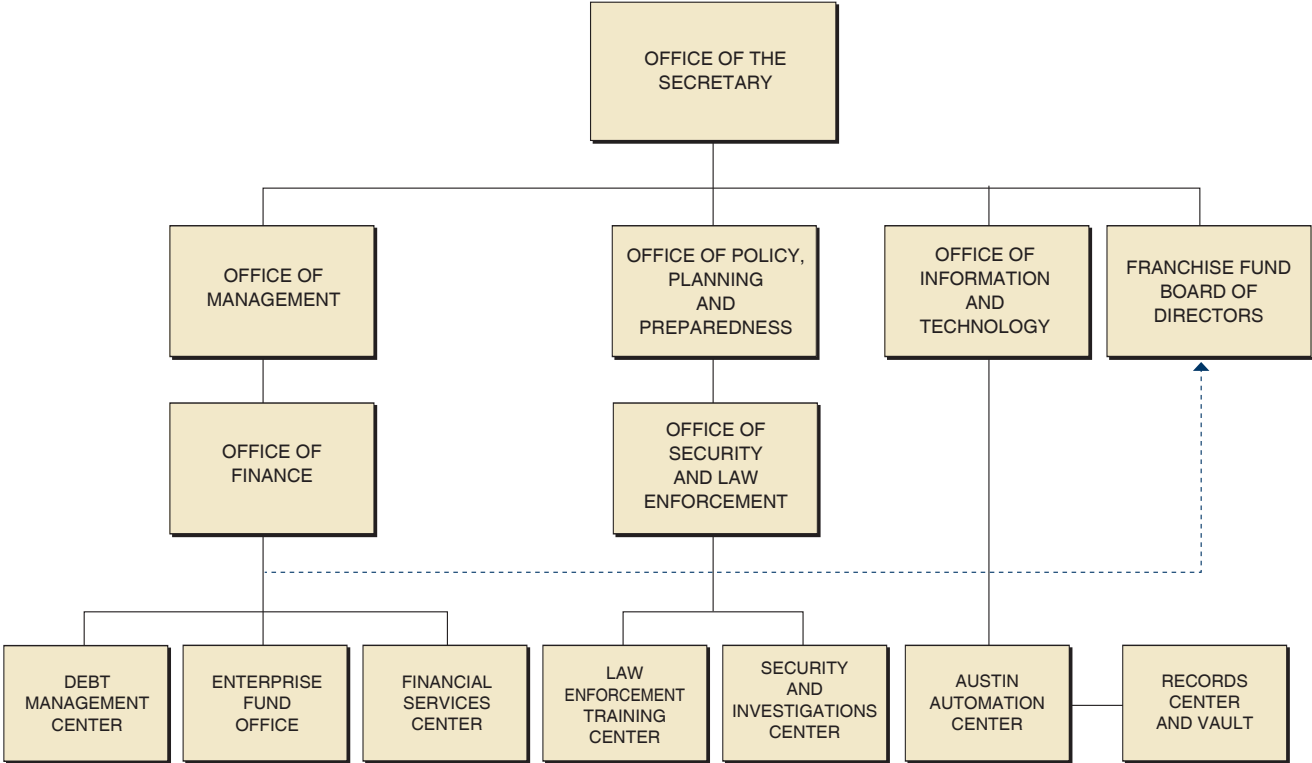


Management’s Discussion and Analysis

Created by Congress in 1996 as one of six Franchise Fund pilots operating within the Executive Branch of Government, the VA Franchise Fund (Fund) was authorized under the Government Management Reform Act of 1994. The Fund supports the Department’s mission by providing common administrative services on a fee-for-service basis rather than through an annual appropriation. By law, the business lines within the Fund can only sell common administrative services to federal entities. The Fund is comprised of an administrative office (Enterprise Fund Office) and six Enterprise Centers that are divided into three major segments (financial management, security and law enforcement and information technology). The Enterprise Centers are managed by three different senior management components (the Office of Management, the Office of Policy, Planning and Preparedness and the Office of Information and Technology). The Enterprise Centers report to the Franchise Fund Board of Directors and the Office of the Secretary to ensure sound business principles, financial accountability, and goal attainment.

In FY 2003, the Fund generated total revenues of \$202 million. The financial management segment (Debt Management Center and the Financial Services Center) generated 37 percent (\$75 million), the security and law enforcement segment (Security and Investigations Center and the Law Enforcement Training Center) generated 3 percent (\$6 million) and the information technology segment (Austin Automation Center and the Records Center and Vault) generated 60 percent (\$121 million) of the total revenue.

VA Franchise Fund Organization Chart



VA Franchise Fund At-A-Glance

	Centers	Brief Descriptions	Products/Services	Locations
Information Technology	Austin Automation Center (AAC)	Recognized award-winning data center, providing cost-efficient e-government solutions and enterprise best practices. In addition, the AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, eligibility benefits, and supply functions.	<ul style="list-style-type: none"> IT Systems Hosting Application Management Information Assurance Customer Business Continuity Configuration Management Data Conversion and Data Interfacing Acquisition Services 	Austin, TX
	Records Center and Vault (RC&V)	Highly secure, climate-controlled certified storage facility that houses short- and long-term records and files.	<ul style="list-style-type: none"> Records Storage Retrieval Services 	Midwest
Financial Management	Debt Management Center (DMC)	Leader in the federal debt community that oversees the entire collection process: making initial cold calls to debtors, negotiating repayment plans and administering automated recovery programs. The DMC employs every collection tool available to federal agencies (referrals to locator services, private collection agencies, and computer matching).	<ul style="list-style-type: none"> Account Maintenance Administrative Offset Administrative Services Predictive Dialer (Telephone Solicitation) 	St. Paul, MN
	Financial Services Center (FSC)	Customer-focused federal financial solutions and service provider of a complete suite of financial management services.	<ul style="list-style-type: none"> Invoice and Payment Processing Payroll Services Financial Accounting/Reporting Audit Recovery Services Financial Consulting Services Credit Card Processing Travel Services Document Management Electronic Commerce/Electronic Data Interchange Common Administrative Services Vendor File Maintenance Medical Claims Processing and Payments Data Matching and Reconciliation Training 	Austin, TX
Security and Law Enforcement	Law Enforcement Training Center (LETC)	Sole provider of a unique federal law enforcement training program that provides an alternative approach emphasizing nonviolent techniques to ensure the safety of patients, visitors, and staff and to maintain order in federal institutions. The LETC's program is geared toward resolving incidents in a humane, respectful manner and utilizing law enforcement as a last resort.	<ul style="list-style-type: none"> Basic Police Officer Training Baton Instructor Training Detective Training Semi-Automatic Pistol Training Administrative Investigations Training Supervisory Officer Training Self-Protection Training Violence in the Workplace Training Armorer Training 	Little Rock, AR
	Security and Investigations Center (SIC)	Performs background investigations/ adjudications, fingerprint processing and identification badge, and access card design and production.	<ul style="list-style-type: none"> Investigations/Adjudications Fingerprint Processing Identification Badge & Access Card Design and Production 	Washington, DC
	Enterprise Fund Office (EFO)	Provides administrative support to the Enterprise Centers by directing and analyzing the budget formulation and execution process and overseeing the overall financial and business planning. The EFO prepares the annual report, coordinates marketing activities and ensures the Enterprise Centers are kept informed of current trends, policies and legislation impacting their operations. The EFO also engages a private accounting firm to conduct annual audits of the financial statements.		Washington, DC

Management's Discussion and Analysis



William H. Campbell,
Chief Financial Officer

“The franchising concept adds value to the government because it empowers self-supporting federal government business entities to promote efficiency and conserve resources at their parent organization as well as OGAs by consolidating common administrative support functions, reducing administrative support costs, enhancing financial management practices, and expanding competition.”

Interview with the Chief Financial Officer

How does the Fund support veterans?

In our information technology segment, the AAC provides VHA, VBA, and NCA with IT services that support many of the key systems that directly support veterans. The RC&V provides storage, management, and retrieval services to VA medical centers that store veterans' records.

In our financial management segment, the DMC's toll-free telephone service is staffed with experienced operators who provide veterans with clear, concise information regarding their benefit debts, due process rights, and payment options. The FSC ensures vendors who participate in VA's multi-billion dollar Prime Vendor Procurement Program are paid on time. These vendors provide VA medical centers with an efficient way to order supplies at low, negotiated contract prices and guarantee delivery within 24 hours, eliminating the need for warehousing large volumes of supplies.

In the security and law enforcement segment, the LETC provides well-trained police officers to ensure the safety of veterans, their families and visitors, and staff at VA medical centers. The SIC ensures that employees who provide patient protection, process claims, have access to veterans' information, and provide medical care receive the appropriate level of background investigations and timely adjudications.

How does the franchising concept add value to the government?

Now more than ever agencies are being asked to do more with less. The pressure to streamline operations and eliminate inefficiency is at its peak. Personnel and financial resources are limited. The American public is holding us to high standards as we spend their tax dollars to administer government programs. Expensive and wasteful practices are not acceptable.

The franchising concept adds value to the government because it empowers self-supporting federal government business entities to promote efficiency and conserve resources at their parent organization as well as OGAs by consolidating common administrative support functions, reducing administrative support costs, enhancing financial management practices, and expanding competition.

As a self-sustaining organization, we do not receive appropriated funds. We recover the full cost of our operations through customer revenue obtained from providing common administrative services. It is imperative for us to deliver high-quality goods and services at competitive prices to stay in business. As we successfully penetrate

the federal market, we can spread fixed costs over a larger unit base, which ultimately leads to lower costs for all customers. We must also demonstrate good stewardship and promote customer confidence in our ability to conduct business in a responsible way. Independent audits of our operations are conducted and used to ensure management accountability and financial integrity.

What were some of the challenges the Fund faced in transitioning to the new model of a businesslike organization?

One of the biggest challenges was shifting our mindset to a more businesslike approach. One of the first things we had to do was understand our own costs and ensure that we collected sufficient revenue to cover our operational costs; so, we developed appropriate pricing mechanisms. We also developed business plans and used them as our blueprint for financial management and for establishing priorities for short-term and long-term decisions involving capital acquisitions and mission-related initiatives.

We also had to focus on customers' needs and wants. Hence, we had a self-perpetuating cycle of customers driving us to improve our customer service, delivery, and performance. We instituted Customer Relationship Managers, also commonly referred to as Account Executives, to act as customer advocates. We became business partners with every customer by demonstrating our collective experience whenever they needed it.

Developing performance metrics was another achievement. We had to understand how we were doing in delivering our products and services so we could meet or exceed customer expectations. This led to custom-tailored agreements, making us truly accountable to our customers.

To move our marketing efforts in a more corporate-like direction, we established a corporate logo, a corporate brochure, and Web sites. We also participated in tradeshow and speaking opportunities to educate others about our products and services and the benefits of doing business with us.

Lastly, we wanted to attest our financial integrity and sound stewardship with our customers by engaging a private sector accounting firm to audit our financial statements.

As we transitioned to a self-supporting entity, we exhibited resilience and resourcefulness, which are hallmarks of a small business. We adopted more businesslike practices, enabling us to become more efficient, responsive, and cost conscious. Over the years we have emerged as a leader in the Franchise Fund Pilot Program, and a model to be followed by other federal agencies that seek to become more entrepreneurial.

How would you characterize the Fund's financial condition?

Very sound. The Fund has been subjected to a financial statement audit by an independent public accounting firm since 1998. Independent audits of our operations are used to ensure management accountability and financial integrity. I am happy to report that we received our sixth consecutive unqualified "clean" audit opinion.

Interview with the Chief Financial Officer

Over the years, how has the Fund transformed into a viable competitor?

Quite simply, our people—both VA employees and contractors transformed us into viable competitors. Our managers and their staff have responded to the challenges and are thriving. The pressure of having to really satisfy customers is fostering a “can do” attitude and a sense that anything and everything is possible.

How do you feel about the Fund's current state in the marketplace?

Great. Virtually every Enterprise Center increased its revenues in FY 2003. The Fund generated total revenues of \$202 million in FY 2003. Our revenue is comprised of three major segments (information technology, financial management, and security and law enforcement). The information technology segment generated 60 percent (\$121 million) of the revenue, while the financial management and security and law enforcement segments generated 37 percent (\$75 million) and 3 percent (\$6 million), respectively. We are proud of this performance and are looking forward to maintaining it in the years to come.

Our current customers are staying and buying more. VA customer business accounted for 77 percent of our revenue stream in FY 2003. Acquiring a greater share of the federal marketplace has been a challenge. We are aggressively leveraging technology and improving customer service and efficiency to expand our services beyond the walls of VA. Our efforts will enable external agencies to streamline their operations and concentrate on their core mission. Overall, the Fund's external revenue grew from \$7.9 million in FY 2002 to \$46.5 million in FY 2003.

What role does the Internet play in your operations?

Implementing Web-enabled technology is a major driver of e-government. The development of business applications that can share information over the Internet is dramatically improving both operations and overall service delivery.

In the information technology segment, the AAC has been very instrumental in developing, supporting, and hosting a variety of Web-enabled applications associated with sharing healthcare and eligibility data and accessing military records and e-medical registries. In addition, the AAC Web site has online tutorials, demonstrations and operations status. For the VHA Records Relocation Project, the AAC developed a Web-enabled database for the RC&V customers to determine the location of their records. In addition, specific detailed instructions on how the transition would occur, as well as how to ship records to the RC&V are available. This database minimizes disruption in records management to VHA and the RC&V staff and affords access to information 24 hours a day, 7 days a week. A project to Web-enable the process of requesting accession numbers and recalls is expected to be available in FY 2004. This project will allow customers to complete requests electronically and receive accession numbers online. Not only will this project result in faster and more accurate services to customers, but it will also eliminate several manual recordkeeping steps, resulting in significant labor savings.

In the financial management segment, the DMC has begun researching the requirements for accepting credit card payments over the Internet. Online credit card payments will offer a simple, convenient payment option to veterans and eliminate human intervention from point of entry to the actual application of payment. Currently, credit card payments (MasterCard, VISA, American Express and Discover) are accepted by the DMC's toll-free telephone service. This year alone, the DMC responded to over 267,000 calls, with a lost call rate of only 2 percent, which resulted in \$2.1 million in collections, a 17 percent increase over FY 2002 collections of \$1.7 million.

The FSC's Vendor Inquiry System enables vendors to make inquiries over the Internet to determine the payment status on pending invoices and payment history on paid invoices. This application stores 4 years of information on invoices. By the end of FY 2003, 5,080 registered vendors conducted over 105,300 queries. Through the Intranet, certifying officials can view, certify, and forward invoices to the FSC for payment processing, reducing processing time to hours rather than days. By the end of FY 2003, 3,160 individuals were granted access. This automated process has and will continue to reduce interest payments for the Department. The success of VA's purchase card program is largely due to the FSC's Credit Card System (CCS). CCS enables the FSC to electronically receive and process credit card payments daily. In FY 2003, VA earned \$18.2 million in rebates.

During 2003, VA began implementing a new electronic travel system, known as e-Travel. This system will allow travelers and/or alternate preparers to electronically prepare and submit travel information using a Web-based system. The system is COTS-based and permits the traveler to make trip reservations with a "booking engine." When travelers prepare their vouchers, they have the option of directing some or all of their reimbursement to their travel card account. The FSC is currently facilitating the data conversion effort, conducting user training VA-wide, serving as the contracting officer's technical representative (COTR), providing help desk support, and providing global systems administration functions. Once the e-Travel package is fully implemented VA-wide, the FSC will continue in all of these roles to support full utilization of the system.

In the security and law enforcement segment, the SIC will implement a system for generating and electronically routing security eligibility forms to employees who require national security clearances or public trust eligibility. With the implementation of this system, employees will be able to complete and submit forms online for review. Use of this system will reduce the processing time from the SIC to OPM from 2 weeks to 2-3 days. Customers will appreciate tremendous cost savings and the SIC will reduce staff time previously required to send follow-up notices. Further, the system will be designed to prompt employees via e-mail who have not completed the forms by the suspense deadline. The use of online forms is expected to decrease overall processing time by 30 days.

Interview with the Chief Financial Officer

Explain how you intend to improve your financial performance. For example, reducing erroneous payments, ensuring financial accountability, and improving VA financial management systems.

Reductions in erroneous payments

Proactive in identifying overpayments and initiating collection actions, the FSC's successful audit recovery program consolidates the identification of overpayments made by VA field stations. This effort reduces the administrative costs of collection for all VA facilities and fulfills the requirements of the National Defense Authorization Act of FY 2002, which states that agencies with \$500 million in annual procurements must conduct recovery audits focused on overpayments. The FSC's daily monitoring of payments includes a review of all potential duplicate payments, vendor statements, and high dollar payments, thus allowing the cancellation of duplicate payments for VA field stations prior to payment by Treasury. This avoids sending collection bills to vendors, saves additional administrative time and effort for personnel at all VA facilities, and ensures money remains in VA accounts.

VA surpassed its target of \$2.3 million in total audit recovery collections. FY 2003 collections of duplicate payments and the recovery of applied vendor statements credits increased by \$771,000 (34 percent) over FY 2002 levels, and FY 2003 collections totaled \$3.0 million. Improved payment oversight has also driven a 41 percent reduction in duplicate payments identified and cancelled prior to disbursement, compared to FY 2002 levels.

Financial Accountability

Customers can count on our financial integrity and sound stewardship. Our financial statements are audited each year by a professional accounting firm and we have received an unqualified "clean" audit opinion each year.

We utilized FASMatch's capabilities in FY 2003 and we will continue to refine our use of the FASMatch data matching, reconciliation, and resolution tool to improve our financial accountability. FASMatch greatly enhances the audit of the Statement of Transactions Report (SF-224) reconciliation with data integrity and provides and maintains a complete and clear individual record audit trail. We have found it to be an invaluable asset in enhancing our financial accountability.

Financial Management System

VA will be replacing its core financial management and logistics systems and many of the interfacing legacy stovepipe systems with an integrated, commercial off-the-shelf package, CoreFLS. CoreFLS will help VA address and correct management and financial weaknesses in transactions from VA systems. Additionally, CoreFLS will provide necessary financial support for credit reform initiatives and improve automated analytical and reconciliation tools.

From a long-term financial systems viewpoint, our support of the CoreFLS initiative is crucial to improving VA financial systems integration and enhancing our ability to provide a full range of accounting services to VA and OGAs. The FSC's expertise was instrumental in other VA financial management system transitions and has proven to be vital to the successful development and implementation of CoreFLS. The FSC actively assists the CoreFLS project office in the testing program and supports the vendor file cleanup area by providing subject-matter expertise, help desk functionality and common administrative support services. In addition, the AAC provides dedicated open systems platform, software database administrator, and Tier 1 (first-contact) help desk support.

How does the Fund measure its program performance?

Performance measures play a major role in the management of the Fund. From a financial perspective, the success or failure of any business can be clearly gauged by revenue and expense metrics. We have done extremely well by financial measures. Coupled with our financial metrics, program performance metrics will position us to better compete in the future.

The performance information presented in this report accurately represents our performance during FY 2000 – 2003. I am happy to report that 15 of 18 goals were met in FY 2003 (refer to the performance measures section for additional information). This reflects our measured progress in leadership, systems oversight and processing, direct service delivery, and sound financial management.

Where do you see the Fund going?

We are aggressively leveraging technology and improving customer service and efficiency to expand our services beyond VA. Acquiring a greater share of the federal marketplace continues to be a challenge for us. With new technological advancements on the horizon, we will continue to focus business improvements on our customers to make sound, fiscally responsible decisions that will have a positive impact.

As knowledgeable government professionals, we know how to tailor our services to provide federal program managers with cost-effective, customer-driven alternatives to fulfill their common administrative support needs. Although federal agencies have unique missions, our collective experience enables us to give expert advice and counsel from an insider's point of view. As a federal agency, we know the unique requirements and constraints that federal agencies face.

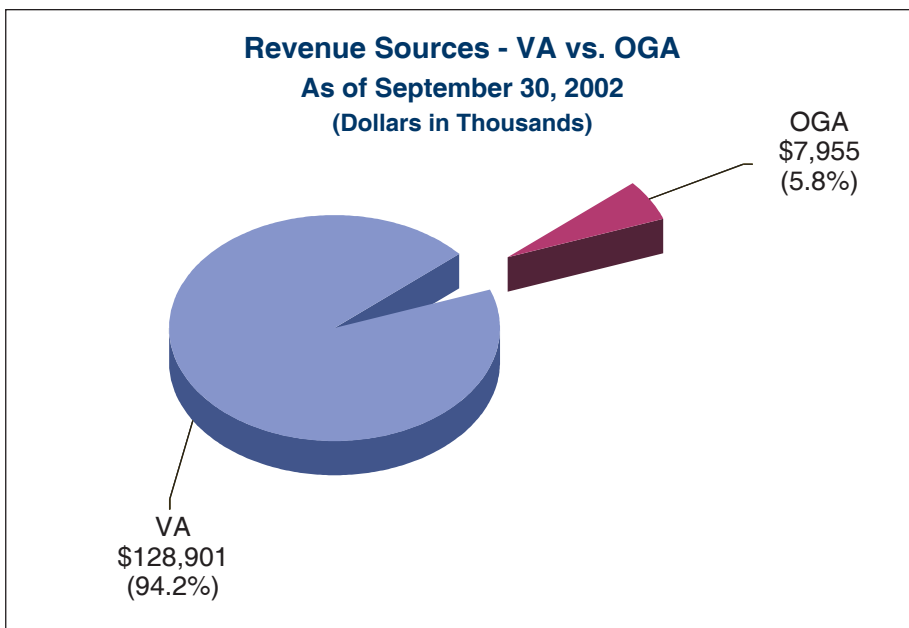
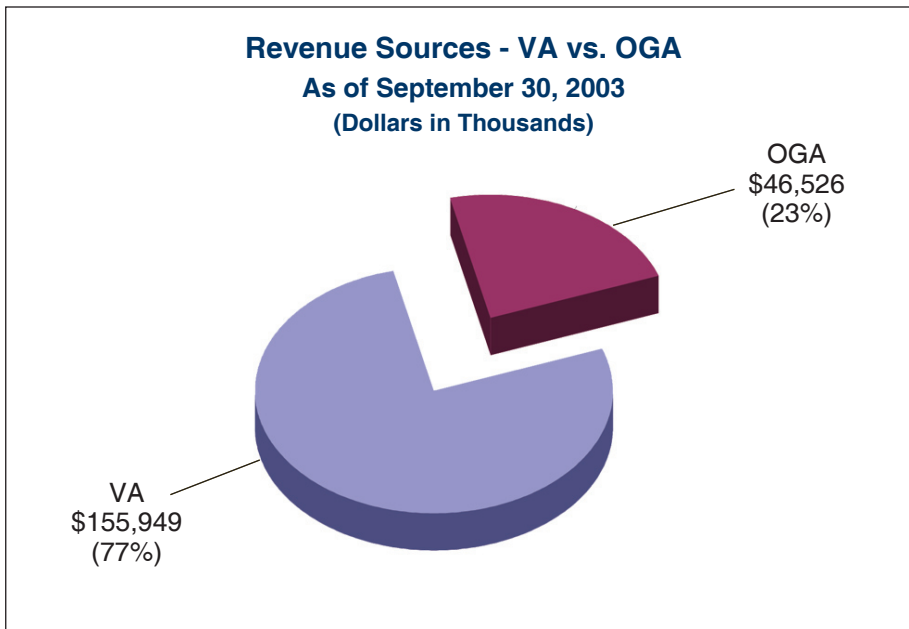
The American public is holding us to high standards as we spend taxpayer dollars to administer government programs. Expensive and wasteful practices are not acceptable. Government program managers are looking to us to promote efficiency and conserve resources by consolidating common administrative support functions, reducing administrative support costs, and enhancing financial management practices. We will

Interview with the Chief Financial Officer

continue to find ways for our customers to streamline their operations and eliminate inefficiency so they can focus their attention on mission-critical functions. As we successfully penetrate the federal market, we can spread fixed costs over a larger unit base, which ultimately leads to lower costs for all customers. We project that we will generate \$250 million in revenue in FY 2004.

Our success as a Franchise Fund demonstrates our ability to offer business solutions that meet customers' needs at competitive prices, using best practices, providing exceptional customer service, and satisfying each customer's unique requirements.

VA customer business accounted for 94.2 percent (\$128.9 million) of our revenue stream in FY 2002 and 77 percent (\$155.9 million) in FY 2003. Acquiring a greater share of the federal marketplace has been a challenge. We are aggressively leveraging technology and improving customer service and efficiency to expand our services beyond VA. Our efforts will enable external agencies to streamline their operations and concentrate on their core mission. Overall, the Fund's external revenue grew from 5.8 percent (\$7.9 million) in FY 2002 to 23 percent (\$46.5 million) in FY 2003.





Linda Voges,
Director
Austin Automation Center
and the
Records Center and Vault

"Our success as a franchise fund entity demonstrates our ability to provide business solutions that meet customers needs at competitive prices, using industry best practices, exceptional customer service, and a guarantee to provide the flexibility to satisfy each customer's unique requirements. Our overriding goal is to earn our customers' loyalty and succeed in providing the highest level of service possible."

Message From the Director

Since entering entrepreneurial government, the Austin Automation Center (AAC) has grown and prospered, significantly expanding both our customer and revenue bases. We consider ourselves to be business partners with our customers and strive to sustain superior relationships with each customer. Our success in sustaining these relationships is the result of focusing our technologies and business improvements on the customer and making sound, fiscally responsible decisions that positively impact the customer. During fiscal year 2003, we focused on several initiatives that will significantly enhance our overall service delivery to customers.

To ensure customers continue to benefit from our high standards of excellence, and in support of the President's agenda for management of human capital, strategic initiatives for staff recruitment, development, and retention are in place, our staff has participated in and earned professional employee certifications in several areas including business continuity, help desk, project management and security. The end product is a diverse workforce that is highly educated and uniquely qualified to perform work for our customers.

With 60 percent of our security professionals having obtained their Certified Information Systems Security Professional designation (considered the gold standard), we illustrate our commitment to addressing high priority security issues. Appropriate resources are applied to implement and maintain an effective security program at our center. These efforts continue to ensure the security of our employees, and the security of our customers' data and applications.

We offer our customers highly reliable, and scalable enterprise servers (z900) and open systems (UNIX and Windows) processing platforms that are closely monitored and upgraded "just-in-time" to provide our customers with the capacity and information technology (IT) management tools needed to support business critical applications. We are also exploring remote electronic vaulting, an alternative to the more traditional disaster recovery/business continuity process. This will reduce the recovery time for mission-critical data while providing for near-current data.

As an experienced provider of IT services for over 35 years, we understand the necessity of maximizing the knowledge, skills, and abilities of our workforce, the critical need for heightening data security, the importance of infrastructure management, and the importance of business continuity planning.

Message From the Director

We reorganized and cross-trained our employees to make the most efficient use of our resources. As we streamline our workforce, we continue to seek ways of centralizing and automating our collection process. As a result, we have been able to reduce operating costs and provide competitive prices to our customers.

FY 2003 was a productive year for the DMC as we improved our rate of return and increased collections. We strive to streamline operations and reduce operating costs. Our rate of return (dividing operating expenses into collections/offsets) is one factor that we use to determine our return on the dollar. We improved from \$60.49 in FY 2002 to \$63.24 in FY 2003, a 5 percent increase. Collections/offsets increased from \$353 million in FY 2002 to \$368 million in FY 2003, a 4 percent increase, while our operating expenses decreased slightly.

The Department of the Treasury continues to push for compliance on collection initiatives authorized by the Debt Collection Improvement Act of 1996. The two initiatives receiving the most attention are the Treasury Offset Program (TOP) and the Debt Referral Program for accounts over 180 days delinquent. We automated our referral programs and achieved 97 percent compliance for referrals under both programs. The Department of Veterans Affairs (VA) realized \$49.7 million in collections from TOP in FY 2002 and \$62.7 million in FY 2003 respectively.

We began researching the requirements for accepting credit card payments over the Internet. Online credit card payments will offer a simple, convenient payment option to veterans that eliminate the costs and potential errors associated with manual processing. Currently, credit card payments (MasterCard, VISA, American Express and Discover) are accepted from our toll-free telephone service. This year alone, we responded to over 267,000 calls, with a lost call rate of 2 percent, collecting \$2.1 million in credit card collections. This was a 17 percent increase over FY 2002 collections of \$1.7 million.

We look forward to FY 2004 as a year to improve and expand our programs while refining internal operations and processes. We will continue to seek new business opportunities and strive to improve customer service.



**Daniel Osendorf,
Director
Debt Management Center**

"The DMC's technology continues to reduce operating costs and improve customer service."



Rodney Wood,
Director
Financial Services Center

"Sound financial management is key to our collective success. Through the expertise of a quality workforce, attention to financial requirements, and system capabilities, the FSC worked closely with auditors of both the Department's financial statements (Deloitte and Touche) and the VA Franchise Fund's financial statements (Brown & Company, CPAs). I am happy to report that the Department attained its fifth consecutive unqualified "clean" audit opinion and the VA Franchise Fund its sixth consecutive unqualified "clean" audit opinion."

Message From the Director

On behalf of the Financial Services Center (FSC), I extend my sincere thanks to our customers for entrusting their business to us. Our goal is to provide outstanding customer service, technological innovations, and financial solutions that will exceed customer needs. We appreciate our customers' business and look forward to continuing our partnerships with them.

We continue to expand our support to the Department of Veterans Affairs (VA) and other government agencies (OGA) by continuing to provide a full spectrum of financial products designed to ensure financial accuracy, accountability, standardization, strong internal controls, and economies of scale.

The FSC has a fully developed set of strategic goals and objectives that link to VA's overarching strategic goals. Through the monitoring of our performance measures and metrics, we track our progress toward attaining these goals and strategies.

During this past year, we added five new customers. As a result, we were able to spread our overhead expenses over an expanding customer base. Our payment accuracy and timeliness rates both exceeded 98 percent. By leveraging vital customer relationships and improving our internal processes, we helped customers realize a dramatic improvement in their discount and interest penalty performance. Those in VISN 22 (Southern California Healthcare System) and in VA Central Office (Washington, DC) that used our On Line Certification System significantly decreased their interest penalty payments by 44 and 76 percent, respectively. New customers were acquired as they began to realize the power of our Document Management System, an electronic document imaging, secure storage, and flexible retrieval system that allows users to streamline document management and diminish the need for paper file storage space. We reached a significant milestone with the addition of a new medical claims payment product line in support of a new customer, the Division of Immigration Health Services. We expanded our consulting business and broadened our business base through sponsorship of the Mid-Atlantic Cooperative Administrative Support Unit.

Sound financial management is key to our collective success; the FSC led VA to its fifth and the Franchise Fund to its sixth consecutive unqualified "clean" audit opinion. We developed FASMatch, an automated data matching and reconciliation tool for the major functions of reconciling customer accounting records with the Department of the Treasury, to assist us in continuing this trend. This capability now provides over a 99 percent automatic match of unmatched Statement of Transactions Report (SF-224) items, which significantly enhances the quality of our end product.

I am confident our suite of products and services can meet or exceed the financial needs of our existing and future customers.

Message From the Director

At the Law Enforcement Training Center (LETC), we place a premium on training the federal law enforcement communities at healthcare facilities, parks, museums, and other federal special mission or limited jurisdiction settings nationwide and use an approach that focuses specifically on assaultive patient situations. We employ the finest law enforcement instructors, and our goal is to equip our students with the knowledge, skills and abilities to resolve incidents in a humane and respectable manner. We provide students with practical and classroom instruction on the importance of ensuring the safety of all patients, customers, and staff, and maintaining order in a federal institution.

At our center, students learn an alternative law enforcement approach from seasoned instructors, who emphasize customer/patient safety in all interactions and use of aggressive action only as a last resort. Our comprehensive curriculum of instructor-led courses includes the basics of criminal law, search and seizure, patrolling techniques, federal arrest authority and healthcare facility law enforcement. Several specialized and advanced courses (baton instructor, detective, semi-automatic pistol, firearms instructor, administrative investigations and armorer) complement our core training courses. Individuals other than law enforcement personnel are also attracted to our seminars on self-protection and violence in the workplace. Additionally, we customize our curriculum to meet our customers' unique classroom requirements.

During the past 2 years, we slightly decreased our business from other government agencies (OGA) in order to meet the increased demand from our primary customer (the Veterans Health Administration). With the successful completion of the Department of Veterans Affairs' (VA) firearms initiative in FY 2003 and the addition of our large training facility, we can now increase our OGA business. We project that we will increase our OGA business by 30 percent.

Our unique training program has proven to be attractive to OGAs that possess a similar customer oriented vision of law enforcement as VA and have expressed their feelings of being underserved by the federal law enforcement training community. We are the only federal agency in full compliance with Title 38 (specialized training for dealing with assaultive patients in a healthcare environment).

We are committed to our customers and the quality of our training program. We are fortunate to have a cadre of dedicated instructors who foster innovation and are willing to go "beyond the call of duty" to provide superior training. In addition, positive feedback from our customers indicates they are very satisfied with the quality of our training.



Ronald Angel,
Director
Law Enforcement Training
Center

"Our mission is to serve as a leader in providing world-class law enforcement training. We provide new and experienced law enforcement professionals with the necessary skills to fulfill their responsibilities to provide a service to our Nation's veterans."



Linda Voges,
Director
Austin Automation Center
and the
Records Center and Vault

"In FY 2002, the RC&V was realigned under the AAC. The AAC's management of the RC&V continues to move it in the direction of business and financial viability. We met the challenge of this realignment with a positive "can-do" attitude. The realignment highlights the fact that a larger Enterprise Center with greater resources (business planning, financial management, accounting, contracting, IT, facility management, etc) can support and assist a smaller Enterprise Center. This is especially true given the significant expansion efforts. We have worked very diligently with NARA and VHA to address their concerns to ensure the VHA Relocation Project is a major success."

Message From the Director

The Records Center and Vault (RC&V) provides records storage, management, and related retrieval services to the Department of Veterans Affairs (VA) and other government agencies (OGA). The value of a records storage facility is defined by its ability to quickly retrieve and return records to customers when requested. The RC&V excels in this area, attaining a 99 percent success rate for retrieving records within established timeframes. Despite the complexity of the Veterans Health Administration (VHA) Records Relocation Project and the challenges we encountered, customer service has remained a top priority.

Proactive cost management and projections for significant cost savings influenced the decision to consolidate all veterans' retired medical records at our facility. The enormous task of transporting nearly one million veteran records from National Archives and Records Administration (NARA) facilities across the country to our facility is in its final stages. This project, which began in May 2002, is targeted for completion in August 2004.

We began a facility expansion project in October 2002 that will provide needed capacity through FY 2005. In addition, a project to Web-enable the process of requesting accession numbers and recalls is expected to be available in FY 2004. This project will allow customers to complete requests electronically and receive accession numbers and other information via the Web. Not only will this project result in faster and more accurate services to customers, it will eliminate several manual recordkeeping steps, resulting in significant labor savings.

We are committed to earning our customers' loyalty and to the goal of providing unparalleled records management services.

Message From the Director

At the Security and Investigations Center (SIC), we focus our goals on safety, security, and customer service. Building security and employee background investigations have become critical elements in ensuring a safe work environment. Today, with heightened security awareness in the federal workplace, the ability to properly screen personnel prior to employment and entry into federal agencies has become paramount.

With over 30 years of experience in adjudicating and granting eligibility/clearances for three levels of public trust and four levels of national security, we afford the highest levels of confidence at a competitive value. All federal agencies are required by the Office of Personnel Management (OPM) to process and adjudicate their respective background investigations and maintain an effective Personnel Security Program, in accordance with Executive Orders 10450, 12958 and 12968 and 5 Code of Federal Regulations Sections 731, 732 and 736. We fulfill this role for the Department of Veterans Affairs (VA) by ensuring that government and contractor employees in sensitive and public trust positions meet the investigative requirements of executive orders and OPM regulations.

The critical elements of ensuring a secure work environment have increased the number of government employees and contractors subject to background investigations and clearances. The SIC worked closely with VA staff and regional offices, as well as the Law Enforcement Training Center, to ensure all individuals subject to a background investigation received expeditious processing. As a result, 1,774 background investigations were conducted in FY 2003.

In an effort to accelerate the processing of investigative forms, the SIC will be exploring opportunities to replace the manual processing of paperwork with an online security eligibility form, which will be electronically routed to employees who require national security clearances or public trust eligibility. In addition, we will be utilizing Live Scan Fingerprint capability, which electronically links to OPM and eliminates the manual screening process currently performed by the Federal Bureau of Investigation (FBI). The Live Scan Classification Management System model will allow our processors to take flawless fingerprint images using revolutionary optical and lighting screens, as well as input personal data, and electronically transmit data to OPM. Print images yield near-perfect images and drastically lower rejection rates by OPM and the FBI. In addition, fingerprints will be classified and arrest data will be obtained within 24-48 hours, as opposed to 30 days. Prompt notification will allow us to alert stations of employee arrest reports, outstanding warrants, and state-wide notification listings. These initiatives will significantly enhance our overall service delivery.



**Sherri Jennings,
Chief
Security and Investigations
Center**

"With new technological advancements on the horizon, we will be focusing our business improvements on the customer and making sound, fiscally responsible decisions that positively impact the customer."

Management's Discussion and Analysis



Steve Swanson,
Director
Enterprise Fund Office

"The Fund generated total revenues of \$202 million to cover its \$184 million in total operating expenses. Our revenue is comprised of three major segments (information technology, financial management, and security and law enforcement). The information technology segment generated 60 percent (\$121 million) of the revenue, while the financial management and security and law enforcement segments generated 37 percent (\$75 million) and 3 percent (\$6 million), respectively. We are proud of this performance and are looking forward to maintaining it in the years to come."

Message From the Director

The Enterprise Fund Office provides administrative support to the Fund by directing, reviewing and analyzing budget formulations, overseeing overall financial and business planning, managing the annual audit and annual report preparation, coordinating marketing activities, and ensuring the Enterprise Centers are kept informed of current trends, policies, and legislation impacting their operations. In addition, we serve as a conduit between the Fund and the Franchise Fund Board of Directors.

As a self-sustaining organization, the Fund does not receive appropriated funds; therefore, we must recover the full cost of our operations through customer revenue obtained from providing common administrative services. It is imperative for us to deliver high-quality goods and services at competitive prices to stay in business. We must also demonstrate good stewardship and promote customer confidence in our ability to conduct business in a responsible way. Independent audits of our operations are conducted and used to ensure management accountability and financial integrity. I am happy to report that we received our sixth consecutive unqualified "clean" audit opinion on our financial statements.

As our program matured, we adopted more businesslike practices, which enabled us to become more efficient, responsive, cost conscious and bottom-line oriented. Over the years we have emerged as one of the leaders in the Franchise Fund Pilot Program, and a model to be followed by other federal agencies looking to become more entrepreneurial. We have become an integral part of the federal evolution of working better and costing less.

FY 2003 has been our most successful year. The Fund generated total revenues of \$202 million to cover its \$184 million in total operating expenses. Our revenue is comprised of three major segments (information technology, financial management, and security and law enforcement). The information technology segment generated 60 percent (\$121 million) of the revenue, while the financial management and security and law enforcement segments generated 37 percent (\$75 million) and 3 percent (\$6 million), respectively. We are proud of this performance and are looking forward to maintaining it in the years to come.

Acquiring a greater share of the federal marketplace continues to be a challenge for us. We are aggressively leveraging technology, improving customer service and encouraging efficiency to expand our services beyond the walls of VA, to enable other government agencies (OGAs) to streamline their operations and concentrate on their core mission. Overall, the Fund's OGA revenue grew to more than \$46.5 million in FY 2003.

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Analysis of Performance Information

The performance information presented in this report accurately represents the VA Franchise Fund's performance during FY 2000 – 2003. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we constantly seek to improve our data collection and monitoring techniques.

Enabling Goal: Deliver world-class service to veterans and their families by applying sound business practices that result in effective management of people, communications, technology, and governance.

Objective: Improve the overall governance and performance of VA by applying sound business principles, ensuring accountability, and enhancing our management of resources through improved capital asset management; acquisition and competition sourcing; and linking strategic planning, budgeting, and performance planning.

- Ensure all application processing support and general support are of the highest quality.
- Ensure debt management collection services for delinquent consumer debt meet customer needs and requirements.
- Ensure payroll and financial services meet customer needs and requirements.
- Ensure VA's work environment is recognized by employees as conducive to productivity and achievement, and fosters respect among all.
- Ensure high quality and timeliness of investigations and adjudications for employees in national security and public trust positions and in managing and issuing customer identification badges.
- Ensure accurate records management and secure archival storage, protection and retrieval services for veterans and other stored federal records.
- Establish and manage the business aspects of the VA Enterprise Centers.

Performance Summary Table

Performance Measure	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2003 Plan	Was the 2003 Performance Goal Met?	
						Yes	No
Austin Automation Center (AAC)							
Customer satisfaction rating (range 1-5) ¹	3.91	3.95	3.96	4.10	3.60	√	
Availability of on-line systems rate ^{2, 3}	99.0%	99.0%	99.9%	99.8%	99.8%	√	
Help Desk First-Contact Resolution (Tier 1) rate ⁴	N/A	58.0%	67.4%	69.6%	68.0%	√	
Help Desk Abandoned Call Rate ⁵	N/A	5.6%	4.1%	4.0%	5.0%	√	
Debt Management Center (DMC)							
Rate of Return (Collections versus Expenses)	N/A	N/A	N/A	\$63	\$59	√	
Financial Services Center (FSC)							
W-2 release dates met (All W-2s must be mailed by January 31 st)	100%	100%	100%	100%	100%	√	
FMS will be updated with credit card transactions daily, unless the FSC does not receive the transactions from Citibank	N/A	100%	100%	100%	100%	√	
Payment processing accuracy rate ⁶	95.0%	96.0%	97.9%	98.9%	98.0%	√	
Customer satisfaction rating (range 1-5) ⁷	3.5	N/A	4.0	4.1	4.2		√

¹ The AAC uses an industry benchmark to measure customer satisfaction. In the 2003 survey, the AAC scored in the top 10 percent of GartnerMeasurement's Information Technology Customer Satisfaction database, giving the AAC an overall satisfaction score of 4.10 out of 5.00, well surpassing the database average of 3.58 for all 143 private and public sector organizations in Gartner's database.

² The industry standard is 99 percent and best practice is 99.5 percent.

³ Goal will be 99.9 percent upon Corporate Data Center Integration (CDCI) implementation

⁴ The industry standard is 66 percent and best practice is 70 percent.

⁵ The industry standard is 7 percent and best practice is 5 percent.

⁶ Payment processing accuracy has been successfully maintained as a result of utilizing an automated solution, strong training, measuring and reporting accuracy on a daily basis, and continuous process improvements at the work center level.

⁷ The FSC management responded to customer feedback by reducing rates and simplifying their service level and franchise agreements. Process improvements, in addition to implementing a new survey structure in FY 2004, include increased senior management oversight of survey results on a monthly basis. The FSC is confident the combination of these improvements will help attain the FY 2004 customer satisfaction goal.

Management's Discussion and Analysis

Performance Summary Table

Performance Measure	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2003 Plan	Was the 2003 Performance Goal Met?	
						Yes	No
Law Enforcement Training Center (LETC)							
Class graduation rate	95.0%	98.0%	98.0%	95.0%	95.0%	√	
Security and Investigations Center (SIC)							
Timeliness rate of arrest records processed	100%	100%	100%	100%	100%	√	
Timeliness rate of investigations ⁸	98.0%	98.0%	95.0%	98.0%	98.0%	√	
Records Center and Vault (RC&V)							
Timeliness rate of recall requests	99.0%	98.0%	99.0%	99.8%	97.0%	√	
Timeliness rate of emergency/contingency test recall requests	98.0%	100%	98.0%	99.9%	97.0%	√	
Timeliness rate of rights and interests records that are available after a period of approximately 20 days in the event of a major national disaster ⁹	N/A	N/A	N/A	N/A	97.0%		
Timeliness rate of accession number assignment ¹⁰	N/A	N/A	N/A	N/A	97.0%		
Enterprise Fund Office (EFO)							
Operating Reserves Target ¹¹	N/A	70.0%	100%	100.0%	85.0%	√	
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	√	

⁸ As a result of September 11th, OPM alerted federal agencies that they were experiencing a backlog on the completion of most background investigations. Due to this backlog, the SIC could not make its 98 percent goal of timeliness rate of investigations.

⁹ National disaster record recalls will only occur in the event of a national disaster.

¹⁰ This is a new measure. Results will be tracked in FY 2004.

¹¹ Maintain a positive cash balance at all times by accumulating an operating reserve equivalent to 3 months of operating expenses based on current fiscal year estimates.

The number of goals met reflects our measurable progress in leadership, systems oversight and processing, direct service delivery, and sound financial management.

Number of Annual Goals	Number of Goals Met	Number of Goals Not Met	N/A ^{9, 10}
18	15	1	2

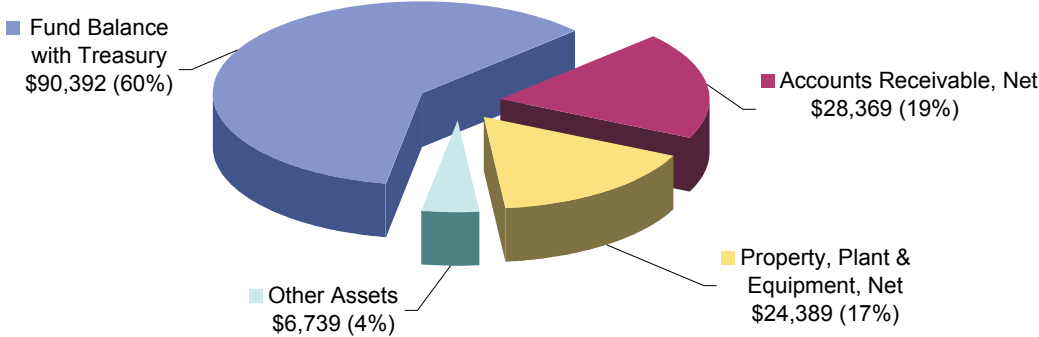
The table below identifies the single area where performance was not met in FY 2003. An explanation is provided that outlines how we intend to improve our performance to meet this goal in FY 2004.

Performance Measure	2003 Actual	2003 Plan	Explanation for Improving Performance in FY 2004
Customer satisfaction rating (range 1-5) ⁷	4.1	4.2	Process improvements, in addition to implementing a new survey structure in FY 2004, include increased senior management oversight of survey results on a monthly basis. The FSC is confident the combination of these improvements will help attain the FY 2004 customer satisfaction goal.

Management's Discussion and Analysis

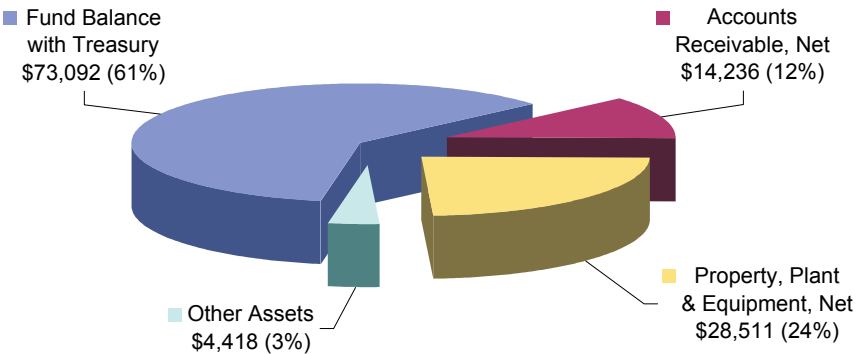
Analysis of the Financial Statements

**Composition of VA Franchise Fund Assets
As of September 30, 2003
(Dollars in Thousands)**



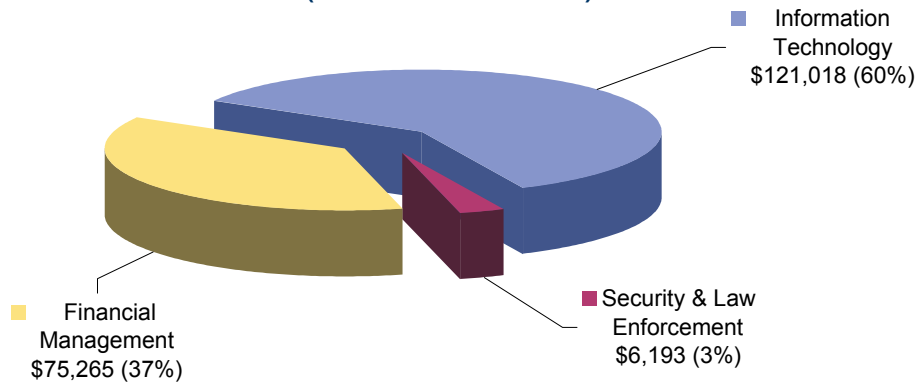
The VA Franchise Fund assets totaled \$149,889 in FY 2003. The Fund's assets are comprised of Fund Balance with Treasury, Property, Plant and Equipment, Accounts Receivable and Other Assets. The largest asset, Fund Balance with Treasury, accounts for \$90,392 representing 60 percent of our total assets. This undisbursed account balance is a revolving fund comprised of only entity assets. Our second largest asset reflects Accounts Receivable of \$28,369, which accounts for 19 percent of our total assets. All Accounts Receivable are from other federal agencies and are considered fully collectible. The third largest asset reflects the book value of \$24,389 in Property, Plant and Equipment, which accounts for 17 percent of our total assets. This includes transfers from other federal agencies, which are recorded at cost. Other Assets make up the remaining \$6,739, which accounts for 4 percent of our total assets.

**Composition of VA Franchise Fund Assets
As of September 30, 2002
(Dollars in Thousands)**



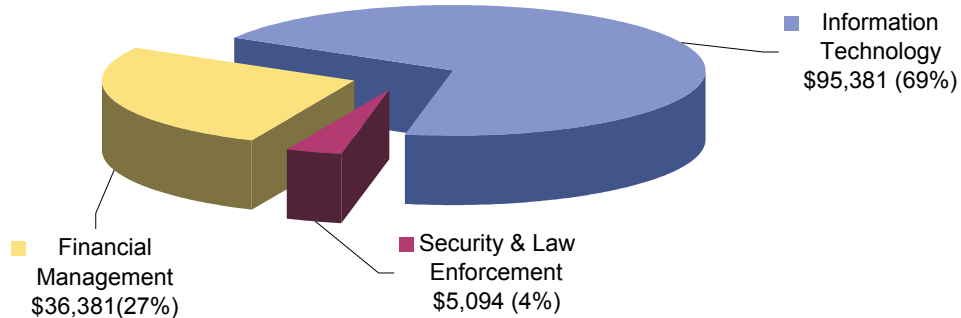
The VA Franchise Fund assets totaled \$120,257 in FY 2002. The Fund's assets are comprised of Fund Balance with Treasury, Property, Plant and Equipment, Accounts Receivable and Other Assets. The largest asset, Fund Balance with Treasury, accounts for \$73,092 representing 61 percent of our total assets. This undisbursed account balance is a revolving fund comprised of only entity assets. Our second largest asset reflects the book value of \$28,511 in Property, Plant and Equipment, which accounts for 24 percent of our total assets. This includes transfers from other federal agencies, which are recorded at cost. The third largest asset reflects Accounts Receivable of \$14,236, which accounts for 12 percent of our total assets. All Accounts Receivable are from other federal agencies and are considered fully collectible. Other Assets make up the remaining \$4,418, which accounts for 3 percent of our total assets.

**VA Franchise Fund Revenue by Major Product Categories
As of September 30, 2003
(Dollars in Thousands)**



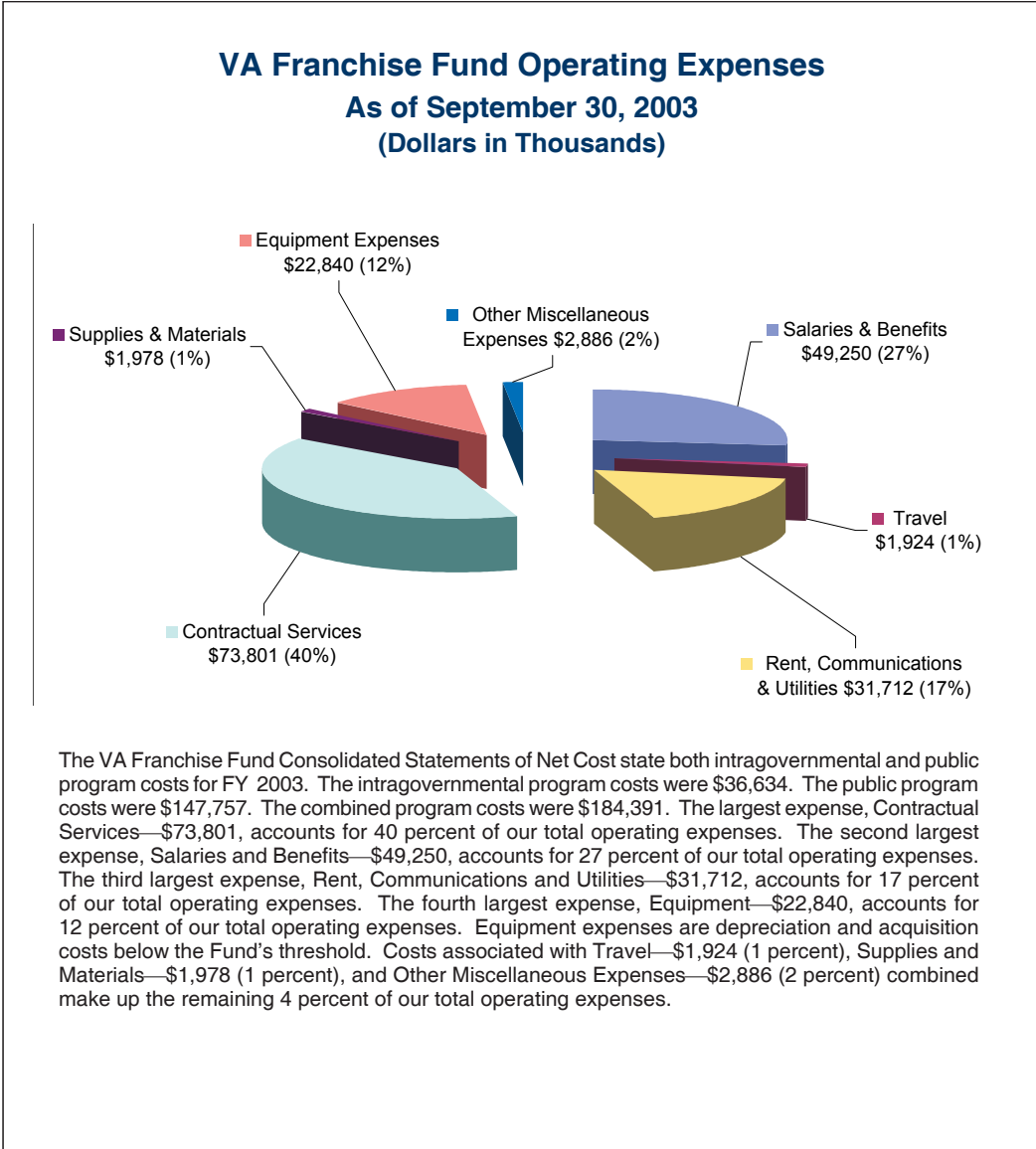
The total revenue generated by the VA Franchise Fund, \$202,475, is comprised of three major segments (Information Technology, Financial Management and Security and Law Enforcement). The Information Technology segment is comprised of the Austin Automation Center and the Records Center and Vault. This segment generated \$121,018, which accounts for 60 percent of our total revenue. Thirty-seven percent of our total revenue was generated by the Financial Management segment (comprised of the Financial Services Center and the Debt Management Center), which accounts for \$75,265 of our total revenue. The Security and Law Enforcement segment (comprised of the Security and Investigations Center and the Law Enforcement Training Center) generated the remaining \$6,193, which accounts for 3 percent of our total revenue.

**VA Franchise Fund Revenue by Major Product Categories
As of September 30, 2002
(Dollars in Thousands)**

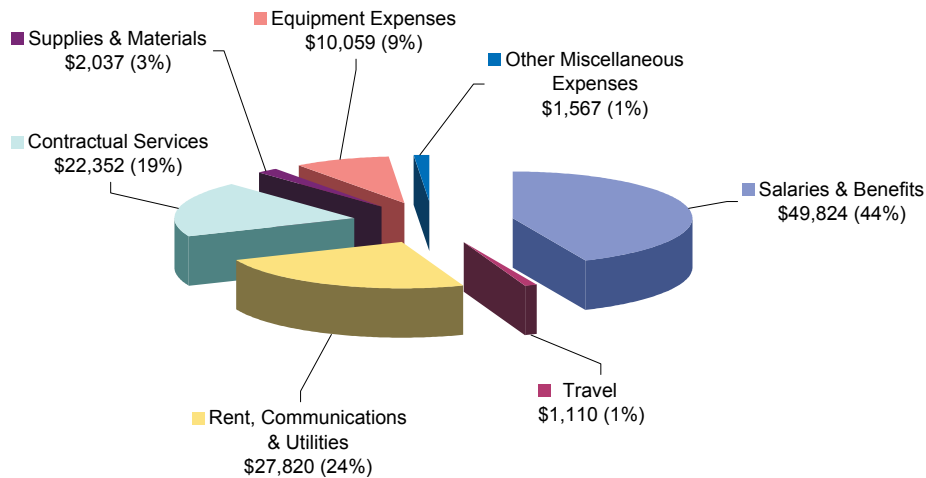


The total revenue generated by the VA Franchise Fund, \$136,856, is comprised of three major segments (Information Technology, Financial Management and Security and Law Enforcement). The Information Technology segment is comprised of the Austin Automation Center and the Records Center and Vault. This segment generated \$95,381, which accounts for 69 percent of our total revenue. Twenty-seven percent of our total revenue was generated by the Financial Management segment (comprised of the Financial Services Center and the Debt Management Center), which accounts for \$36,381 of our total revenue. The Security and Law Enforcement segment (comprised of the Security and Investigations Center and the Law Enforcement Training Center) generated the remaining \$5,094, which accounts for 4 percent of our total revenue.

Analysis of Financial Statements



VA Franchise Fund Operating Expenses
As of September 30, 2002
(Dollars in Thousands)



The VA Franchise Fund Consolidated Statements of Net Cost state both intragovernmental and public program costs for FY 2002. The intragovernmental program costs were \$22,751. The public program cost was \$92,018. The combined program costs were \$114,769. The largest expense, was Salaries and Benefits—\$49,824 accounts for 44 percent of our total operating expenses. The second largest expense, Rent, Communications and Utilities—\$27,820, accounts for 24 percent of our total operating expenses. The third largest expense, Contractual Services—\$22,352, accounts for 19 percent of our total operating expenses. The fourth largest expense, Equipment—\$10,059, accounts for 9 percent of our total operating expenses. Equipment expense costs are depreciation and acquisition costs below the Fund's threshold. The costs associated with expenses for Travel—\$1,110 (1 percent), Supplies and Materials—\$2,037 (3 percent), and Other Miscellaneous Expenses—\$1,567 (1 percent) combined make up 5 percent of our total operating expenses.