VA

U.S. Department
of Veterans Affairs

Delivering Remarkable Value and Exceptional Services to Our Federal Customers

FY 2020

Franchise Fund Annual Report

Table of Contents

Contributors

- Debt Management Center
- Financial Services Center
- Franchise Fund Oversight Office
- Human Capital Services Center
- Internal Controls Support Center
- IT Infrastructure Operations
- Law Enforcement Training Center
- Personnel Security Adjudication Center

VA's Mission

To fulfill President Lincoln's promise—by serving and honoring the men and women who are America's Veterans.

Franchise Fund's Mission

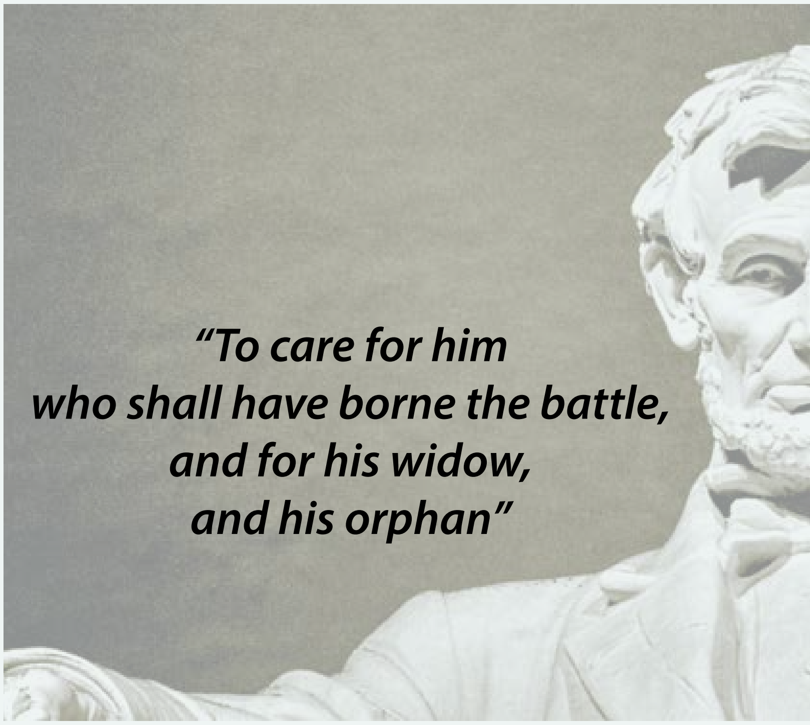
To deliver best-in-class services and capabilities to VA's Administrations and Staff Offices so that they can focus on delivering worldclass benefits and services to Veterans and eligible beneficiaries.

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.



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.

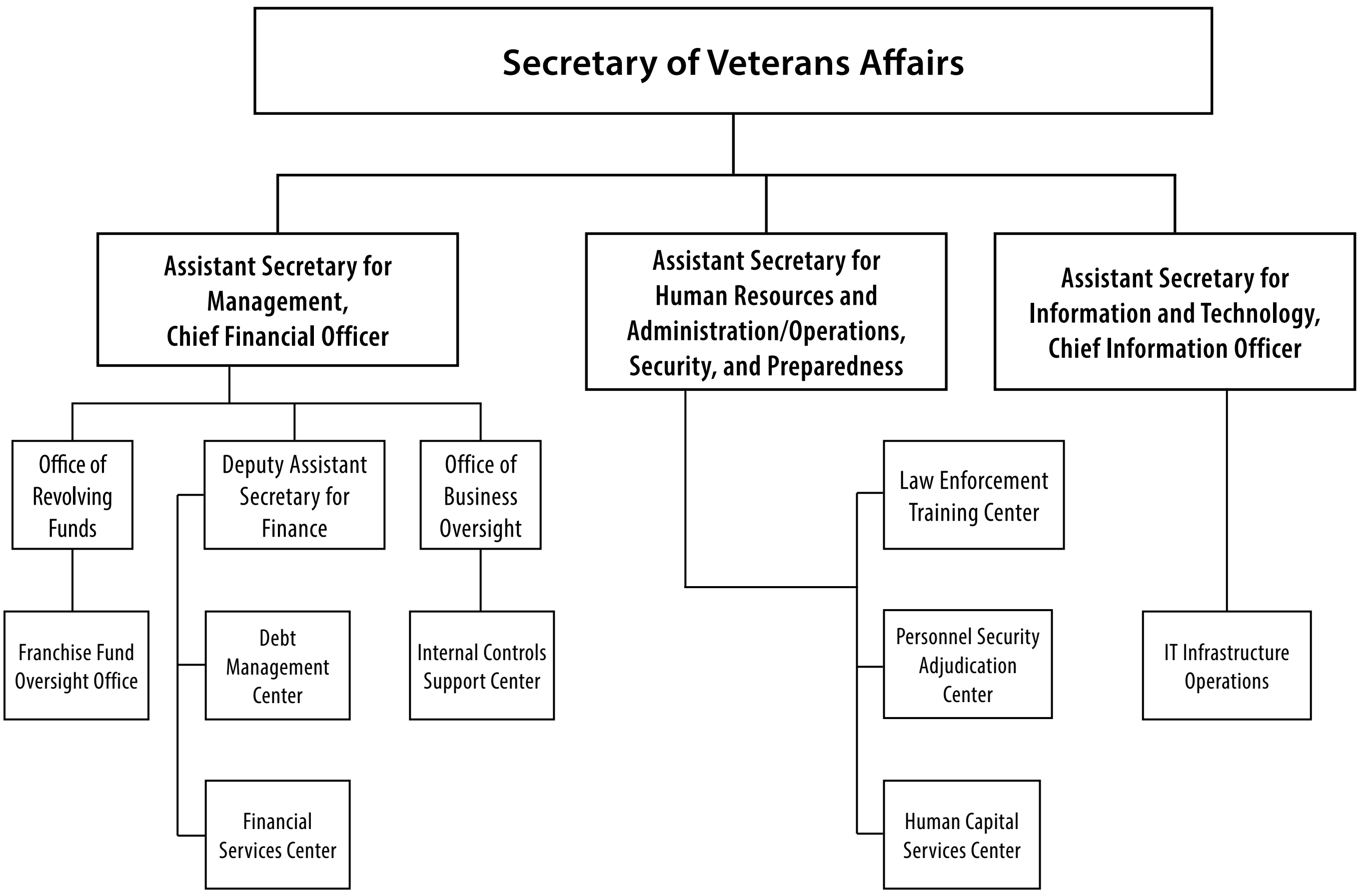
Excellence

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 seven self-supporting lines of business (Enterprise Centers). The Revolving Funds Executive Director 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 Revolving Fund Board of Directors (RFBOD) is composed of the Office of Management; the Office of Human Resources Administration/Office of Operations, Security and Preparedness; Office of Acquisition, Logistics and Construction and the Office of Information and Technology), Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), and National Cemetery Administration (NCA), and pertinent VA staff offices.

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 four major segments: Information Technology (IT), Financial Management (FM), Personnel Security and Law Enforcement (PS&LE), and Human Resources (HR). The chart below shows the revenue among our segments for FY 2018 through FY 2020.

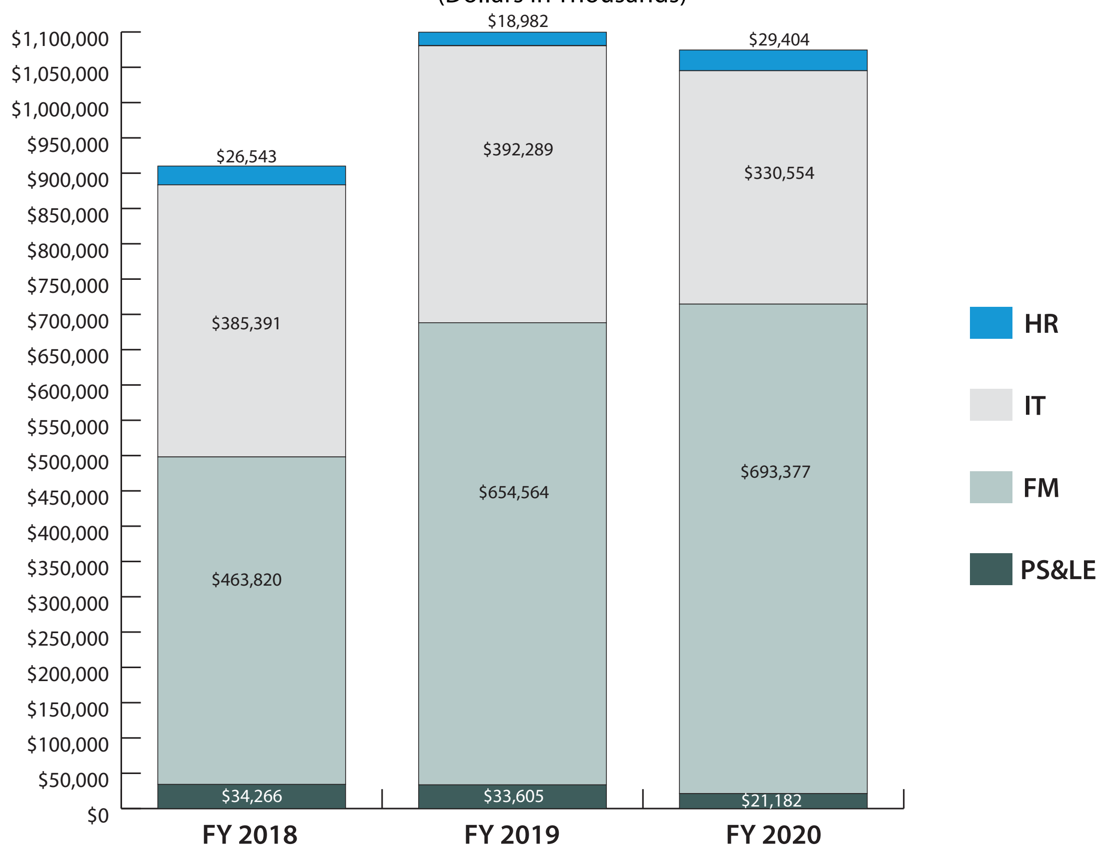
The IT segment generated $330 million in revenue in FY 2020, which is a notable decrease from $392 million in FY 2019. This decrease was primarily due to a reduction in business from the Veterans Benefits Administration.

The FM segment generated $693 million in FY 2020, which is a significant increase from $655 million in FY 2019. This significant growth in revenue is primarily due to additional business from several VA customers including the Office of Community Care, Office of Information and Technology, as well as Office of Acquisitions and Logistics and Construction Integrated Financial and Acquisition Management System (iFAMS).

The PS&LE segment ended FY 2020 with $21 million in revenue which is a notable decrease from the $34 million in revenue reported at the end of FY 2019 due to an overall reduction in services provided by Law Enforcement Training Center and Personnel Security Adjudication Center as a result of the global pandemic.

The HR segment ended FY 2020 with $29 million in revenue. This is a significant increase from $19 million in revenue reported during FY 2019. This increase in revenue is primarily due to additional business from the Veterans Health Administration.

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



Members of the VA Franchise Fund Network

Financial Management (FM)

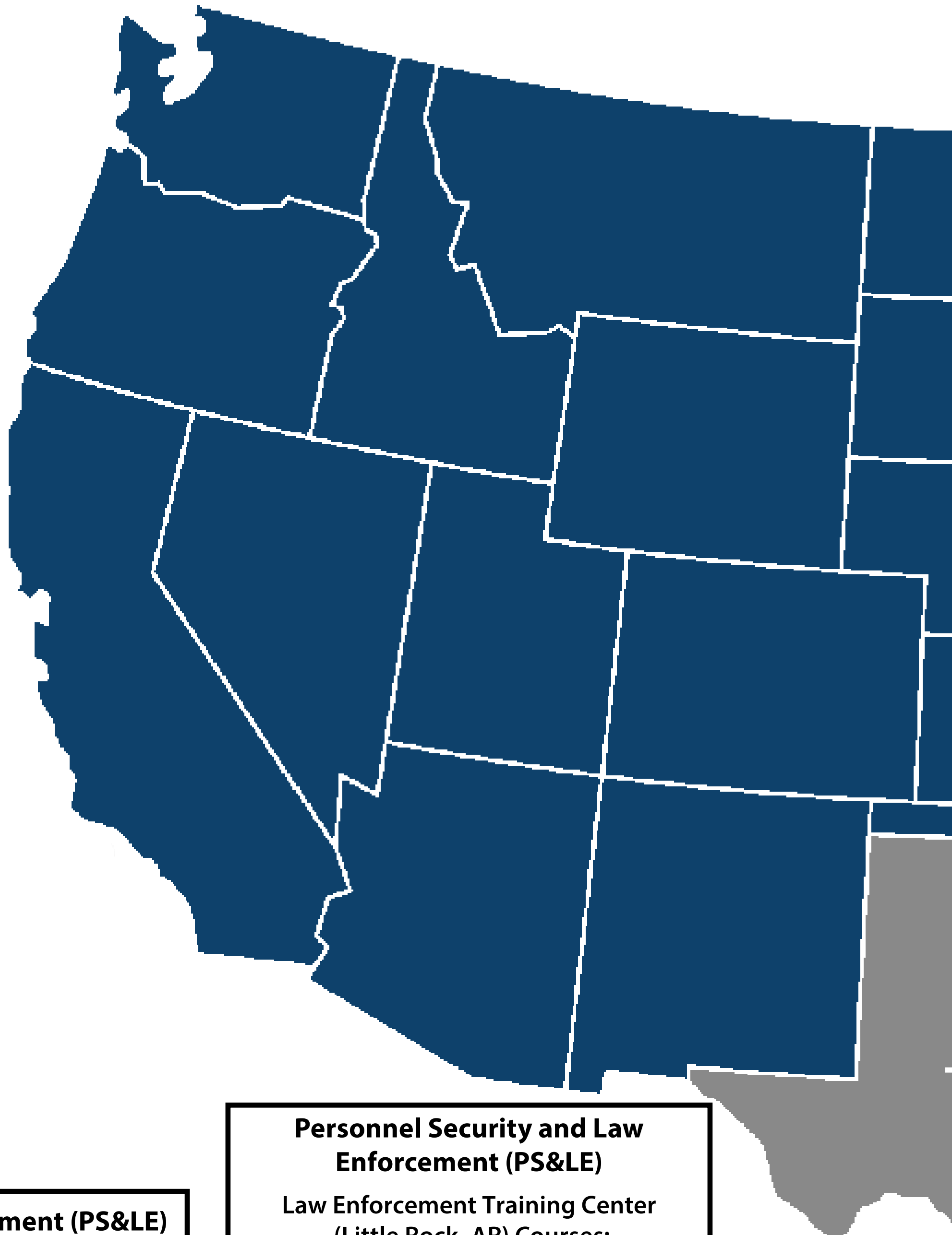
Financial Services Center
(Austin, TX; Waco, TX; Washington, DC)

- 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
- Payroll Support Services
- Travel Services
- Common Administrative Services
- Financial Systems Oversight
- FMS Service Requests
- Audit Services
- Purchased Care Claims Services
- Combo II Services
- Healthcare Claims Services
- FMBT Services

Information Technology (IT)

IT Infrastructure Operations
(Austin, TX; Martinsburg, WV; Hines, IL; Philadelphia, PA; Quantico, VA)

- Systems Hosting Services
- Data Conversion and Data Interfacing
- Enterprise Backup and Support Services
- Cloud Computing
- Web Support Services
- IT Security Support Services
- Enterprise Storage Services
- Network Infrastructure Services
- Mainframe Support Services
- Database Support Services
- Web Hosting Services
- Data Center Operations and Logistics



Personnel Security and Law Enforcement (PS&LE)

Personnel Security Adjudication 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 Agencies
- Security Check for Candidate Requiring Approval of the Secretary
- Special Agreement Check (Fingerprint) Adjudication
- Fingerprint Submission
- Reissuance/Copy of Certificate of Investigation/Eligibility

Personnel Security and Law Enforcement (PS&LE)

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

- Active Threat Operator
- Active Threat Recertification
- Firearms Instructor
- Firearms Recertification
- Ground Defense and Recovery Recertification
- Instructor Development
- Long Gun
- Physical Security Police Officer Standardized Training
- Police Service Program Compliance
- USAF Basic Police Officer
- Verbal Defense Training

Financial Management (FM)

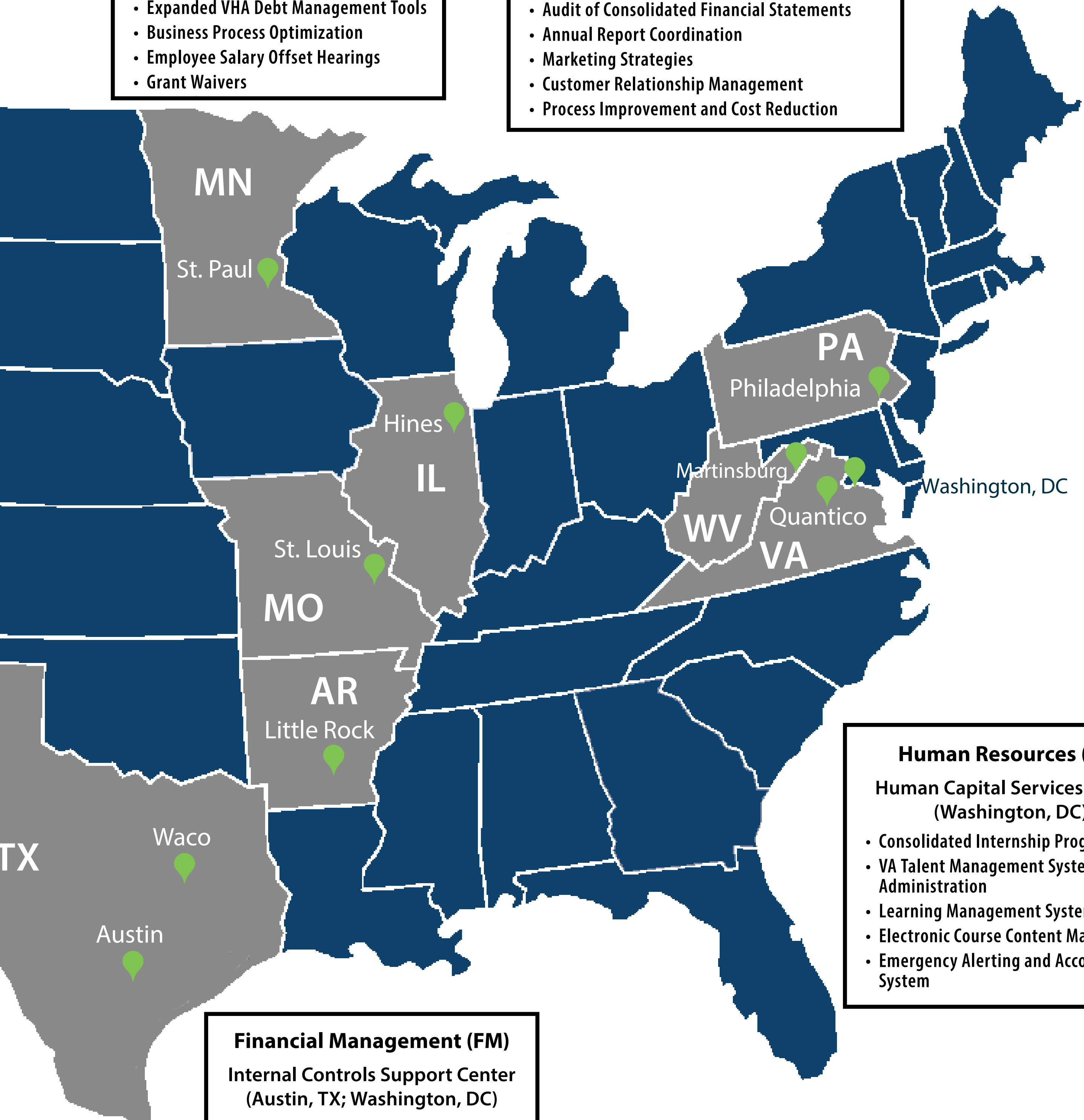
Debt Management Center
(St. Paul, MN)

- 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

Franchise Fund Oversight Office (FFO)

(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
- Customer Relationship Management
- Process Improvement and Cost Reduction



Human Resources (HR)

Human Capital Services Center
(Washington, DC)

- Consolidated Internship Programs
- VA Talent Management System Administration
- Learning Management Systems Training
- Electronic Course Content Management
- Emergency Alerting and Accountability System

Financial Management (FM)

Internal Controls Support Center
(Austin, TX; Washington, DC)

- A-123 Process Documentation and Testing
- Financial and Operational Fitness Assessment
- Technology Transfer Program Review

Members of the VA Franchise Fund Network

Joe Schmitt, Executive Director, Debt Management Center

Reginald Cummings, Executive Director, IT Infrastructure Operations

Terry Riffel, Deputy Assistant Secretary for FMBT, Acting Executive Director Financial Services Center

Susie Dossie, Executive Director, Office of Business Oversight and Internal Controls Support Center

James Ward, Director, Law Enforcement Training Center

Amy L. Parker Executive Director, Human Capital Services Center and Chief Learning Officer

Joshua Blockburger, Director, Personnel Security Adjudication Center

Information Technology

IT Infrastructure Operations (ITIO).

Composed of data centers in Austin, TX; Martinsburg, WV; Hines, IL; Philadelphia, PA and Quantico, VA, ITIO provides hosting and Tier 3 technical support services for VA IT systems in core VA data centers and customer facilities across the enterprise. ITIO fosters standardization, consolidation, and faster adoption of new technologies and support for systems requiring specialized knowledge of the business and technical application needs. Key services include IT security, storage, network infrastructure, unified communications, operating systems, mainframe, database, middleware, web hosting services, and data center operations and logistics.

Financial Management

Debt Management Center (DMC).

Located in St. Paul, MN, the DMC is a centralized facility that provides direct collection of delinquent debt owed to VA. DMC provides high quality customer-responsive receivables management services. DMC balances the charter to collect debts on behalf of the American taxpayers and VA with a Veteran-centric, compassionate approach; helping Veterans and families understand their rights, meet their obligations and develop solutions to resolve their debts. DMC provides a full spectrum of administrative services to properly handle their customers' accounts receivable needs; from establishment through disposition of the receivables. DMC provides debt notification and counseling to Veterans and payment options for amounts owed to VBA and VHA for compensation, pension, education benefits, home loan guarantees, and co-payments. DMC also manages the administrative offset process for both internal benefit offsets and those referred to the Department of Treasury for offset under the Treasury Offset Program (TOP) and Cross Servicing (CS) Program.

Financial Services Center (FSC).

Located in Austin, TX; Waco, TX; Washington, DC and a Neosho, MO, the FSC provides a full range of financial and accounting services. These services include financial reports and accounting, invoice payments, credit card payments, medical claims adjudication and payment processing, vendor file maintenance, discount subsistence purchases, payroll processing, and VA conference tracking and reporting. The FSC also provides customer support for payroll, travel and payment processing, electronic commerce/electronic data interchange, automated document management, audit recovery, permanent change of station and temporary duty travel pay processing, common administrative services, accounting training, and consulting. Additionally, FSC provides records storage, protection, and management services for official Federal records. The FSC's 403,160 square foot storage 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.

Members of the VA Franchise Fund Network

Internal Controls Support Center (ICSC).

Located in Austin, TX; Washington, DC the ICSC provides the VA with technical assistance and oversight support for the establishment, operation, and maintenance of internal controls to ensure internal and external organizations perform in accordance with their agreements. Additionally, ICSC performs Office of Management and Budget (OMB) Circular A-123 compliance reviews, Management's Responsibility for Enterprise Risk Management and Internal Controls, National Cemetery Administration (NCA) State and Tribal Government Grants and Technology Transfer Program (TTP) patent reviews. ICSC accomplishes this with a highly skilled workforce augmented with specialized contractor support. The result is a cost- effective function within VA to ensure resources have the maximum impact helping Veterans.

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 Revolving Fund Board.

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 4,500 law enforcement personnel working at VA health care facilities and to law enforcement professionals at other Federal agencies.

Personnel Security Adjudication Center (PSAC).

Located in North Little Rock, AR, the PSAC provides quality background investigations and timely adjudications for VA employees in national security and public trust positions and all risk levels for VA contractors nationwide. Additionally, the PSAC 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.

Human Resources

Human Capital Services Center (HCSC).

The HCSC, with employees located around the country, provides common human capital support services on a fee-for-service basis. These products and services include learning management, employee accountability, internships and learning content to nearly 600,000 VA employees, contractors, volunteers and academic affiliates. Our products and services reduce costs, streamline processes and save VA employees time so they can focus on delivering the best care to our Veterans. HCSC services include VA Talent Management System (TMS) contracts and back end infrastructure; VA department-wide electronic training courses, audio and textual books, video learning; three internship programs (Pathways, National Diversity Internship Program (NDIP) and Workforce Recruitment Program (WRP)); VA Emergency Alerting and Accountability System (EAAS); and Leadership Development and Chief Learning Officer (CLO) support services.

Letter to Stakeholders

Leroy Larkins
Executive Director, Office of Revolving Funds

On behalf of the Franchise Fund, I invite you to examine our FY 2020 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 2020 with a total revenue of $1.1 billion, which is consistent with FY 2019 revenue of $1.1 billion.

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

- Attaining an unqualified audit opinion of our financial statements for the 23rd consecutive year.
- Adopting and applying Technology Business Management (TBM) standards in FY 2020 has improved ITIO's financial management practices and aligned its cost accounting with the IT industry. ITIO was the first VA organization to provide monthly cost and consumption data at the application and service level for all customers. (ITIO)
- Suspending collections of new debts in FY 2020 to provide financial relief to Veterans suffering from the financial hardships caused by COVID-19. Additionally, DMC provided suspension of payments or extended repayment plans on existing debts. This debt relief assistance was communicated widely to Veterans using mailed letters, DMC's website, social media, and Borne the Battle podcasts. (DMC)
- Earning ISO 9001 certification, which is an internationally recognized standard for quality management. To achieve the International Organization for Standardization (ISO) certification in the FSC's 22 quality objectives, FSC completed 44 audits of business processes in FY 2020. By becoming an ISO 9001 organization, the FSC's business processes are objectively certified for effectiveness and delivery of quality customer service to its stakeholders. (FSC)
- Developing a reconstitution plan in July 2020 in order to resume LETC courses that were postponed in March 2020 due to the COVID-19 pandemic. The reconstitution plan detailed the requirements, processes, and safety procedures that were to be implemented to allow students and staff to safely travel and social distance during workday and classroom hours per CDC guidelines. (LETC)
- Developing the purchase requirements for a commercial off-the-shelf (COTS) application that will automate and manage the requesting of a background investigation from its customers. The application will replace the current manual system of creating PDFs and uploading them to the PSAC SharePoint Portal. (PSAC)
- Expanding its services during FY 2020 to include VA's compliance with the Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Controls, National Cemetery Administration (NCA) State and Tribal Government Grants and Technology Transfer Program (TTP) patent reviews. (ICSC)
- Developing cost effective distance learning opportunities by using training webinars instead of on-site training courses. During FY 2020, HCSC began developing an internal Emergency Alerting and Accountability System (EAAS) training program that will train and track assigned Emergency Managers/EAAS Administrators, transitioning from a $90 thousand per year on-site training cost. (HCSC)

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 our customers for their continuing support.

I am pleased to submit the VA Franchise Fund FY 2020 Annual Report. As the Franchise Fund looks forward to this coming year, I am confident it will continue to demonstrate sound business practices under the current governance structure.

Leroy Larkins

Leroy Larkins

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 other government agencies (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.

External Stakeholders

- Veterans and their families
- Congressional authorization and appropriations committees and subcommittees
- Defense Finance and Accounting Service
- Department of Health and Human Services
- Department of Homeland Security
- Surface Transportation Board
- Veterans Service Organizations
- Private Sector Vendors
- Federal Bureau of Prisons
- Department of Army
- Department of Air Force

Internal Stakeholders

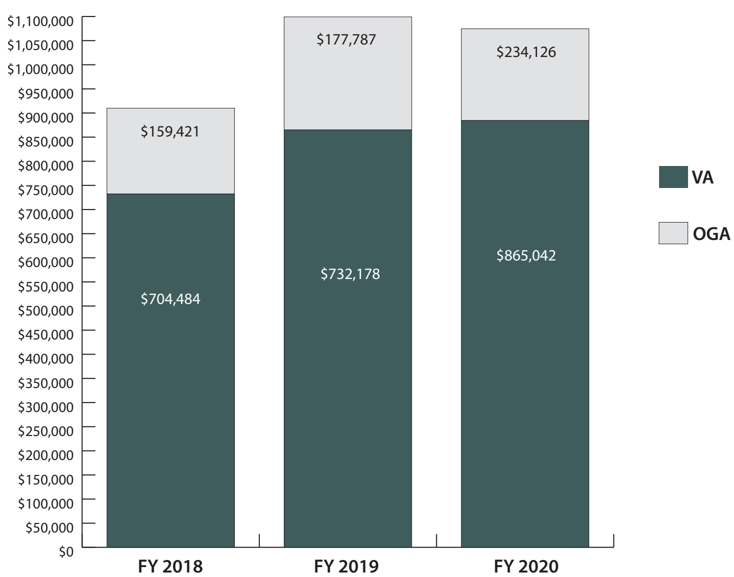
- Veterans Health Administration
- Veterans Benefits Administration
- National Cemetery Administration
- VA Staff Offices
- Board of Veterans' Appeals
- Franchise Fund Enterprise Centers
- Office of Acquisition and Logistics
- Office of Information and Technology
- Office of the Inspector General
- Veterans Canteen Service

Comparison of Customer Revenue from FY 2018 – 2020

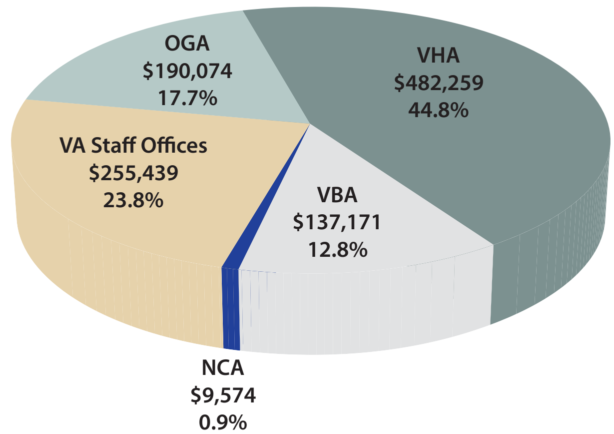
Approximately 82 percent of Franchise Fund revenue comes from VA customers. Within VA, VHA programs provide the most revenue to the Enterprise Centers. The remaining 18 percent comes from several different OGA customers. During FY 2020, revenue from VHA customers increased by $48 million primarily due to a significant surge in service agreements with the FSC while revenue from VBA customers decreased by $47 million due to a decline in business with ITIO.

Revenue from OGA customers decreased notably between FY 2019 and FY 2020. The Franchise Fund ended FY 2020 with $190 million in revenue, a decrease from FY 2019 levels of $234 million. This revenue decrease was due to a decline in business from OGA customers as to a result of the COVID-19 pandemic. The most significant decline in OGA business occurred with the Department of Homeland Security (DHS) and Department of Health and Human Services (HHS).

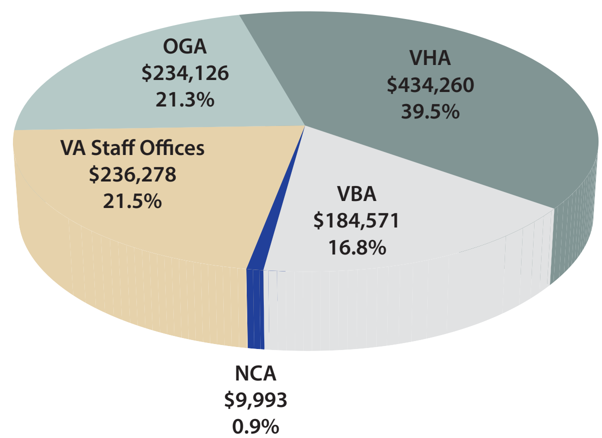
VA Franchise Fund
Revenue Sources-VA vs OGA
(Dollars in Thousands)



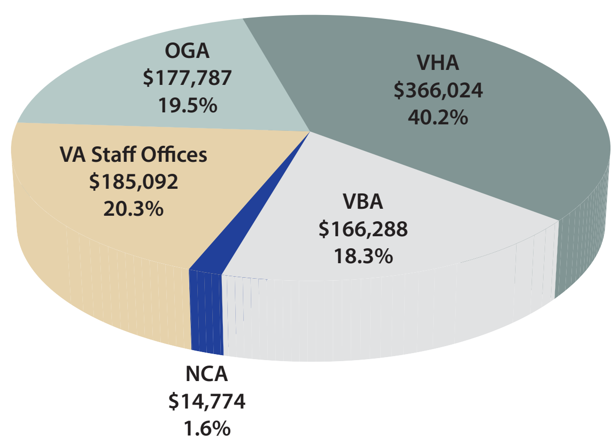
VA Franchise Fund Revenue by Customer
as of September 30, 2020
(Dollars in Thousands)



VA Franchise Fund Revenue by Customer
as of September 30, 2019
(Dollars in Thousands)



VA Franchise Fund Revenue by Customer
as of September 30, 2018
(Dollars in Thousands)



Meeting VA Franchise Fund Objectives Information Technology Segment – ITIO

VA Enterprise Cloud (VAEC)

In FY 2020, the ITIO cloud service line supported VA applications running in the VA Enterprise Cloud (VAEC) and assisted with the migration of multiple applications to VAEC. The team supported 95 VA applications that are already running in VAEC by providing operational support, troubleshooting, optimization, and the development of brand new Cloud Native apps/services/platforms. Five Franchise Fund-hosted applications were migrated to VAEC during FY 2020 and these migrations modernized VA technology, improved performance, and in many cases reduced costs.

Technology Business Management

During FY 2020, adoption and application of Technology Business Management (TBM) standards has improved ITIO's financial management practices and aligned its cost accounting with the IT industry. ITIO was the first VA organization to provide monthly cost and consumption data at the application and service level for all customers. ITIO expanded its TBM implementation to incorporate a Product Line Management structure, mapping applications to the VA System Inventory (VASI), as well as aligning costs further to TBM services. ITIO is well ahead of the OMB phased implementation timeline to adopt TBM by FY 2021 and was part of the VA team that received a TBM Excellence Award. The TBM excellence award recognized our urgency, speed, and quality when implementing TBM-moving beyond Federal compliance to providing an unprecedented line of sight into cost and performance transparency.

Cybersecurity

During FY 2020, ITIO made significant improvements to its cybersecurity ecosystem, including automated reporting and alerting of unauthorized device detection; Department of Homeland Security hardware asset management enhancement implementing integrated automation between cybersecurity infrastructure or true real-time automated orchestration; improved database monitoring; automated threat response to comprised systems via virtual firewall; improved visibility and dashboarding for real-time cybersecurity threat exposure; and improved privilege access management capability that contributed to over 300 percent growth in privileged account management. Additionally, the ITIO Cybersecurity Management Team has increased its Facility Accreditation Boundaries 10-fold which provides NIST 800-53 security controls inheritance for all Information Technology Center-hosted applications. With the onboarding of the Governance Risk and Compliance (GRC) tool, Enterprise Mission Assurance Support Service (eMASS) assisted in the speedy accreditation of over 200 additional applications. Emphasis is placed on Enterprise Cybersecurity Infrastructure Protections, providing inheritance for consolidated cybersecurity protections.

Data Center Consolidation

National Data Center Operations and Logistics (NDCOL), is directly responsible, by order of The Office of Management and Budget (OMB), to close data centers under the Data Center Optimization Initiative. NDCOL is proud to announce the closure of over 12 data centers across the VA portfolio including the larger centers of St. Louis Defense Information Systems Agency (DISA), Defense Enterprise Computing Centers (DECC) St. Louis, MO (SMO), Secaucus Regional Data Center (SRDC), and Culpepper Information Technology Center (CITC). Without the help from many Franchise Fund personnel these closures could not have been accomplished. To show the scale of these accomplishments, SMO was home to 50 percent of all production Veterans Information Systems and Technology Architecture (VistA) systems across VA, feeding half of all VA Medical Centers, these workloads were moved to both the Austin Information Technology Center (AITC) and Philadelphia Information Technology Center (PITC) data centers. In addition, the consolidation of equipment from SRDC was relocated to PITC as CITC was relocated to Capital Regional Readiness Center.

Financial Management Segment – FSC

Invoice Payment Processing

During FY 2020, the FSC's Invoice Payment Processing System (IPPS) achieved 100 percent readiness in July of FY 2020 for the NCA wave go-live. This included new functionality to display and approve at the individual contract line or sub-line level and real time funds control confirmation with Integrated Financial and Acquisition Management System (iFAMS). IPPS support for the VBA Veteran Readiness and Employment (VR&E) went into production in January 2020. The IPPS enhancements enabled VBA to electronically process 145,000 authorizations, 145,000 electronic invoices and over $425 million in payments. In FY 2020, 1.7 million invoices were processed valued at $21 billion with less than .0009% interest paid per million of payments processed.

Records Center & Vault (RCV) Merger

At the beginning of FY 2020, RCV officially merged with the FSC. The transition was seamless, and RCV Operations continued to support VA and OGA customers with outstanding records management support. The RCV support team is collaborating with General Services Administration (GSA) to renew its existing leases in Neosho, MO, and to expand the facility to accommodate additional VHA records. Over the course of FY 2020, RCV Operations worked with VBA to transition records stored on behalf of VBA Records Management Center (RMC) to VBA's scanning sites, for upload into VBA's online system. By mid FY 2021, all legacy RMC records will be moved to the scanning site.

Claims Processing and Services

The FSC completed the deployment of the Electronic Contract Management System (eCAMS) Medical Claims payment system to all 18 VHA Veterans Integrated Service Networks (VISNs) on December 20, 2019. To ensure Veteran's healthcare providers are paid timely, eCAMS deployed 18 VISNs, processed 9 million claims and paid $1.5 billion in payments in FY 2020. The success in deploying the eCAMS system enabled the cessation of the legacy VHA medical claims processing system. The FSC completed Builds 7 and 8 which included enhancements that raised the weekly auto-adjudication rates from 23 percent to 32 percent. As a result, eCAMS loaded over 250 Veterans Care Agreements.

Elimination of Improper Payments

During FY 2020, on behalf of VA, FSC personnel reviewed over 258,000 post payment transactions worth $1.1 billion of which $19.5 million were identified as over-payments. FSC then recovered $9.7 million of the over-payments. In addition, FSC stopped 325,000 invoices valued at $3 billion from being disbursed in error. In particular, FSC prevented $115 million of Franchise Fund improper payments from being erroneously disbursed. The results of these reviews are used to strengthen recapture and recovery activities and internal controls over payments.

Payroll Processing

During FY 2020, the FSC's Financial Payroll Service (FPS) successfully transitioned 6 VHA stations, adding an additional 14,800 employees serviced. FPS supported VA Time and Attendance and payroll processing for over 425,000 employees nationwide and facilitated $1.7 billion in payroll processing each pay period. Additionally, the helpdesk answered over 146,000 phone calls with an abandoned call rate of 7 percent and successfully managed a 32 percent increase in customer support tickets and phone calls related to new benefits created to address the COVID-19 pandemic.

FPS provided centralized timekeeping support to over 2,100 deployed personnel; processed $9.3 million in salary and $1.3 million in overtime for COVID-19 and hurricane disaster support.

Financial Management Business Transformation

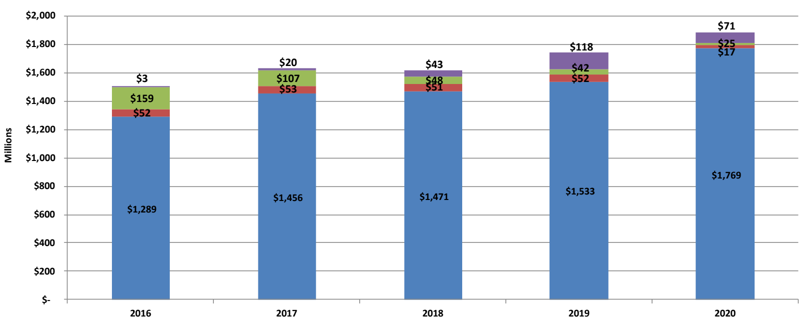
During FY 2020, FSC provided continuous support for the FMBT, an objective of the Secretary's VA Business Systems Transformation goal. FSC developed 23 interfaces to internal VA and external systems, created 28 business intelligence reports and completed development, Integrated System Testing (IST), User Acceptance Testing (UAT), Performance Testing, and Production Simulation Testing for NCA, which included both iFAMS enterprise and NCA-specific configuration.

Financial Management Segment – DMC

Debt Collection Process Improvement

In FY 2020, DMC utilized its compassionate debt collection methods when working with Veterans and their beneficiaries. To ease financial burden of Veterans during the COVID-19 pandemic, DMC suspended collections of 12,000 existing accounts for a value of $76.5 million and adjusted payment plans for 6,400 accounts valued at $37 million. DMC also delayed collections on 225,000 new accounts valued at $486.5 million for nine months. Even with these relief efforts, DMC collected $1.9 billion in FY 2020 which exceeded last year's collections by $136 million. DMC's cost to customers was $40.1 million or 2.1 percent of collections which highlights DMC's emphasis on lean processes, right-sizing the DMC team to meet Veterans' demand and maintaining cost consciousness. DMC continued this focus through the first quarter implementation of electronic submission of waivers to the Veteran Benefits Administration (VBA) Committee on Waivers and Compromise. While the full impact of this innovation has not been realized due to the COVID-19 suspensions, DMC anticipates this effort will increase efficiency and reduce processing time of waivers going forward. DMC led a department level initiative to obtain $8 million in funding to create a new debt landing page on **VA.gov** which will revolutionize how Veterans interact with their personal debt records/balances. For the first time in DMC's 45 year history, Veterans will be able to interact electronically with their debts, view their debts letters and account information via a computer or mobile device. This innovative feature will facilitate online viewing of DMC's 2.5 million annual letters by 924,000 Veterans, further aligning DMC with current 21st century technology and Veteran expectations.

Total Collections and Offsets
(Dollars in Millions)



Financial Management Business Transformation

During FY 2020, DMC's FMBT/iFAMS working groups have been identifying appropriate system requirements and debt profiles, as well as identifying subject matter experts to ensure achievement of program objectives. Additionally, DMC has devoted additional accounting and IT resources to document all VA debts, process flows and system requirements. DMC must evaluate the value, underlying systems, quality of supporting data, and the effort required to effectively collect each debt type. Additionally, DMC served as the product owner for National Cemetery Administration's bill to collect phase for FMBT. As product owner, DMC managed the configuration of collection related functions in iFAMS. DMC also worked closely with Veterans Benefits Administration (VBA) in configuring their General Operating Expense (GOE) wave for iFAMS that will go live in February 2021. DMC will continue to be the debt collection subject matter expert for all future iFAMS waves. DMC will continue to work closely with the VA Administrations to help centralize and create more efficient processes in conjunction with FMBT.

Veterans Account Management System

The Veteran Account Management System (VAMS) is a custom case management solution on the VA Salesforce Platform that incorporates debt management functions and transactions. VAMS is developed with an Agile methodology, this allows DMC to release new developments and enhancements early and often. VAMS Phase 3 was primarily focused on contact center operations. VAMS development began in June 2019 and went into production on June 2020 with DMC contact center users leveraging VAMS on July 16, 2020. VAMS Phase 3 was focused on core functionality, integration with a Master Person Index (MPI) capability, real-time integrations with File-Net, and DMC's Intermediate Database (IMDB). VAMS Phase 4 started on August 1, 2020 and is primarily focused on integration with other systems and added functionality such as VA Profile, Write-Off, Suspension, the use of Collection Indicators, additional Debt Details, Loan Guarantee Details, additional user interface enhancements and back-end system validations. There will be two production deployments for this phase, November 2020 and March 2021. By the end of this phase, DMC's goal is to have all or most of DMC users working in VAMS and all data from Centralized Accounts Receivable Online System (CAROLS) transitioned to VAMS.

Financial Management Segment – ICSC

ICSC Support of OMB Circular A-123 Internal Controls

In FY 2020, ICSC continued to support the Department's Internal Controls Oversight responsibility as prescribed by OMB Circular A-123. ICSC conducted design tests of 210 internal controls at ten locations that aligned with VA's annual risk assessment, to include focused end to end business processes specific to the Office of Community Care. ICSC also documented: (1) internal controls and provided updated business cycle memorandums for four business processes for VA's service providers; (2) seven business processes for Office of Community Care; and (3) nine significant business process updates.

ICSC Support of VA's Homeless Provider Programs

During FY 2020, ICSC found innovative ways to support VA's Homeless Provider programs due to travel restrictions brought about by the Departments' response to COVID-19 maximizing virtual site reviews and limiting onsite reviews to a minimum. ICSC performed 140 Financial and Operational Fitness Assessments for the Supportive Services for Veteran Families (SSVF) and the Grant Per Diem Programs (GPD). Through cooperative efforts with the HPO and Homeless Veteran Grantees, ICSC was able to ensure VA's responsibility for oversight continued safely for VA and Grantee staff during these unprecedented times.

Technology Transfer Program (TTP) Patent Review

During FY 2020, ICSC performed two reviews of invention patent license agreements and royalties between non-governmental organizations and VA. The purpose of the reviews was to obtain reasonable assurance that the terms of invention license agreements were being met. ICSC reviewed $6.5 million of sales revenue with $163,683 of royalties due to VA for 11 patented licensed inventions that were not previously identified. ICSC found 11 additional inventions associated with VA researchers that universities had not previously disclosed which may result in future patent license royalty revenue being paid to VA. Additionally, ICSC preformed a review of TTP manpower to determine if current workload and staffing was adequate to meet mission requirements and compliance with the Federal Technology Transfer Act and the President's Management Agenda Priority Goal to improve transfer of federally funded technologies from lab-to-market.

NCA Grant Review

During FY 2020, ICSC increased support to NCA's State and Tribal Cemetery Grant Program. This program assists states, territories and Federally recognized tribal governments in providing grave sites for Veterans in areas where VA's national cemeteries cannot fully satisfy their burial needs. ICSC works on behalf of NCA to ensure these cemeteries maintain the same high standards of services and appearance that is required of all national facilities.

Personnel Security and Law Enforcement Segment – PSAC

Adjudication Backlog Reduction

During FY 2020, PSAC placed additional emphasis on hiring all vacant positions to assist the VA in reducing the backlog of adjudications resulting from Defense Counterintelligence and Security Agency (DCSA) working their backlog down from 700,000 pending cases to under 300,000 investigations. As of September 24, 2020, the PSAC eliminated its portion of the VA's backlog of delinquent suitability background investigations that were over 90 days from receipt. PSAC now stands ready to perform adjudications for any field site requiring assistance with their backlog of case files.

Team Development

During FY 2020, PSAC developed and hired a Continuous Evaluation (CE) Team to evaluate the newly required Department of Defense (DOD) CE program. DCSA provides this information in the Central Verification System (CVS), however, CE provides the department and Nation a near real-time capacity to review any information of a derogatory nature, on an enrolled individual. Additionally, PSAC developed a team to oversee the Quality Assessment Standards for background investigations utilizing the Office of the Director of National Intelligence (ODNI)/Office of Personnel Management (OPM) Web-based Quality Assessment Rating Tool (QART) to document quality assessments of background investigations. QART is a recent regulatory requirement by the ODNI.

Automated Background Investigations

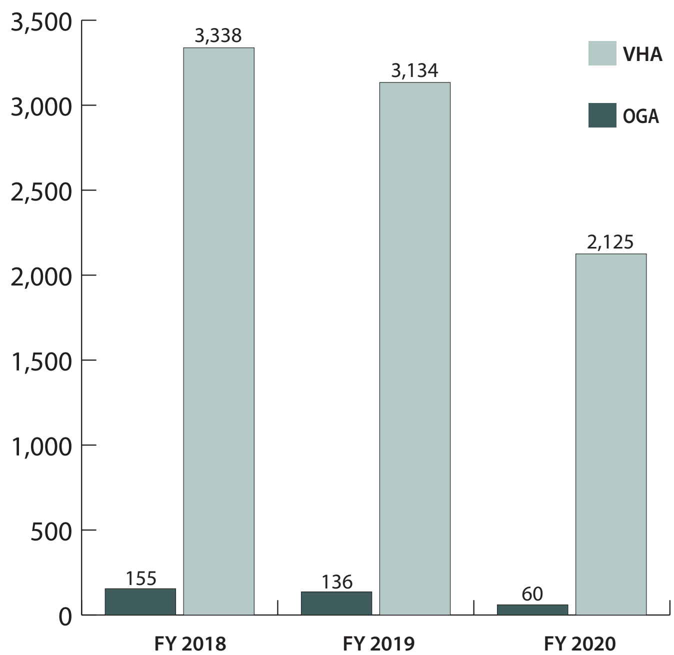
During FY 2020, PSAC continued to develop the requirements to purchase a commercial off-the-shelf (COTS) application that will automate and manage the requesting of a background investigation from its customers. The application will replace the current manual system of creating PDFs and uploading them to the PSAC SharePoint Portal. It will facilitate the processing of investigative products used by PSAC and VA facilities to actively manage, control, and validate user inputs for documents that create requests for background investigations or investigative products. It will be designed to manage all PSAC back office requirements, as well as provide customers total transparency on the current status of their pending background investigation(s) from initial request to final adjudication. The application is being designed to provide systematic, automated rejection and acceptance parameters to processes each type of request and document submitted to the PSAC. It is also being designed to provide the capability for automated communications with customers from PSAC providing request and case tracking status. It will reduce the overall time to complete a request for background investigation for both VA employees and contractors thus being timelier and reducing costs to the customer.

VA Police Officer Training

During FY 2020, the number of VA police officers trained were 2,125. This represents a 32 percent decrease from the 3,134 officers trained in FY 2019. Other government agencies (OGA) student numbers decreased by six percent. These decreases in student attendance was a direct result of the COVID-19 pandemic and LETC's postponement of all training and closure of training facilities on March 24, 2020. Mobile Training and all travel were also canceled due to the COVID-19 pandemic.

Despite the reduction in training during FY 2020, VHA consulted with LETC on the need for a strong law enforcement community within the VA Medical Centers and their role in ensuring the safety of the Veterans, staff, and property. Through this communication VHA and LETC constructed a reconstitution plan to host VA POST courses and mandatory recertification courses to ensure the VA is adequately staffed with certified law enforcement officers. VA LETC also worked closely with Central Arkansas Veterans Health System (CAVHS) on the reconstitution plan to restart hosting courses on the CAVHS campus. Working with VHA, CAVHS, and following Center for Disease Control (CDC) guidelines, a plan was developed to safely re-implement VA POST courses and mandatory training based on the needs of VHA.

Number of Police Officers Trained



Expanded Course Offering

During FY 2020, to help meet VA Medical Centers training needs, LETC expanded several non-law enforcement courses. The Administrative Investigation Board (AIB) course expanded from six classes in FY 2019 to ten classes in FY 2020. The Fact-Finding Course (FFC) was expanded from five classes in FY 2019 to eleven classes in FY 2020. Additionally, LETC Verbal Defense in Healthcare (VDH) program continues to see increasing demand from VHA Medical Centers with 155 classes being offered to 33 different VA Medical Centers and all are taught by Mobile Training Teams (MTTs) at selected medical centers. In addition, LETC added new courses such as Service Line Manager (SLM) and Managing Police Service for Assistant Directors (MPS-ADs) to meet VA Medical Centers training needs. Lastly, a new Chief of Police Leadership Development cohort was added in FY 2020. This course provides training to help police officers in leadership positions to obtain the additional skills in preparation for selection as a Chief of Police. This program has been very successful and over half a dozen graduates have already been selected as a Chief of Police for a VA Medical Center.

LETC also provides MTTs to teach several other Law Enforcement courses such as Executive Leadership, First Line and Intermediate Supervisor, Program Inspection, Dispatcher, and Police Officer Standardized Training Re-Certification courses.

Human Resources Segment - HCSC

VA Chief Learning Officer

During FY 2020, HCSC added the VA Chief Learning Officer (CLO) support function to its business portfolio. The VA CLO is responsible for identifying and deploying talent development capabilities that will enhance current and future Administration and Staff Office leadership development programs and talent development efforts. The VA CLO is also responsible for identifying ways to reduce duplication of leadership and talent development services and save VA financial resources. By developing and maintaining strong partnerships with its customers, HCSC has been able to save the Government time and funding. Specifically, HCSC discontinued a contract with VHA which resulted in estimated savings of $850 thousand to VHA, with no additional cost for the services for HCSC customers. Additionally, HCSC added leadership-focused content by functional areas include audio, video, live and recorded webinars and micro-learning content in the Talent Management System (TMS 2.0).

Internship and Career Development Programs

During FY 2020, HCSC consolidated oversight of several VA-wide internship and fellowship programs under its Learning and Development Services which included the Pathways Program (Interns, Recent Graduates and Presidential Management Fellows), National Diversity Internship Program (NDIP) and the Workforce Recruitment Program (WRP), Chief Executive Officer (CXO) Fellowship and Skillsbridge Programs. In order to provide better service to customers, Development Services has increased staffing by 50 percent. Additionally, HCSC acquired an IT solution that streamlines current Department-wide internship programs. The implementation of this program improves oversight, workforce planning, succession planning, as well as recruitment and retention metrics. In addition to these improvements, HCSC has improved its customer service through use of customer relationship management tracking and utilization of customer and participant surveys.

Talent Management System (TMS 2.0)

In FY 2020 HCSC continued to provide exemplary learning content through its recently deployed TMS 2.0 learning portal during FY 2020. TMS 2.0 supported more than 600,000 active users across the Department, recording and reporting on more than 15 million training completions and delivering improved capabilities to support individual development planning, succession planning, and career planning. Additionally, HCSC established multiple pilot tests of a Succession Planning Program that uses capabilities already available in TMS 2.0 to identify high potential staff and the development opportunities that will prepare key talent for VA critical positions.

Emergency Alerting and Accountability System

During FY 2020, HCSC completed the deployment of the VA Emergency Alerting and Accountability System (EAAS) resulting in cost savings of approximately $25 million over the duration of the contract (5 years). Through the release of the new EAAS, VA will have a comprehensive VA-wide accountability and notification system to send critical safety and emergency alert notifications and to rapidly and accurately gain awareness of the safety and work status of its employees, contractors, affiliates, and associated workforce. The number of individually registered employees in the EAAS system increased from 31 percent to more than 70 percent in FY 2020.

HCSC has also reduced costs across the Department by combining two systems. By no longer incurring the cost of residing on the Office of Information Technology (OIT) cloud, HCSC has reduced the total cost for the Department an additional $25 million over the 5-year life of the contract.

Performance Summary Table

The performance information presented below accurately represents the Enterprise Centers' performance during fiscal years 2018 – 2020. 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.

		Actual		Plan	Were 2020 Goals Achieved or Exceeded?	
Performance Measure	2018	2019	2020	2020	Yes	No
Percent of Veterans and/or beneficiaries who contacted the DMC without receiving a busy signal (DMC)	100.0%	100.0%	100.0%	100.0%	✓	
Class graduation rate (LETC)	95.0%	94.0%	95.0%	95.0%		✓
Percent of adjudications that are completed within the established time frames (PSAC)	100.0%	91.0%	87.0%	90.0%		✓
Payment processing accuracy rate (FSC)	99.0%	99.0%	99.0%	99.0%	✓	
Claim processing time (percent paid within 30 days) (FSC)	100.0%	100.0%	100.0%	100.0%	✓	
Invoices paid in accordance with Prompt Payment Act (FSC)	99.4%	99.1%	99.0%	99.0%	✓	
First call resolution (FSC)	97.6%	99.3%	99.5%	99.5%	✓	
Average wait time until caller speaks to a live person (minutes: seconds) (FSC)	2 minutes 39 seconds	2 minutes 20 seconds	2 minutes 20 seconds	< 3 minutes	✓	
Percent of recalled records that are shipped securely and accurately to requesting facilities within established timeframes (RCV)	99.0%	99.0%	99.0%	99.0%	✓	
Number of audit qualifications for the VA Enterprise Centers (FF)	0	0	0	0	✓	

Performance Highlights During FY 2020

- During FY 2020, ITIO continued to modernize its infrastructure, enhancing its capacity to provide service to Veterans. This included completing a massive network expansion in direct support of increased VA personnel teleworking due to COVID-19; modernizing the Virtual Desktop architecture across the Enterprise, bringing the remaining Citrix farms not currently controlled by ITIO under centralized Support Systems control joining the 15 Citrix farms already under its control; and continuing the cloud migration of websites. (ITIO)
- During FY 2020, when VA suspended all non-critical travel in response to the COVID 19 pandemic, ICSC worked with its customers to develop alternative ways of gathering and analyzing data. In order to conduct Homeless Provider Office (HPO) reviews, ICSC developed a two-stage approach of remote auditing during travel restrictions and on-site closeout data collection once travel was authorized. By using alternate means of collecting data, ICSC was able to analyze over 50 percent of its review scope and identify grantee problem areas so that corrective action was not delayed. Once travel resumed, ICSC adhered to strict CDC personal protection guidance; limited the number and frequency of travelers, and scheduled staff travel events to allow time if quarantine was needed. (ICSC)
- During FY 2020, FSC completed the deployment of the eCAMS Medical Claims payment system to all VHA Veterans Integrated Service Networks (VISNs). The deployment activities consisted of staff training and a planned series of pre-deployment configuration activities. eCAMS processed 9 million claims and paid $1.5 billion in payments in FY 2020, ensuring Veteran's healthcare providers are paid timely. The success in deploying the eCAMS system enabled the close out of the legacy VHA medical claims processing system. (FSC)
- During FY 2020, PSAC successfully ensured that the Defense Counterintelligence and Security Agency (DCSA) background investigation costs would be billed directly to Veterans Health Administration (VHA), Veterans Benefits Administration, National Cemetery Administration, and Office of Information Technology (OIT) instead of PSAC acting as a pass-through agent. The elimination of direct pass through cost(s) to the customer provides significant transparency of the actual resources required for background investigations within the administration(s). Additionally, elimination of direct pass through costs reduces PSAC's target for operating reserves by over $2.5 million allowing funds to remain in the VA operational accounts. (PSAC)
- During FY 2020, LETC replaced a 4-classroom modular complex with a new 6 classroom modular complex. This new facility allows LETC more classroom space and decreases expenses allotted for additional classroom space outside LETC. Additionally, LETC was approved for the construction of a dining facility, education complex, and renovation of 2 facilities on the CAVHS campus. (LETC)
- During FY 2020, as a result of the global pandemic, DMC transitioned 95 percent of its workforce to a telework status within 72 hours of the decision being made. DMC maintained continuity of operations and service to Veterans through its maximum telework and physical distancing posture. Required on-site activities have been preserved using social distancing and DMC has retained daily support services and on-site leadership to ensure the highest level of customer service and no degradation to daily operations. (DMC)
- During FY 2020, HCSC registered nearly 600,000 individual VA employees and contractors in the Emergency Alerting and Accountability System (EAAS) system. This represents 90 percent of the VA workforce across the continental United States, Puerto Rico, Hawaii, Alaska, the Philippines, Guam, and American Samoa. (HCSC)
- For the 23rd consecutive year, the audited financial statements of the VA Franchise Fund received an unqualified "clean" opinion. (FFO)

Financial Statement Analysis

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 31U.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 23rd consecutive year (1998 - 2020), the VA Franchise Fund has received an unmodified "clean" audit opinion.

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 2020 and FY 2019. Highlights of the information contained in the consolidated financial statements are summarized in this section.

Overview of Financial Position

Assets

The Consolidated Balance Sheets reflect the Fund's asset balances of $688 million as of September 30, 2020. This is an increase of $121 million, or 21 percent, over the previous year's total assets of $567 million. The variance is primarily attributed to an increase in Fund Balance with Treasury, which resulted from several factors. These factors include a decrease in disbursements from FSC's external customers as well as an increase of service offerings to VHA customers.

Additionally, FY 2020 was the first full year of operations of ICSC as a franchise funded entity, which significantly increased their customer reimbursement compared to FY 2019. During FY 2020, there was also an increase in property, plant and equipment due to capitalization of the Veteran Account Management System (VAMS), betterment of Claims Modernization, and Centralized Accounts Receivable System/Centralized Accounts Receivable Online System (CARS/CAROLS).

Liabilities

The Fund had total liabilities of $183 million as of September 30, 2020. This represents an increase of $61 million over the previous year's total liabilities of $122 million. The increase in Accounts Payable was due to a notable increase of ITIO's service level agreements for IT services during FY 2020. Additionally, the rise in other liabilities is primarily due to an increase in payroll accruals and advances for FSC's external customers.

The fund's assets and liabilities are presented in the Consolidated Balance Sheets are summarized in the following tables:

Dollars in Thousands	2020	2019
Fund Balance with Treasury	$ 386,373	$ 283,812
Property, Plant and Equipment, Net	193,368	161,779
Accounts Receivable, Net	100,638	106,247
Other Assests	7,154	15,043
Total Assets	**$ 687,533**	**$ 566,881**

Dollars in Thousands	2020	2019
Accounts Payable	$ 88,587	$ 79,311
Other Liabilities	94,534	42,389
Total Liabilities	**$ 183,121**	**$ 121,700**

Net Position

The Fund's net position increased by $59 million in FY 2020 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was $504 million; a 13 percent increase over the prior year's ending net position of $445 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 $43 million in FY 2020, 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 fiscal 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 has total budgetary resources of $1.3 billion, a $253 million increase from the FY 2019 level of $1.1 billion. The Fund's Budgetary Resources as presented in the Combined Statement of Budgetary Resources are summarized in the following table:

Dollars in Thousands		
	2020	2019
Begining Unobligated Balance	$ 110,984	$ 73,765
Spending Authority Earned and Collected	1,229,876	1,014,077
Total Bugetary Resources	**$ 1,340,860**	**$ 1,087,842**

Management Assurances

VA management is responsible for (1) maintaining effective internal control over financial reporting, including 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; (2) evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)); and (3) providing an assurance statement on the overall effectiveness of internal control over financial reporting included in management's discussion and analysis (MD&A).

With respect to internal control, the auditors, CliftonLarsonAllen (CLA) LLP, identified five material weaknesses. 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. The five material weaknesses are as follows: (1) Controls over significant accounting estimates, (2) Obligations, undelivered orders, and accrued expenses, (3) Financial systems and reporting,(4) Information technology security controls, and (5) Entity-level controls including Chief Financial Officer organizational structure.

Regarding noncompliance with laws and regulations, CLA identified the following conditions: (1) Substantial noncompliance with federal financial management systems requirements and the United States Standard General Ledger at the transaction level under the Federal Financial Management Improvement Act of 1996 (FFMIA), reported in part for more than 10 years; (2) Instances of noncompliance with Title 38 of the United States Code, section 5315, pertaining to the charging of interest and administrative costs, reported for more than 10 years; (3) Violations of the Antideficiency Act. VA reported one violation of the Antideficiency Act, Title 31 of the United States Code, section 1341 (a); and (4) Noncompliance with the Improper Payments Elimination and Recovery Act for FY 2019, as reported by the OIG since 2012.

https://www.va.gov/finance/docs/afr/2020VAafrSectionII.pdf

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CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Director of

Department of Veterans Affairs Franchise Fund Oversight Office

In our audits of the fiscal years 2020 and 2019 financial statements of the Department of Veterans Affairs (VA) Franchise Fund we found:

- VA Franchise Fund's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI) included with the financial statements; (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

Report on the Financial Statements

In accordance with Office of Management and Budget (OMB) Bulletin 19-03 we have audited VA Franchise Fund's financial statements. VA Franchise Fund's financial statements comprise consolidated balance sheets as of September 30, 2020 and 2019; the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with U.S. generally accepted government auditing standards and the provisions of OMB Bulletin No.19-03, Audit Requirements for Federal Financial Statements. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

VA Franchise Fund's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; and (3) maintaining effective internal control over financial reporting, including 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 audits. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI included with the financial statements.

An audit of financial statements 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 auditor's 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 of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, VA Franchise Fund's financial statements present fairly, in all material respects, VA Franchise Fund's financial position as of September 30, 2020, and 2019, and its net consolidated cost of operations, changes in net position, and consolidated budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance..

Report on Internal Control over Financial Reporting

In connection with our audits of VA Franchise Fund's financial statements, we considered VA Franchise Fund's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to VA Franchise Fund's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

VA Franchise Fund's management is responsible for maintaining effective internal control over financial reporting, including 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

In planning and performing our audit of VA Franchise Fund's financial statements as of and for the year ended September 30, 2020, in accordance with U.S. generally accepted government auditing standards, we considered the VA Franchise Fund's internal control over financial reporting as a basis for designing 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 the effectiveness of VA Franchise Fund's internal control over financial reporting. Accordingly, we do not express an opinion on VA Franchise Fund's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

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.

Definition and Inherent Limitations of lnternal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies or to express an opinion on the effectiveness of VA Franchise Fund's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. 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 2020 and 2019, dated November 24, 2020 reported five material weaknesses. They include: (1) Controls Over Significant Accounting Estimates and transactions; (Repeat Condition), (2) Obligations, Undelivered Orders and Accrued Expenses (Repeat Condition), (3) Financial Systems and Reporting; (Repeat Condition), (4) Information Technology Security Controls; (Repeat Condition) and (5) Entity Level Controls including Chief Financial Officer Organizational Structure (Repeat Condition). These material weaknesses could have a direct effect on the VA Franchise Fund's internal control over financial reporting.

In accordance with, Government Auditing Standards, we are required to report findings of significant deficiencies. 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.

We consider the following deficiency described in the accompanying Section 1 to be a significant deficiency.

1. Liquidation of Obligations

We have communicated the aforementioned significant deficiency to VA Franchise Fund in a management letter. We identified no other deficiencies in VA Franchise Fund's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of VA Franchise Fund's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the VA Franchise Fund's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of VA Franchise Fund's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

VA Franchise Fund's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to VA Franchise Fund.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to VA Franchise Fund that have a direct effect on the determination of material amounts and disclosures in VA Franchise Fund's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to VA Franchise Fund.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2020 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to VA Franchise Fund. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

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

Louisville, KY December 9, 2020

SECTION I – SIGNIFICANT DEFICIENCIES

We consider the following deficiency in internal control to be a significant deficiency during our audit of the Veterans Affairs Franchise Fund financial statement audit as of September 30, 2020. Our finding is presented below.

Condition:

During our testing of undelivered orders at March 30, 2020, we noted that 41 out of 45 transactions should be de-obligated, which would enable the unused funds to become available for other program needs. The exceptions noted totaled $33,384,528.76.

Criteria:

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, requires management to be responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

Cause:

Contract close-out, additional research required, and waiting for acceptance from vendor to de-obligate.

Effect:

The undelivered order balances could be significantly misstated. In addition, the lack of an adequate processes to review undelivered orders increases the risk that material misstatements may occur and not be detected.

Recommendation(s):

We recommend VAFF perform the following:

- Reinforce existing policies and procedures over review of open obligations.
- Review and validate all UDO for which more than 90 days have elapsed since the period of performance ended. If no period of performance is indicated, then review and validate UDO with no activity for greater than 90 days. Also, document the reason why an obligation has not been de-obligated after period of performance date.

Management's Response:

We agree with the recommendation and will reinforce our policies and procedures for handling undelivered orders. We will work to strengthen the overall review and follow-up procedures by actively engaging program managers and responsible parties. We will also take into consideration further enhancements to our current system of review and validation of all aged UDO's and continue documenting the reason why de-obligation has not taken place after the period of performance.

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2020 and 2019
(Dollars in Thousands)

		2020		2019
ASSETS				
Intragovernmental:				
Fund Balance with Treasury (Note 2)	$	386,373	$	283,812
Accounts Receivable (Note 3)		100,608		106,224
Other Assets (Note 5)		7,154		15,043
Total Intragovernmental Assets	**$**	**494,135**	**$**	**405,079**
With the Public:				
Accounts Receivable (Note 3)		30		23
General Property, Plant and Equipment, Net (Note 4)		193,368		161,779
Other Assets (Note 5)		-		-
Total with the Public	**$**	**193,368**	**$**	**161,802**
Total Assets	**$**	**687,533**	**$**	**566,881**
LIABILITIES				
Intragovernmental:				
Accounts Payable		12,069		10,502
Other Liabilities (Note 7)		74,295		27,259
Total Intragovernmental Liabilities	**$**	**86,364**	**$**	**37,761**
With the Public:				
Accounts Payable		76,518		68,808
Other Liabilities (Note 7)		20,239		15,130
Total with the Public	**$**	**96,757**	**$**	**83,938**
Total Liabilities	**$**	**183,121**	**$**	**121,699**
Net Position				
Total Net Position		**504,412**		**445,182**
Total Liabilities and Net Position	**$**	**687,533**	**$**	**566,881**

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, 2020 and 2019
(Dollars in Thousands)

		2020		2019
PROGRAM COSTS:				
Gross Costs Intragovernmental (Note 10)	$	1,020,863	$	1,019,670
Less: Earned Revenue-Intragovernmental		(1,074,518)		(1,099,168)
Net Program Costs - Intragovernmental	$	(53,655)	$	(79,498)
Gross Costs Indirect Administrative		10,697		8,625
NET COST OF OPERATIONS	**$**	**(42,958)**	**$**	**(70,873)**

The accompanying notes are an integral part of these financial statements

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2020 and 2019
(Dollars in Thousands)

		2020		2019
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balance	$	445,182	$	335,017
Prior Period Adjustments (+/-)		-		-
Beginning Balance, as Adjusted	**$**	**445,182**	**$**	**335,017**
BUDGETARY FINANCING SOURCES:				
Transfers Without Reimbursement		-		-
OTHER FINANCING SOURCES (NON-EXCHANGE):				
Transfers In/Out Without Reimbursement		1,812		27,057
Imputed Financing (Note 6)		14,460		12,235
Total Financing Sources		**16,272**		**39,292**
Net Cost of Operations (Note 13)		**42,958**		**70,873**
Net Change	**$**	**59,230**	**$**	**110,165**
Cumulative Results of Operations	**$**	**504,412**	**$**	**445,182**
NET POSITION	**$**	**$504,412**	**$**	**445,182**

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, 2020 and 2019

(Dollars in Thousands)

	2020	2019
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net	$ 110,984	$ 73,765
Spending Authority from Offsetting Collections	1,229,876	1,014,077
Total Budgetary Resources	**$ 1,340,860**	**$ 1,087,842**
STATUS OF BUDGETARY RESOURCES:		
New Obligations and Upward Adjustments	$ 1,163,087	1,054,486
UNOBLIGATED BALANCE, END OF YEAR:		
Apportioned, Unexpired Accounts	177,773	33,356
Unapportioned, Unexpired Accounts		
Unobligated Balance, End of Year (Total)	177,773	33,356
Total Status of Budgetary Resources	**$ 1,340,860**	**$ 1,087,842**
OUTLAYS, NET		
Outlays, Net (Total)	$ (102,561)	$ (29,518)
Distributed Offsetting Receipts (-)	-	-
Outlays, Net (total)	**$ (102,561)**	**$ (29,518)**

The accompanying notes are an integral part of these financial statements

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2020 and 2019
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Department of Veterans Affairs (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 (VAFF) 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 VAFF 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 seven activity centers (VA Enterprise Centers) and one administrative organization: IT Infrastructure Operations, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Personnel Security Adjudication Center (formerly Security and Investigations Center), Human Services Capital Center (formerly Human Resources Enterprise Center), Internal Controls Support Center and the Franchise Fund Oversight Office. The consolidated financial statements include the seven individual activity centers of the Fund. All material intrafund transactions have been eliminated

B. Basis of Presentation

The VAFF 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 VAFF is a component unit of the U.S. Government, which is a sovereign entity. VAFF interacts with, and is dependent upon, the financial activities of the Federal Government. Therefore, the results of all financial decisions reflected in these consolidated financial statements are not the sole decisions of VA or VAFF as a stand-alone entity. VAFF's fiscal year end is September 30.

VAFF's Consolidated Financial Statements and the Combined Statement of Budgetary Resources (SBR) report VAFF activities. VAFF components are fully described in the Management's

Discussion and Analysis of Section I. The consolidated financial statements meet the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994. The principal financial statements have been prepared to report the financial position and results of VAFF operations, pursuant to the requirements of 31 U.S.C. 3515(b).

The Statement of Federal Financial Accounting Standards (SFFAS) No. 47, Reporting Entity, requires information to be provided on related-party relationships. VA has relationships with many organizations from non-profits to special interest groups that provide support to VA and advocacy for Veterans. However, none of VAFF's relationship is of such significance as to warrant separate or individual disclosure as specified in SFFAS No. 47.

C. Basis of Accounting

The Franchise Fund's fiscal year (FY) 2020 and 2019 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 Statement of Federal Financial Accounting Standards (SFFAS) 34, The Hierarchy of GAAP, including the Application of Standards Issued by the Financial Accounting Standards Board, establishes a hierarchy of GAAP for Federal financial statements. 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 (FBWT) represents the right of the VAFF to draw funds from the Treasury for allowable expenditures. The FBWT are reported in Note 2.

E. Accounts Receivable

Accounts Receivable due from the public typically result from advances for Permanent Change of Station (PCS) 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.

Intragovernmental Accounts Receivable is from other Federal entities and are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary. Accounts Receivable are reported in Note 3.

F. Property, Plant and Equipment

The majority of the general Property, Plant and Equipment (PP&E) is used to provide common administrative services to the VA and other Federal entities and is valued at cost, including transfers from other Federal agencies. Major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred. Individual items are capitalized if the useful life is 2 years or more and the unit price is $1 million or greater. Buildings are depreciated on a straight-line basis over estimated useful lives of 25 to 40 years. Equipment is depreciated on a straight-line basis over its useful life, usually 5 to 20 years.

Internal Use Software (IUS) encompasses software design, development, and testing of projects adding significant new functionality and long-term benefits. Franchise Fund accumulate costs for developing IUS in Work-in-Process (WIP) until the project phase is placed in service and final acceptances are successfully completed. Once completed, Franchise Fund transfer the costs to depreciable property. IUS is also subject to the $1 million threshold for capital assets. 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. Preliminary design phase costs and post implementation costs are expensed as incurred.

Construction project costs are recorded in Construction WIP accounts. The assets are transferred to either capitalized or non-capitalized PP&E, as appropriate, when placed in service. Construction projects completed in multiple phases are recorded as Construction WIP until the project phase is placed in service. Personal property and equipment that do not meet the capitalization criteria are expensed upon being placed in service.

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. A summary of PP&E components is reported in Note 4.

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 (GSA) rent, Government Printing Office (GPO) 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 PCS and Temporary Duty (TDY) travel.

The third type of advance is set up when the purchase card payments are scheduled. Utilizing IPAC charges are then applied to the appropriate agency to offset the advances.

H. Accounts Payable

Intragovernmental Accounts Payable consists of amounts owed to other Federal Government agencies. The remaining Accounts Payable consist of amounts due to the public. Accounts Payable are amounts owed by the Fund for goods and services received, progress in contract performance, and rents due. 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. If invoices for those goods and services are not available when financial statements are prepared, the amounts owed are estimated. 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 i.e., goods are delivered, or services are rendered. 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 as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates for leave that has been earned but not taken. Sick leave and other types of nonvested leave are not earned benefits. Accordingly, nonvested leave is expensed when used.

M. Workers' Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. Claims incurred for benefits for VA Franchise Fund employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by VA Franchise Fund.

Workers' compensation comprises two components: (1) the accrued liability, which represents money owed by VA Franchise Fund to DOL for claims paid by DOL on behalf of VA Franchise Fund through the current fiscal year, and (2) the actuarial liability for compensation cases to be paid beyond the current year.

Future workers' compensation estimates are generated from an application of actuarial procedures developed by DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases and for potential cases related to injuries incurred but not reported. The liability is determined by utilizing historical benefit payment patterns related to a period to estimate the ultimate payments related to that period.

N. 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 administered by OPM. 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.

O. Application of Critical Accounting Estimates

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

P. Commitments and Contingencies

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 other than as disclosed in Note 9, Commitments and Contingencies.

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.

R. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. For fiscal years 2020 and 2019, VAFF had no classified activities.

Note 2. Fund Balance with Treasury

The undisbursed account balance for the Fund is a revolving fund comprised of only entity assets. VAFF does not receive an appropriation from Congress. VAFF 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 Funds Available as of September 30
(dollars in thousands)

	2020	2019
Unobligated Apportionment		
Available	$ 177,773	$ 33,356
Obligated balance not yet Disbursed	208,600	250,456
Fund Balance with Treasury	**$ 386,373**	**$ 283,812**

Note 3. Accounts Receivable

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

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

As of September 30
(dollars in thousands)

	2020	2019
Intragovernmental		
Accounts Receivable	$ 100,608	$ 106,224
Public		
Accounts Receivable	30	23
Total Accounts Receivable	**$ 100,638**	**$ 106,247**

Note 4. General Property, Plant and Equipment

As of September 30, 2020
(dollars in thousands)

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	$ 19,416	$ (16,213)	$ 3,203
Structure	581	(286)	295
Furniture & Equipment	17,794	(7,856)	9,938
ADP Equipment	84,723	(71,253)	13,470
Capital Lease Equipment	2,119	(2,119)	-
Software	115,651	(28,462)	87,189
Software in Development	62,218	-	62,218
Leasehold Improvements	38,399	(21,344)	17,055
Total PP&E	**$ 340,901**	**$ (147,533)**	**$ 193,368**

As of September 30, 2019
(dollars in thousands)

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	$ 19,416	$ (15,938)	$ 3,478
Structure	581	(257)	324
Furniture & Equipment	17,794	(6,728)	11,066
ADP Equipment	89,439	(71,827)	17,612
Capital Lease Equipment	2,119	(2,119)	-
Software	87,022	(19,767)	67,255
Software in Development	42,690	-	42,690
Leasehold Improvements	36,586	(17,232)	19,354
Total PP&E	**$ 295,647**	**$ (133,868)**	**$ (161,779)**

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Property, Plant, and Equipment Balance as of October 1, 2019	$ 295,647	$ (133,868)	$ 161,779
Capital acquisitions	53,479	-	53,479
Dispositions	(8,225)	8,225	-
Depreciation expense	-	(21,890)	(21,890)
Balance as of September 30, 2020	**$ 340,901**	**$ (147,533)**	**$ 193,368**

Note 5. Other Assets

As of September 30
(dollars in thousands)

	2020	2019
Intragovernmental		
Advance Payment – Federal	$ 7,154	$ 15,043
Total Intragovernmental	**$ 7,154**	**$ 15,043**
Public	$ -	$ -
Advances to Employees	$ -	$ -
Total Public	**$ 7,154**	**$ 5,043**

Note 6. Federal Employee Benefits - Inter-Entity Cost

Imputed Expenses – Employee Benefits

As of September 30
(dollars in thousands)

	2020	2019
Civil Service Retirement System	$ 820	$ 960
Federal Employees Retirement System	3,307	3,038
Federal Employee Health Benefits	10,305	8,213
Federal Employee Group Life Insurance	28	24
Total Imputed Expenses - Employee Benefits	**$ 14,460**	**$ 12,235**

Goods and services may be received from other Federal entities at no cost or at a cost less than the full cost to the providing Federal entity. In accordance with accounting standards, certain costs of the providing Federal entity that are not fully reimbursed are recognized as imputed costs in the Statement of Net Cost and are offset by imputed financing sources in the Statement of Changes in Net Position. Such imputed costs and financing sources relate to employee benefits paid by the OPM. The total VAFF's imputed expenses – employee benefits reconcile to the total imputed financing cost as reported in the Statement of Changes in Net Position.

Note 7. Other Liabilities

Other Liabilities are liabilities not reported elsewhere in the Balance Sheet. They consist of funded and unfunded liabilities within the intragovernmental and public categories. Funded liabilities are generally considered to be ***current*** liabilities. Unfunded liabilities represent future financial commitments that are currently not funded and considered ***noncurrent***.

As of September 30, 2020
(dollars in thousands)

	FUNDED	UNFUNDED
Intragovernmental		
Accrued Expenses – Federal	$ 47	$ -
Accrued VA Contributions for Benefits	2,769	-
Advances – Federal	71,479	-
Total Other Intragovernmental Liabilities	**$ 74,295**	**$ -**
Accrued Salaries & Benefits	$ 7,875	-
Accrued Funded Annual Leave	12,361	-
Capital Lease Liability	3	-
Total Other Public Liabilities	**$ 20,239**	**$ -**

Other Liabilities account balance as of September 30, 2019

	FUNDED	UNFUNDED
Intragovernmental		
Accrued Expenses – Federal	$ 16	$ -
Accrued VA Contributions for Benefits	1,621	-
Advances – Federal	25,623	-
Total Other Intragovernmental Liabilities	**$ 27,260**	**$ -**
Accrued Salaries & Benefits	$ 5,853	-
Accrued Funded Annual Leave	9,274	-
Capital Lease Liability	3	-
Total Other Public Liabilities	**$ 15,130**	**$ -**

*Annual leave is accrued when earned and is adjusted at the end of each reporting period to reflect current pay rates of cumulative leave earned but not taken. Sick and other types of leave are expensed as taken.

Note 8. Leases

The Franchise Fund's FY 2020 operating lease costs were $8,357 for real property rentals and $64 for equipment rentals. The Franchise Fund's FY 2019 operating lease costs were $6,080 for real property rentals and $207 for equipment rentals. Operating leases consist of equipment and real property leases that are funded annually and expensed as incurred. Operating equipment leases generally consist of office equipment with terms of 5 years or less and level payments over the lease term. Operating real property leases generally consist of offices and administrative facilities that enable VAFF Enterprise Centers to fulfill its mission.

Leases are executed by GSA on behalf of VAFF. GSA charges rental rates for space that approximates commercial rental rates for similar properties. The terms of occupancy agreements (OAs) with GSA vary according to whether the underlying assets are owned directly by the Federal Government or rented by GSA from third-party commercial property owners.

Future commitments for real property and equipment operating leases are based on leases in effect as of September 30, 2020. VAFF normally occupies leased real property for the entire initial lease term without exercising cancellation and termination options. The following chart represents the Franchise Fund's estimate for operating lease costs for the next 5 years, assuming a 3.2 percent annual increase in cost.

OPERATING LEASES
(dollars in thousands)

Fiscal Year	Percentage Increases	GSA OAs	Third-Party Direct Leases	Total Real Property
2021	3.2	$ 8,625	$ 66	$ 8,691
2022	3.2	8,901	69	8,970
2023	3.2	9,185	71	9,256
2024	3.2	9,479	73	9,552
2025	3.2	9,783	75	9,858

Note 9. Commitments and Contingencies

Franchise Fund is involved in employment related legal actions (e.g. matters alleging discrimination and other claims before federal courts, the Equal Employment Opportunity Commission, and the Merit Systems Protection Board) for which an unfavorable outcome is remote.

Note 10. Intragovernmental Costs and Exchange Revenue

Cost and Exchange Revenue as of September 30,

As of September 30, 2020
(dollars in thousands)

	2020	2019
Intragovernmental costs	$ 1,020,863	$ 1,019,670
Less: Earned Revenue - Intragovernmental	(1,074,518)	(1,099,168)
Net Intragovernmental Cost	(53,655)	(79,498)
Indirect Administrative Cost	10,697	8,625
Total Net Cost of Operations	**$ (42,958)**	**$ (70,873)**

Earned Revenue: Revenue earned by VAFF for fees charged for services for the period ended September 30, 2020 was $1,074,518. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2019 was $1,099,168.

Costs: By law, the VAFF, as an entity of 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 11. Disclosures Related to the Statement of Budgetary Resources

- **Apportionment Categories of Obligations Incurred**

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 VAFF obligations are considered, apportioned by activity.

As of September 30, 2020
(dollars in thousands)

	2020	2019
Category B, Reimbursable	**$ 1,163,087**	**$ 1,054,486**

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

Budgetary resources obligated for Undelivered Orders:

As of September 30, 2020
(dollars in thousands)

	2020	2019
Paid Undelivered Orders Federal	$ 7,154	$ 15,043
Paid Undelivered Orders Non- Federal	-	-
Total Paid Undelivered Orders	**$ 7,154**	**$ 15,043**
Unpaid Undelivered Orders Federal	21,496	20,473
Unpaid Undelivered Orders Non-Federal	306,709	275,586
Total Undelivered Orders	**$ 328,205**	**$ 296,059**

Note 12. Adjustments to Budgetary Resources and Prior Year Recoveries

The Franchise Fund reported approximately $78 million and $51 million recoveries of prior year unpaid and paid obligations (recoveries) for fiscal years ended September 30, 2020 and 2019, respectively.

Note 13. Budget and Accrual Reconciliation

The Budget and Accrual Reconciliation (BAR) presents the relationship between budgetary and financial (proprietary) accounting by reconciling budgetary outlays to the net cost of operations. :

The BAR as of the period ending September 30, 2020
(dollars in thousands)

	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	**$ (53,655)**	**$ 10,697**	**$ (42,958)**
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation	-	(21,890)	(21,890)
Increase/(Decrease) in Assets:			
Accounts Receivable	(5,616)	7	(5,609)
Other Assets	(7,889)		(7,889)
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts Payable	(1,567)	(7,709)	(9,276)
Salaries and Benefits	(1,148)	(5,110)	(6,258)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(45,887)	-	(45,887)
Other Financing Sources			
Federal Employee Retirement Benefits Costs Paid by OPM and Imputed to Agency	(14,460)		(14,460)
Transfer Out (In) Without Reimbursement	(1,813)	-	(1,813)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ (78,380)**	**$ (34,702)**	**$ (113,082)**
Components of the Net Outlays That Are Not Part of Net Cost			
Acquisition of Capital Assets		53,479	53,479
Total Components of Net Outlays That Are Not Part of Net Cost	**$ -**	**$ 53,479**	**$ 53,479**
Net Outlays (Calculated Total)	**$ (132,035)**	**$ 29,474**	**$ (102,561)**
Related Amounts on the Statement of Budgetary Resources Outlays, Net (total)			$ (102,561)
Distributed Offsetting Receipts Fund			-
Outlays, Net			**$ (102,561)**

The BAR as of the period ending September 30, 2019

(dollars in thousands)

	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	$ (79,498)	$ 8,625	$ (70,873)
Components of Net Operating Cost Not Part of the Budget Outlays			
Property, Plant, and Equipment Depreciation	-	(13,294)	(13,294)
Other Assets		14,628	14,628
Increase/(Decrease) in Assets:			
Accounts Receivable	(12,494)	(74)	(12,568)
Other Assets	14,192	(266)	13,926
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts Payable	2,065	1,310	3,375
Salaries and Benefits	(323)	(2,272)	(2,595)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)		175	175
Other Financing Sources			
Federal Employee Retirement Benefits Costs Paid by OPM and Imputed to Agency	(12,235)		(12,235)
Transfer Out (In) Without Reimbursement	(27,057)	-	(27,057)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ (35,852)**	**$ 207**	**$ (35,645)**
Components of the Net Outlays That Are Not Part of Net Cost			
Acquisition of Capital Assets		78,334	78,334
Other		(1,334)	(1,334)
Total Components of Net Outlays That Are Not Part of Net Cost	**$ -**	**$ 77,000**	**$ 77,000**
Net Outlays (Calculated Total)	**$ (115,350)**	**$ 85,832**	**$ (29,518)**
Related Amounts on the Statement of Budgetary Resources Outlays, Net (total)			$ (29,518)
Distributed Offsetting Receipts Fund			-
Outlays, Net			**$ $(29,518)**

Debt Management Center

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Internet: **http://www.osp.va.gov/Law_Enforcement_Training_Center_LETC.asp**

Internal Controls Support Center

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Human Capital Services Center

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Franchise Fund

2020

Annual Report

Department of Veterans Affairs

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