acting Executive Director, Enterprise Operations

Teresa Riffel, Director, Financial Services Center

Tom Muir, Director, Franchise Fund Oversight Office

James Ward, Director, Law Enforcement Training Center

Tom Muir, Director, Records Center and Vault

Joshua Blockburger, Director, Security and Investigations Center

Information Technology

Enterprise Operations (EO). Compose d 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 fi 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.

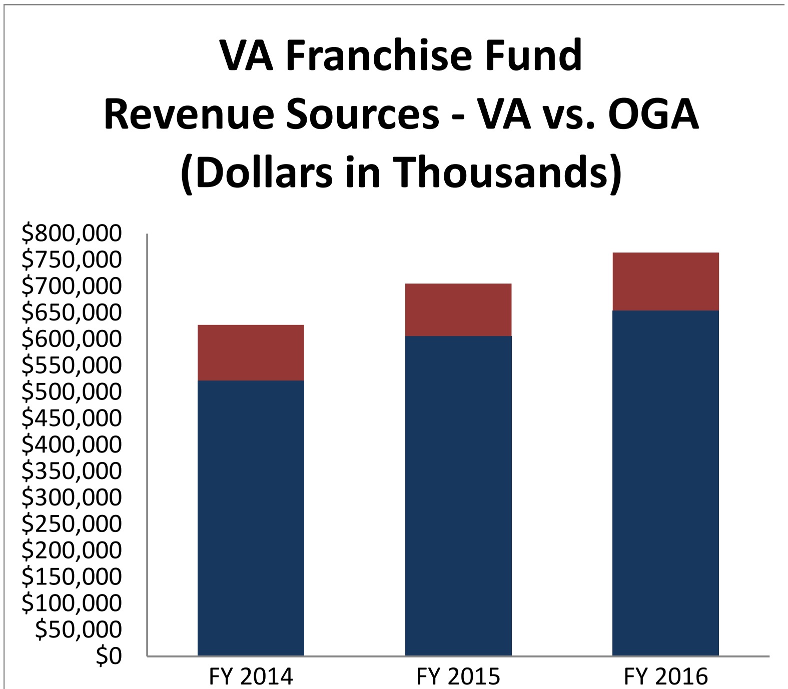
Security and Investigations Center (SIC). Located in North Little Rock, AR, the SIC provides quality background investigations and timely adjudications for VA employees in public trust positions and all risk levels for VA contractors nationwide. Additionally, the SIC provides security checks for appointees, high- level award recipients centralized to the Secretary of VA, and supports the Personal Identification Verification (PIV) process for employees, contractors, and affiliation of the Department.

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.



	FY 2014	FY 2015	FY 2016
OGA	$105,333	$99,382	$109,319
VA	$521,913	$606,262	$654,844

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)

Internal Stakeholders

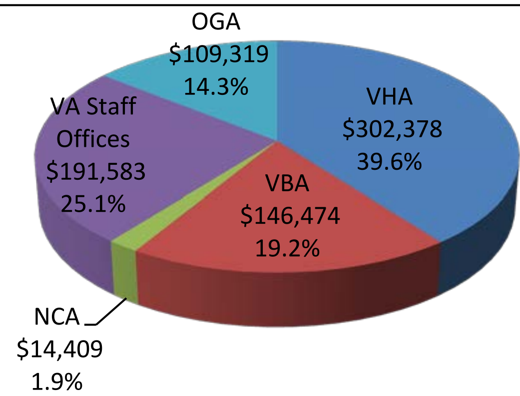
- Veterans Health Administration (VHA)
- Veterans Benefits Administration (VBA)
- National Cemetery Administration (NCA)
- VA Staff Offices
- Board of Veterans' Appeals
- Debt Management Center
- Financial Services Center
- Internal Control Service
- Law Enforcement Training Center
- Office of Acquisition and Logistics
- Office of Business Oversight – Management Assurance Service
- Office of Financial Systems and Operations – Fiscal Applications
- Office of Information & Technology
- Office of the Inspector General
- VA Records Center & Vault

Comparison of Customer Revenue from FY 2015–2016

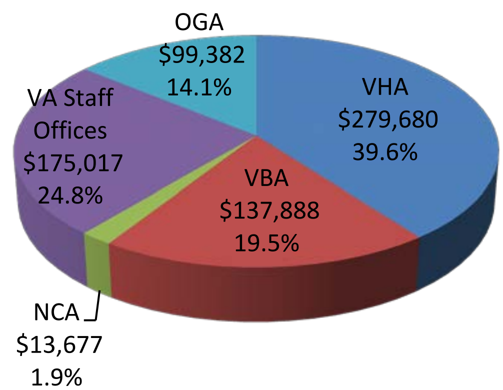
Approximately 86 percent of our revenue comes from VA customers. The remaining 14 percent comes from a wide variety of OGA customers. Within VA, VHA programs provide the most revenue to the Enterprise Centers.

Revenue from OGA customers remained consistent between FY 2014 and FY 2015. The Franchise Fund ended FY 2016 with $109 million in revenue, an increase from FY 2015 levels of $99 million. This $10 million revenue increase was due to increased business from OGA customers of all ECs except RCV which experienced a $3 million decrease in OGA revenue. During FY 2016, the FSC increased OGA revenue by over $9 million due to increase business with OGA customers including The Department of Health and Human Services and Department of Homeland Security despite loss of revenue from the Federal Mediation and Conciliation Service.

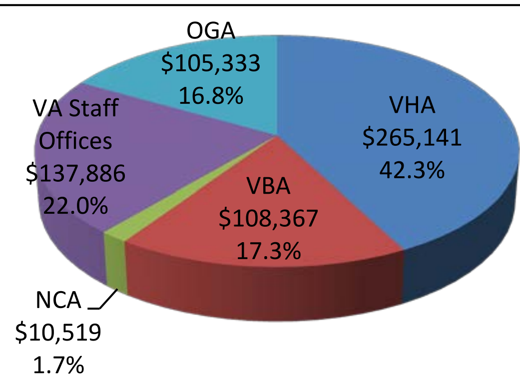
VA Franchise Fund Revenue by Customer
As of September 30, 2016
(Dollars in Thousands)



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)



Meeting VA Franchise Fund Objectives

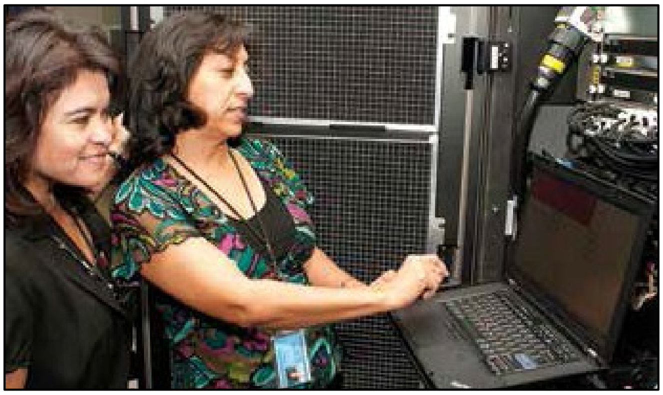
Information Technology Segment – EO

Business Process Improvements

EO continued to refine financial policies, processes, and procedures to ensure consistencies across data centers. In FY 2016, EO standardized Business Planning processes across the organization. This reduced the time to gather workload/financial information by 30 percent.

Data Storage Enhancement

EO maintained sufficient storage capacity and enhanced the backup environment across EO by awarding and executing the largest Services and Commodities contract for Storage (in VA) that has the ability to service the entire country (Storage on Demand Contract). EO also completed a storage assessment of all Enterprise Operations Data Centers, identifying systems for End of Service Life, and partnering with IT Asset Management to work toward Change Management Database (CMDB) reconciliation. Finally, EO deployed, configured and implemented Data Domain to 4 regional data centers.



Network Infrastructure Upgrade

EO has provided a complete standardization of network infrastructure across all EO Data Centers via point-of-delivery (PoD) Network Architecture; a series of Cisco Nexus advanced switches with highly secured baselines. This allows for ease of customer migration into an EO data center and cloud based service offerings. In addition, many EO employees are pursuing further education in the realm of complex data center networking technologies and obtaining highly technical certifications.

Vista Migration

In FY 2016, EO provided project management and release management services in support of 38 VistA migrations from medical centers in regions 2 and 3 to two centralized data centers: Warner Robins, GA and St. Louis, MO. EO also supported the acquisition and sustainment of hardware and software at the St Louis and Warner Robins data center to maintain availability and performance of VA enterprise IT systems consistent with service level agreements, and to ensure availability, integrity, and confidentiality of VA data.

Information Technology Segment - RCV

RCV Transition

RCV successfully separated from the Office of Information Technology to join the Shared Services Excellence Office. This was accomplished with no service interruptions to RCV customers or additional expenses, and accomplished in a manner that was transparent to RCV staff.

Microfiche Scanning

Throughout the 3rd and 4th quarters of FY 2016, RCV worked with DMC to create a microfiche scanning product line. RCV installed and tested the equipment, and is continuing to work with DMC to finalize the storage and retrieval procedures. The RCV Business Office of Operations Management teams have redoubled efforts to define scanning and data-search needs with DMC, and plans to roll out this product line by 2nd quarter, FY 2017.

Expedited Delivery of Advanced Directives & DD214s

In FY 2015, RCV worked with Enterprise Operations (EO) to upgrade RCV's telecommunications network. With a more robust network, RCV now offers scanning of emergency documents requested by our customers. Frequently, our customers need certain documents quickly, to be able to treat our Veterans. Emergency requests include copies of advance directives and DD-214s for Veteran burials. Requesters can now review or download these documents from RRS, instead of waiting for the file or a fax. In FY 2016, RCV provided over 2,500 scanned documents to our customers, saving postage and delivery time. As RCV no longer faxes documents to our customers, we are able to minimize the risk of Veteran personally identifiable information being shown to unauthorized individuals.

Financial Management Segment – FSC

Improper Payments Elimination

The FSC reviews VA vendor payments to identify, prevent, and recover duplicate improper payments made to commercial vendors. In FY 2016, the FSC identified $1.7M and recovered $300 thousand. The FSC is currently procuring a Business Activity Monitoring Tool that will systematically look for all types of improper payment categories for all payments that flow through the FSC. On a daily basis, the system will identify, prevent, and recover improper payments made utilizing criteria outlined in OMB circular A 123, appendix C. The FSC has taken the lead for VA as the Program Manager in support of the Treasury and VA program offices in utilization of the Do Not Pay portal. The FSC has currently established, in partnership with Treasury, additional databases and tools to further aid program offices in the identification and reduction of improper payments within the portal.

Data Analytics

The FSC data analytics deployed an Abnormal Balance Dashboard in conjunction with Trilogy as part of the data cleanse project in preparation of the FMS transition. Additionally, the FSC developed and deployed a Travel dashboard that identified $874 thousand in potential improper payments in Concur to FMS reconciliation.

VATAS Deployment

The FSC successfully deployed VA Time and attendance System (VATAS) to Portland VAMC, VISN 20, VISN 5, VISN 2, VISN 17 and currently VISN 1. A total of 73,640 new users were added across 44 VHA stations. Additionally, the FSC provided 6,000 face-to-face training hours to 10,400 supervisors, timekeepers and payroll technicians.

Financial Management Segment – DMC

Improved Processing Time

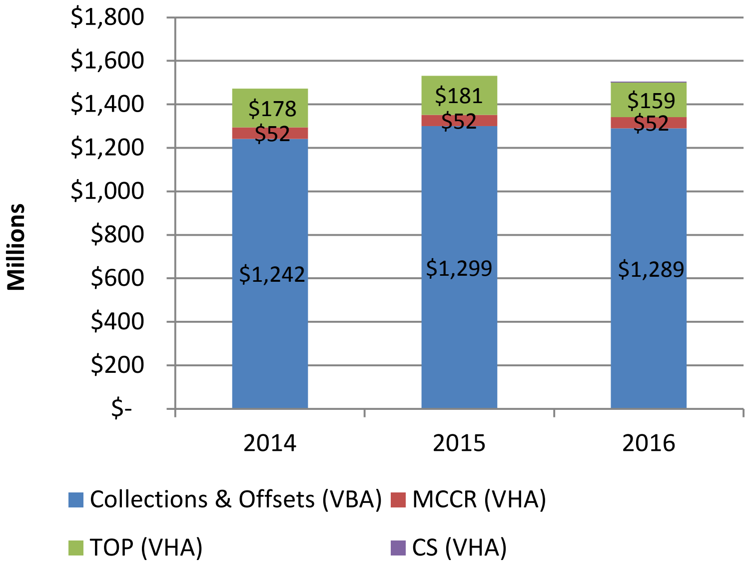
The DMC's year-over-year average processing time for waiver requests was improved from 25 calendar days to just over 16 calendar days in FY 2016. This improvement represents a 35 percent decrease in processing time. The DMC processed 36 percent more account audits in FY 2016 over FY 2015. Account audits, a time consuming process, provides clarity to the Veterans in understanding their debt.

Community Outreach

The DMC focused its FY 2016outreach growth in the areas of Veterans Service Organizations (VSO) and School Certifying Officials (SCO). The outreach to 3,600 VSOs in FY 2016 provided the DMC with an avenue to address Veteran homelessness by providing information on the DMC "I CARE" tool box. The DMC's tool box contains the ability to expedite hardship, prioritize waiver requests, reduce payment plans, and temporarily suspend offsets for Veterans. The DMC enhanced its school conference outreach presentation to include discussing Veteran debt to show the differences between how school debts and Veteran debts are processed and options available for each.

Debt Collection Programs

The DMC debt collection services offered to VBA, and VHA remained consistent over the past three years due to the post 9/11 GI Bill, and other education programs. The Veteran population receiving benefits directly result in the consistent revenue stream for the DMC.



Personnel Security and Law Enforcement (PS&LE) Segment – SIC

Credentialing and Privileging (C&P)

The Shared Services Governance Board (SSGB) approved the concept to develop a C&P pilot under the SIC, leveraging existing staff to perform this function under the shared services concept. The SIC has entered into an agreement with CAVHS to receive hands-on training and each employee has completed the required TMS certification classes. The SIC is currently working alongside CAVHS C&P employees; acquiring institutional knowledge and learning the organizational function.

Central Adjudication Facility (CAF)

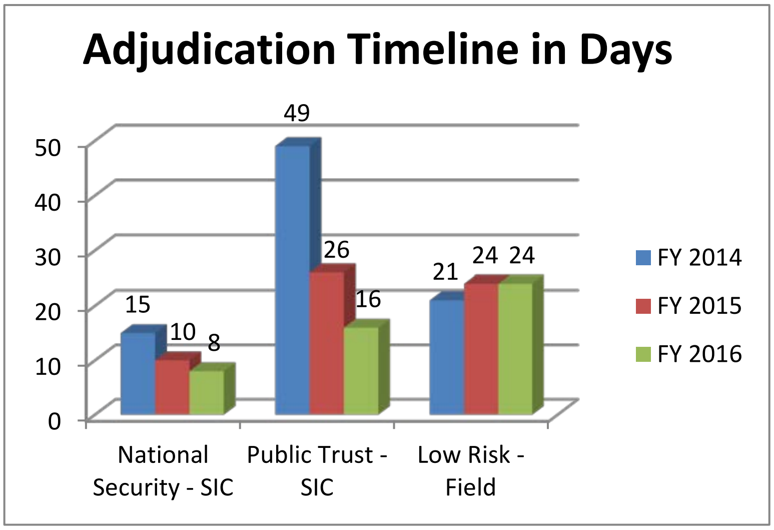
During the July 15th SSGB meeting, SECDEF confirmed that the CAF pilot was proven and completed within the past two years. All Board members agreed and directed the SIC to develop an implementation plan for SSGB approval. The CAF Implementation Plan was developed and forwarded on July 20, 2016 through the Office of Personnel Security and Identity Management which provides department-level oversight to the SIC, under the direction of OSP.

Transportation Security Administration (TSA)

The SIC is entering into an agreement to provide adjudicators with secret clearances for the purposes of making preliminary and final adjudication decisions regarding criminal offenses and immigration issues that may disqualify applicants from the TSA Pre✓® Program.

Reduced Adjudication Timeline

The Security and Investigations Center made sufficient progress in reducing the number of days to Adjudicate closed case files received from OPM during FY 2016 in the areas of National Security and Public Trust background investigations over the past three years. The following chart reflects OPM roll up numbers reported for the VA over the past three years



Personnel Security and Law Enforcement Segment–LETC

Training

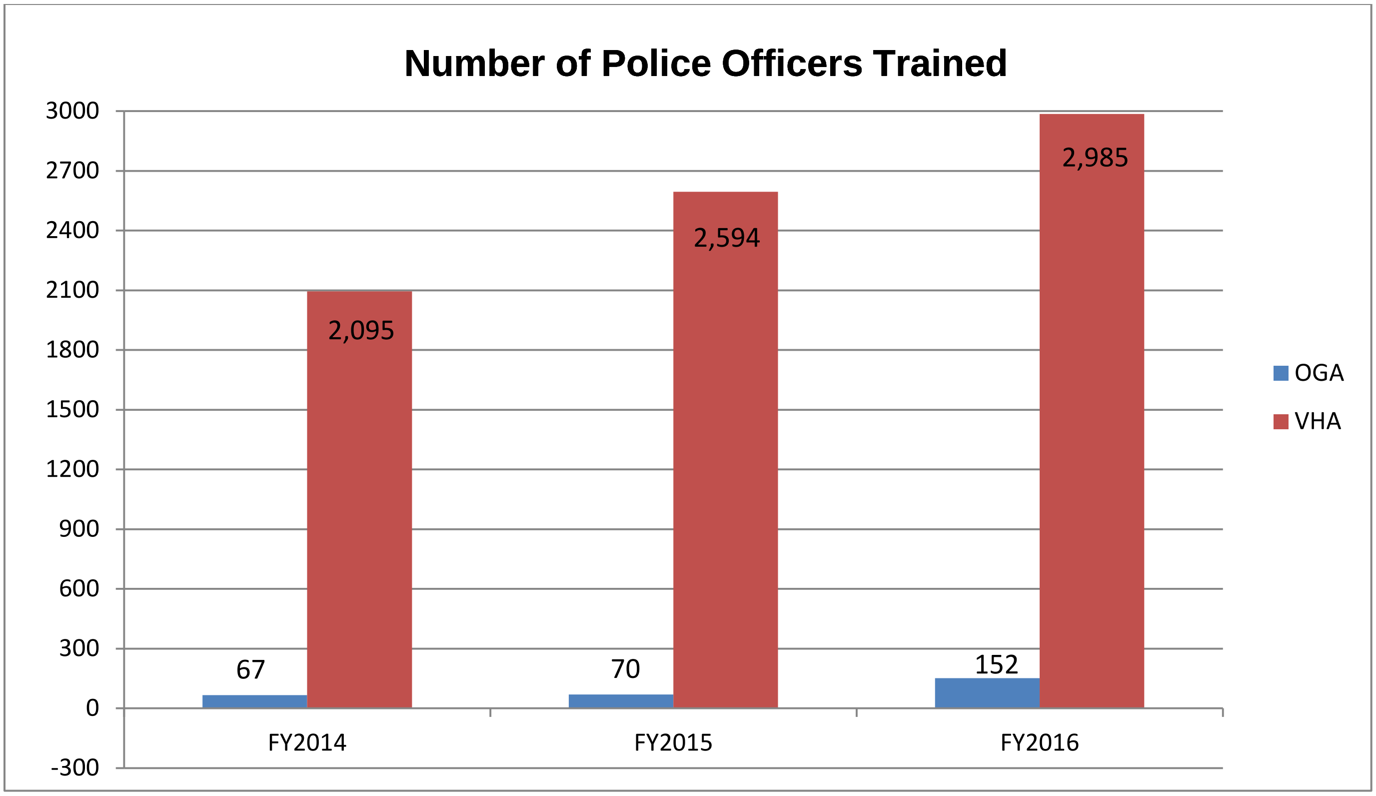
During FY 2016, the number of VA police officers trained rose to 2,985 due to the VA hiring surge of police officers. This represents a 15 percent increase from the 2,594 VA students enrolled during FY 2015. OGA student numbers have increased significantly by 117 percent and the LETC expect this trend to stabilize, resulting in a continued level of 160 enrollees during FY 2017 and FY 2018.

New Training Facilities

The LETC completed the construction of its new administrative building during FY 2016. This has expanded the LETC's footprint and allowed it to add more classrooms. This also allows LETC to increase the quality of training and the number of students in the LETC's campus.

New LETC Courses

During FY 2016, the LETC expanded its Self-Awareness and Verbal Defense in Healthcare courses to non-law enforcement personnel such as VA hospital personnel. The LETC also implemented the new the new Long Gun Instructors course so all police services would have the opportunity to have at least one instructor trained during FY 2016.



Goals, Objectives, and Performance Measures

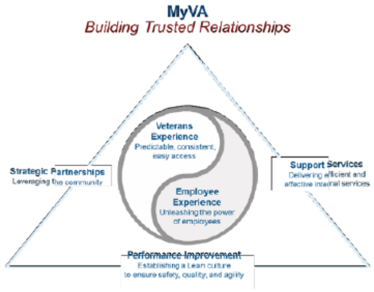
VA Secretary's 12 Breakthrough Priorities

Veteran touchpoints

1. Improve the Veterans Experience
2. Increase Access to Health Care
3. Improve Community Care
4. Deliver a Unified Veterans Experience
5. Modernize our Contact Centers (to include Veterans Crisis Line)
6. Improve the Comp & Pension Exam
7. Develop a Simplified Appeals Process
8. Continue to Reduce Veteran Homelessness

Critical enablers

9. Improve Employee Experience (to include leadership development)
10. Staff Critical Positions
11. Transform OIT
12. Transform Supply Chain



The performance information presented below accurately represents the Enterprise Centers' performance during fiscal years 2014–2016. 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 2016 Goals Achieved or Exceeded?	
Performance Measure	2014	2015	2016	2016	Yes	No
Percentage of Veterans and/or beneficiaries who contacted the DMC without receiving a busy	96%	99.9%	100.0%	100.0%	✓	
Payment processing accuracy rate (FSC)	99.6%	99.6%	99.6%	99%	✓	
Class graduation rate (LETC)	97.8%	97.9%	95.3%	95%	✓	
Percent of investigations that are completed within the established timeframes (SIC)	94%	99%	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 2016

- During FY 2016, EO has maintained its commitment to continued improvement and ensuring that customer requests are resolved according to severity. Team and individual performance are closely monitored and areas in need of improvement are addressed fully. Cross-training is utilized to ensure that adequate support is always available. EO maintains communication plans to assure that customer needs are addressed and staff meets or exceeds customer expectations. (EO)

- The RCV staff continued to provide excellent customer support throughout FY 2016. The RCV staff uses their unique experience and training to assist VAMCs with correcting their inventories, which lead to more efficient handling of Veterans' records. (RCV)

- The FSC processed over 99 percent of FY 2016 Dialysis and Camp Lejeune claims within the 30-day customer requirements. Additionally, the FSC's accounting division assisted VBA with reducing its initial budgetary corrections in MinX from $42B in February 2015 to $51.6M in February 2016. (FSC)

- The SIC adheres to OPM's requirement that the adjudication of National Security background investigations occur within 20 days of the OPM closing date of the investigation at a 90 percent rate of compliance. The SIC's goal is to adjudicate all Suitability background investigations within 30 days of the OPM closing date at a 90 percent rate of compliance was exceeded when OPM reported that the SIC average suitability adjudication timeline was 16 days in FY 2016, exceeding the self-imposed goal of 30 days. (SIC)

- During FY 2016, the LETC transitioned from the VA Police Software (VAPS) to the new Law Enforcement Report Management System (LERMS). This is a web-based reporting system which is user friendly. It will provide a wealth of management information concerning VA police work throughout the nation. (LETC)

- The DMC collaborated with Office of the Inspector General (OIG) to investigate a $500 thousand debt. Benefits were continuously being deposited into a bank account for a Veteran who had been missing since the late 1990s. The DMC and OIG turned over convincing evidence to the New York Regional Office to have the benefits canceled. The DMC provided the family lawyer a detailed breakdown of the $500 thousand debt owed to the VA. The Veteran's lawyer is in the lengthy legal process of having this Veteran declared deceased. Once this process is complete, the VA will be able to recoup the entire $500,000 debt from the estate. (DMC)

- For the 19th 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. 3515(b).

While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Audit Opinion

For the 19th consecutive year (1998 - 2016), 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 2016 and FY 2015. 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 $374 million in FY 2016, as compared to a total asset balance of $379 million in FY 2015 for an overall decrease of $6 million or one and a half percent. The decrease in total asset is primarily due to the increase in disbursements/transfers of Treasury Offset Program offsets and advance offsets for Canteen Services and Department of Health & Human Services for FSC and an increase of cost transfers for payroll and advance offsets for minor construction for EO. Also decrease in property, plant and equipment for FSC due to writing off a large internal use software project.

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

(Dollars in Thousands)	2016	2015
Fund Balance with Treasury	$ 228,407	$ 241,119
Property, Plant and Equipment, Net	54,455	72,145
Accounts Receivable, Net	84,194	60,070
Other Assets	6,478	5,837
Total Assets	$ 373,534	$ 379,171

Liabilities

The Fund's total liabilities during FY 2016 were $104 million, as opposed to $101 million in FY 2015. The increase in total liabilities of $3 million or three percent over the prior year is primarily due to increased accrued payables of IT support and GSA rent for DMC. Additionally, the FSC experienced increased service order accruals for health services medical claims processing and .Net development while EO incurred large dollar accruals for IT system support.

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

(Dollars in Thousands)	2016	2015
Accounts Payable	$ 70,814	$ 52,372
Other Liabilities	33,609	49,097
Total Liabilities	$ 104,423	$ 101,469

Net Position

The Fund's net position decreased by $9 million in FY 2016 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was $269 million in FY 2016, which yielded a three percent decrease from FY 2015's ending net position of $278 million. Net position is the sum of unexpended funds and cumulative results of operations.

Net Cost

The Fund's net cost of operations incurred a net loss of $24 million in FY 2016, 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 $977 million, a $64 million increase from the FY 2015 level of $913 million.

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

(Dollars in Thousands)	2016	2015
Beginning Unobligated Balance	$ 137,422	$ 139,110
Recoveries of Prior Year Unpaid Obligations	95,030	30,108
Other Changes in Unobligated Balance	74	
Spending Authority	744,239	779,908
Spending Authority Transferred		(36,030)
Spending Authority from Offsetting Collection	744,239	**743,878**
Total Budgetary Resources	$ 976,765	$ 913,096

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 is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections Two and Four of the Federal Managers' Financial Integrity Act (FMFIA). VA conducted its assessment of risks and internal control in accordance with Office of Management and Budget Circular No. A123, Management's Responsibility for Enterprise Risk Management and Internal Control.

The Department conducted its assessment of its effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the assessment, the Department can provide reasonable assurance that internal controls over financial reporting were operating effectively as of September 30, 2016, except for the following material weaknesses: Community Care, IT Security Controls, Financial Reporting, Veterans Benefit Actuarial Liability, Veterans Education Benefit Liability, and Chief Financial Officer Organizational Structure.

The Department noted non-compliance with: (1) FMFIA Section 4; (2) the Anti-Deficiency Act; (3) Procurement Policy – Federal Acquisition Regulation and VA Acquisition Regulation; (4) the 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); (5) Title 38 United States Code (U.S.C.) Section 5315 Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States and 31 U.S.C. Section 3717, Interest and Penalty on Claims; and (^) 38 U.S.C. Section 3733, Property Management.

http://www.va.gov/finance/docs/afr/2016VAafrFullWeb.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, 2016 and 2015, and the related consolidated statements of net cost, changes in net position, and the combined statements of 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.

1101 MERCANTILE LANE, SUITE 122 • LARGO, MD 20774
PHONE: (240) 770-4900 • FAX: (301) 773-2090 • mail@brownco-cpas.com • www.brownco-cpas.com

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, 2016 and 2015, 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 VA Franchise Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing 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 VA Franchise Fund'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 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 exit that have not been identified.

The *Department of Veterans Affairs (VA) Independent Audit of VA's Financial Statements for Fiscal Years 2016 and 2015*, dated November 15, 2016, reported six material weaknesses: "Information Technology (IT) Security Controls" (Repeat Condition); "Education Benefits Accrued Liability"; "Control Environment Surrounding the Compensation, Pension and Burial Actuarial Estimates"; "Community Care Obligation, Reconciliations, and Accrued Expenses"; "Financial Reporting"; "CFO Organizational Structure for VA and VHA". The audit report also identified two significant deficiencies: "Procurement, Undelivered Orders, Accrued Expenses, and Reconciliations"; "Loan Guaranty Liability". These 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 certain 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 2016 and 2015*, dated November 15, 2016, reported the following conditions with respect to noncompliance with laws and regulations:

- VA's financial management system did not substantially comply with the Federal financial management systems
- VA's financial management system did not substantively comply with the USSGL at the transaction level.

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, 2016. 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.

Brown & Company

Largo, Maryland
November 30, 2016

Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2016 and 2015

(Dollars in Thousands)

	2016	2015
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 228,407	$ 241,119
Accounts Receivable (Note 3)	84,135	60,035
Other Assets (Note 5)	6,475	5,836
Total Intragovernmental Assets	319,017	306,990
Public:		
Accounts Receivable (Note 3)	59	35
General Property, Plant and Equipment, Net (Note 4)	54,455	72,145
Other Assets (Note 5)	3	1
Total Public Assets	54,517	72,181
Total Assets	**$ 373,534**	**$ 379,171**
LIABILITIES		
Intragovernmental:		
Accounts Payable	19,565	15,906
Other Liabilities (Note 7)	21,096	37,414
	40,661	53,320
Public:		
Accounts Payable	51,249	36,466
Other Liabilities (Note 7)	12,513	11,683
Total Public Liabilities	63,762	48,149
Total Liabilities	**$ 104,423**	**$ 101,469**
NET POSITION	**$ 269,111**	**$ 277,702**
TOTAL LIABILITIES AND NET POSITION	**$ 373,534**	**$ 379,171**

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

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015

(Dollars in Thousands)

PROGRAM COSTS:		
Gross Costs Intragovernmental (Note 9)	$ 322,208	$ 236,723
Less: Earned Revenue-Intragovernmental	(764,163)	(705,644)
Net Program Costs - Intragovernmental	$ (441,955)	$ (468,921)
Gross Costs Indirect Administrative	465,728	415,356
COST OF OPERATIONS	**23,773**	**(53,565)**

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015

(Dollars in Thousands)

	2016	**2015**
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	**$ 277,702**	**$ 251,290**
BUDGETARY FINANCING SOURCES:		
Transfer Without Reimbursement	0	(36,030)
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers-In	6,467	1,159
Imputed Financing (Note 6)	8,715	7,718
Total Financing Sources	**15,182**	**(27,153)**
Net Cost of Operations (Note 9)	23,773	(53,565)
Net Change	**(8,591)**	**26,412**
NET POSITION	**$ 269,111**	**$ 277,702**

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

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 and 2015
(Dollars in Thousands)

	2016	2015
BUDGETARY RESOURCES:		
Unobligated Balance Brought Forward, October 1	$ 137,422	$ 139,110
Recoveries of Prior Year Unpaid Obligations	95,030	30,108
Other Changes in Unobligated Balance	74	
Unobligated Balance from Prior Year Budget Authority, Net	232,526	169,218
Spending Authority from Offsetting Collections	744,239	743,878
Total Budgetary Resources	**976,765**	**913,096**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (total)	820,649	775,674
Unobligated Balance, End of Year	156,116	137,422
Total Budgetary Resources	**976,765**	**913,096**
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1 (Gross)	313,547	254,794
New Obligations and Upward Adjustments	820,649	775,674
Outlays (Gross)	(750,393)	(686,813)
Recoveries of Prior Year Unpaid Obligations	(95,029)	(30,108)
Unpaid Obligations, End of Year	**288,774**	**313,547**
Uncollected Payments:		
Uncollected Payments from Fed Sources, Brought Forward, October 1	(209,851)	(138,661)
Change in Uncollected Payments, Fed Sources	(6,632)	(71,190)
Uncollected Payments, Fed Sources, End of Year	**(216,483)**	**(209,851)**
BUDGET AUTHORTY AND OUTLAYS, NET		
Budget Authority, Gross	744,239	743,878
Actual Offsetting Collections	(737,681)	(708,718)
Change in Uncollected Customer Payments from Federal Sources	(6,632)	(30,108)
Recoveries Prior Year Paid Obligations	74	
Budget Authority, net	**0**	**5,052**
Outlays, Gross	750,393	686,813
Actual Offsetting Collections	(737,681)	(708,718)
Net Outlays	**$ 12,712**	**$ (21,905)**

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

Notes to the Consolidated Financial Statements

For the Years Ended September 30, 2016 and 2015

(Dollars in Thousands)

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements

For the Years Ended September 30, 2016 and 2015

(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) 2016 and 2015 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 ongoing 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 funds available as of September 30,

	2016	2015
Fund Balance with Treasury	$ 228,407	$ 241,119

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

	2016	2015
Unobligated Apportionment		
Available	$ 156,115	$ 137,422
Obligated balance not yet Disbursed	$ 72,291	$ 103,697
Total Unexpended Apportionment	**$ 228,407**	**$ 241,119**

Note 3. Accounts Receivable

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

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

Accounts Receivable as of September 30,

	2016	2015
Intragovernmental		
Accounts Receivable	$ 84,135	$ 60,035
Public		
Accounts Receivable	59	35
Total Accounts Receivable	**$ 84,194**	**$ 60,070**

Note 4. General Property, Plant and Equipment

General PP&E as of September 30, 2016:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	$ 18,273	$ (14,634)	$ 3, 639
Work-In-Process	1,773		1,773
Structure	581	(169)	412
Furniture & Equipment	15,498	(5,935)	9,563
ADP Equipment	80,170	(60,947)	19,223
Capital Lease Equipment	2,119	(1,884)	235
Software	25,593	(22,803)	2,790
Software in Development	4,925	0	4,925
Leasehold Improvements	32,300	(20,405)	11,895
Total PP&E	**$ 181,232**	**$ (126,777)**	**$ 54,455**

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	0	16,994
Leasehold Improvements	25,123	(18,556)	6,567
Total PP&E	**$ 187,172**	**$ (115,026)**	**$ 72,145**

Note 5. Other Assets

Other Assets as of September 30,

	2016	2015
Intragovernmental		
Advance Payment – Federal	$ 6,475	$ 5,836
Total Intragovernmental	**$ 6,475**	**$ 5,836**
Public		
Advances to Employees	$ 3	$ 1
Total Public	**$ 3**	**$ 1**
Total Other Assets	**$ 6,478**	**$ 5,837**

Note 6. Federal Employee Benefits

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

	2016	2015
Civil Service Retirement System	$ 1,576	$ 1,733
Federal Employees Retirement System	615	718
Federal Employee Health Benefits	6,504	5,250
Federal Employee Group Life Insurance	20	17
Total Imputed Expenses - Employee Benefits	**$ 8,715**	**$ 7,718**

Note 7. Other Liabilities

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

Other Liabilities as of September 30,

	2016	2015
Intragovernmental		
Accrued Expenses – Federal	68	55
Accrued VA Contributions for Benefits	1,252	866
Advances – Federal	19,776	36,493
Total Other Intragovernmental Liabilities	**$ 21,096**	**$ 37,414**
Public		
Accrued Salaries & Benefits	$ 4,558	$ 3,314
Accrued Funded Annual Leave	7,804	7,411
Capital Lease Liability	151	957
Total Other Public Liabilities	**$ 12,513**	**$ 11,683**

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 2016 operating lease costs were $13,845 for real property rentals and $2,572 for equipment rentals. The Franchise Fund's FY 2015 operating lease costs were $13,521 for real property rentals and $1,263 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 2.3 to 3.2 percent annual increases in cost.

OPERATING LEASES

Fiscal Year	**Percentage Increase**	Real Property	Equipment
2017	2.3	$ 14,164	$ 2,631
2018	3.1	14,603	2,713
2019	3.0	15,041	2,794
2020	3.1	15,522	2,884
2021	3.2	16,003	2,973

Note 9. Intragovernmental Costs and Exchange Revenue

Cost and Exchange Revenue as of September 30,	**2016**	**2015**
Intragovernmental costs	$ 322,208	$ 236,723
Less: Earned Revenue - Intragovernmental	(764,163)	(705,644)
Net Intragovernmental Cost	(441,955)	(468,921)
Indirect Administrative Cost	465,728	415,356
Total Net Cost of Operations	$ 23,773	$ (53,565)

Earned Revenue: Revenue earned by VA Franchise Fund (VAFF) for fees charged for services for the period ended September 30, 2016 was $764,163. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2015 was $705,644.

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

Note 10. Disclosures Related to the Statements of Budgetary Resources

- **Apportionment Categories of Obligations Incurred Direct vs. Reimbursable Obligations**

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

Reimbursable Obligations as of September 30,

	2016	2015
Category B, Reimbursable Obligations	$ 820,649	$ 775,674

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

The amount of budgetary resources obligated for undelivered orders for fiscal years ended September 30, 2016 and 2015 was $204,517 and $249,771, respectively.

Note 11. Adjustments to Budgetary Resources and Prior Year Recoveries

The Franchise Fund reported approximately $95M and 30.1M recoveries of prior year unpaid and paid obligations (recoveries) for fiscal years ended September 30, 2016 and 2015, respectively.

Note 12. Reconciliation of Net Cost of Operations to Budget

Statement of Federal Financial Accounting Standard 7 "requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The standard states that "OMB will provide guidance regarding details of the display for the Statement of Financing, including whether it shall be presented as a basic financial statement or as a schedule in the notes to the basic financial statements."

Statement of Federal Financial Accounting Concept 2, Entity and Display, provides Concepts for Reconciling Budgetary and Financial Accounting by adding a category of financial information to further satisfy users' needs to understand "how information on the use of budgetary resources relates to information on the cost of program operations ..." The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

FY 2016 Reconciliation of Net Cost of Operations to Budget

	2016	2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 820,649	$ 775,674
Less: Spending Authority from Offsetting Collections and Adjustments	(839,342)	(773,986)
Net Obligations	(18,693)	1,688
Other Resources		
Transfers in/out	6,467	(34,871)
Imputed Financing from Costs Subsidies	8,715	7,718
Net Other Resources Used to Finance Activities	15,182	(27,153)
Total Resources Used to Finance Activities	(3,511)	(25,465)

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	10,426	(28,089)
Resources that Finance the Acquisition of Assets Property, Plant and Equipment	(19,476)	(15,719)
Resources that Fund Expenses Recognized in Prior Periods	(24)	(21)
Total Resources Used to Finance Items not Part of the Net Costs of Operations	(9,074)	(43,829)
Total Resources Used to Finance the Net Cost of Operations	(12,585)	(69,294)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	19,440	15,260
Bad Debts	0	0
Loss on Disposition of Assets	17,726	961
Other	(808)	(492)
Total Components that Will Not Require or Generate Resources	36,358	15,729
Total Components that Will Not Require or Generate Resources in the Current Period	36,358	15,729
Net Cost of Operations	**$ 23,773**	**$ (53,565)**

DEPARTMENT OF VETERANS AFFAIRS

Franchise Fund
ANNUAL REPORT

Debt Management Center
P.O.Box 11930 St Paul, MN 55111
Phone: 612-970-5745
Fax: 612-970-5687
e-mail: dmc.ops@va.gov
Internet: www.va.gov/debtman

Enterprise Operations
1615 Woodward Street
Austin, TX 78772
Phone: 512-326-6005
Fax: 512-326-6922
e-mail: 00b@va.gov
Internet: www.CDCO.va.gov

Financial Services Center Enterprise
Business Management Section
(104) 1615 Woodward Street
Austin, TX 78772
Phone: 512-460-5121
Fax: 512-460-5507
e-mail: vafscbusinessservices@va.gov
Internet: www.fsc.va.gov

Law Enforcement Training Center
2200 Fort Roots Drive, Building 104
North Little Rock, AR 72114
Phone: 501-257-4160
Fax: 501-257-4145
e-mail: james.ward4@va.gov
Internet: http://www.osp.va.gov/Law_Enforcement_Training_Center_LETC.asp

Records Center and Vault
1615 Woodward Street
Austin, TX 78772
Phone: 512-326-6576
Fax: 512-326-7442
e-mail: aacvarcv@va.gov or RCVBusinessOffice@va.gov
Internet: www.rcv.va.gov

Security and Investigations Center
2200 Fort Roots Drive, Building 192
North Little Rock, AR 72114
Phone: 501-257-4469/4490
Fax: 501-257-4018
e-mail: vhalitbackgroundinvestigations@va.gov
Internet: http://www.osp.va.gov/Security_and_Investigations_Center_FF.asp

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

Department of Veterans Affairs
Franchise Fund Oversight Office
810 Vermont Avenue, NW (047F)
Washington, DC 20420