FY 2019

DELIVERING
REMARKABLE VALUE
AND EXCEPTIONAL
SERVICES TO OUR
FEDERAL CUSTOMERS

DEPARTMENT OF VETERANS AFFAIRS

FRANCHISE FUND
ANNUAL REPORT

DEPARTMENT OF VETERANS AFFAIRS
FRANCHISE FUND FY 2019 ANNUAL REPORT

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VA's Mission

To fulfill President Lincoln's promise — "To care for him who shall have borne the battle, and for his widow, and his orphan"—by serving and honoring the men and women who are America's Veterans.

VA Franchise Fund's Mission

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

VA Franchise Fund's Vision

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

VA Franchise Fund's Values

To guide us in fulfilling our mission, our employees strive to uphold core values that are consistent and closely aligned with those of VA. These values include integrity, commitment, advocacy, respect, and excellence.

"To care for him who shall have borne the battle, and for his widow, and his orphan."

VA CORE VALUES

Integrity

Act with high moral principle. Adhere to the highest professional standards. Maintain the trust and confidence of all with whom I engage.

Commitment

Work diligently to serve Veterans and other beneficiaries. Be driven by an earnest belief in VA's mission. Fulfill my individual responsibilities and organizational responsibilities.

Advocacy

Be truly Veteran-centric by identifying, fully considering, and appropriately advancing the interests of Veterans and other beneficiaries.

Respect

Treat all those I serve and with whom I work with dignity and respect. Show respect to earn it.

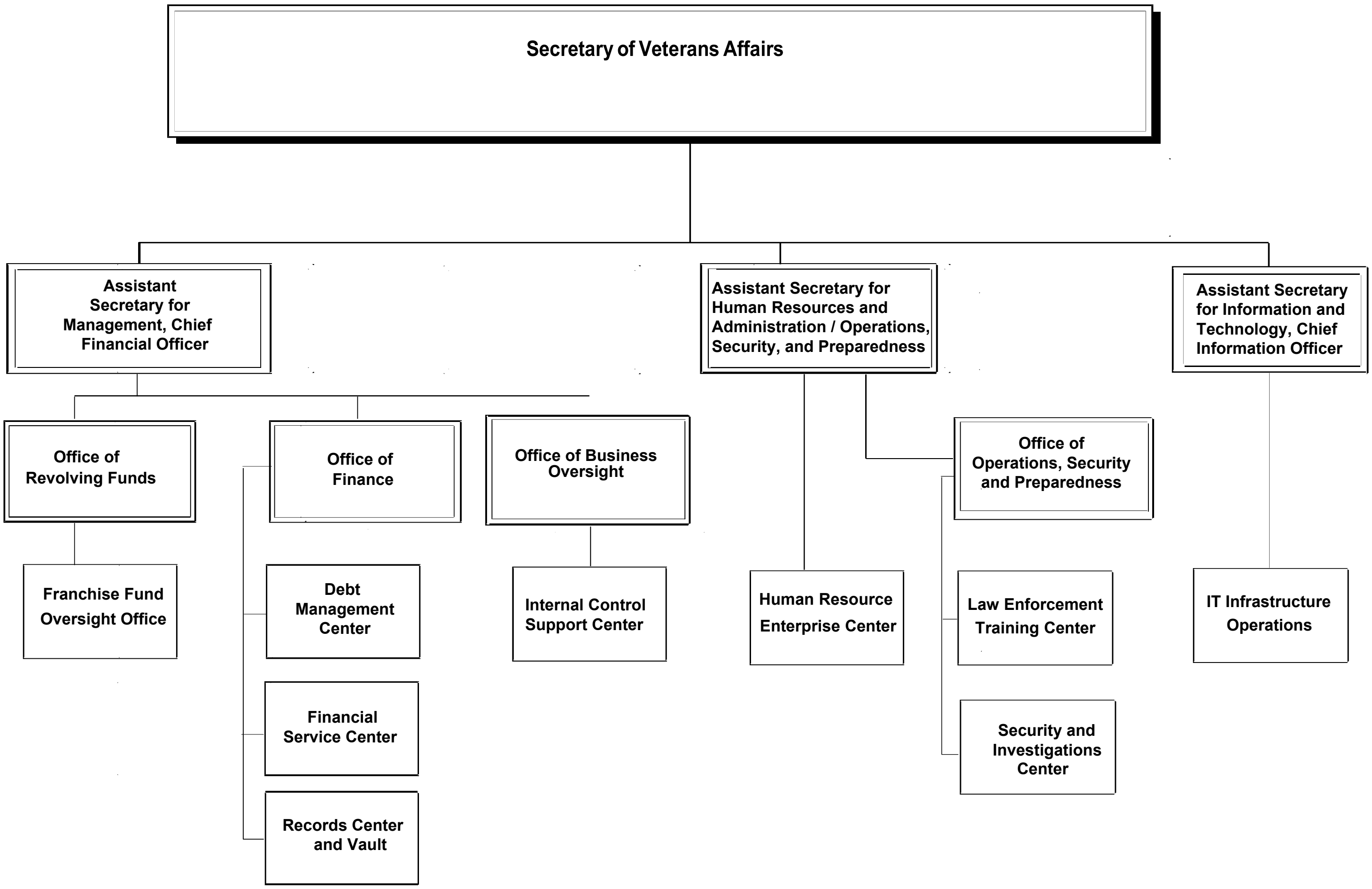
Excellence

Strive for the highest quality and continuous improvement. Be thoughtful and decisive in leadership, accountable for my actions, willing to admit mistakes, and rigorous in correcting them.

MEMBERS OF THE VA FRANCHISE FUND NETWORK

Origin of the VA Franchise Fund

The VA Franchise Fund was established under the authority of the Government Management Reform Act of 1994 and the VA and Housing and Urban Development and Independent Agencies Appropriations Act of 1997. VA was selected by the Office of Management and Budget (OMB) in 1996 as one of six Executive branch agencies to establish a franchise fund pilot program. Created as a revolving fund, the VA Franchise Fund began providing common administrative support services to VA and other government agencies in 1997 on a fee-for-service basis. In 2006, under the Military Quality of Life and Veterans Affairs Appropriations Act, Public Law 109-114, permanent status was conferred upon the VA Franchise Fund.



Organizational Structure

The VA Franchise Fund consists of an administrative office (Franchise Fund Oversight Office) and eight self-supporting lines of business (Enterprise Centers). The Revolving Fund Chief Financial Officer 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; the Office of Operations, Security, and Preparedness; Office of Acquisition and the Office of Information and Technology), major organizations within VA, Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), and National Cemetery Administration (NCA), and pertinent VA staff offices.

Members of the VA Franchise Fund Network

Entrepreneurial Network

We are one of the leading fee-for-service operations in government. By employing people nationwide to execute our day-to-day business activities, we provide our customers with services that save resources and allow them to concentrate on mission-critical functions within their organizations. We have positioned ourselves to meet the needs of any Federal agency at competitive prices.

Business Segments

The VA Franchise Fund consists of 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 2017 through FY 2019.

The IT segment generated $392 million in revenue in FY 2019, which is a slight increase from $385 million in FY 2018. This increase was due to a moderate growth in business volume.

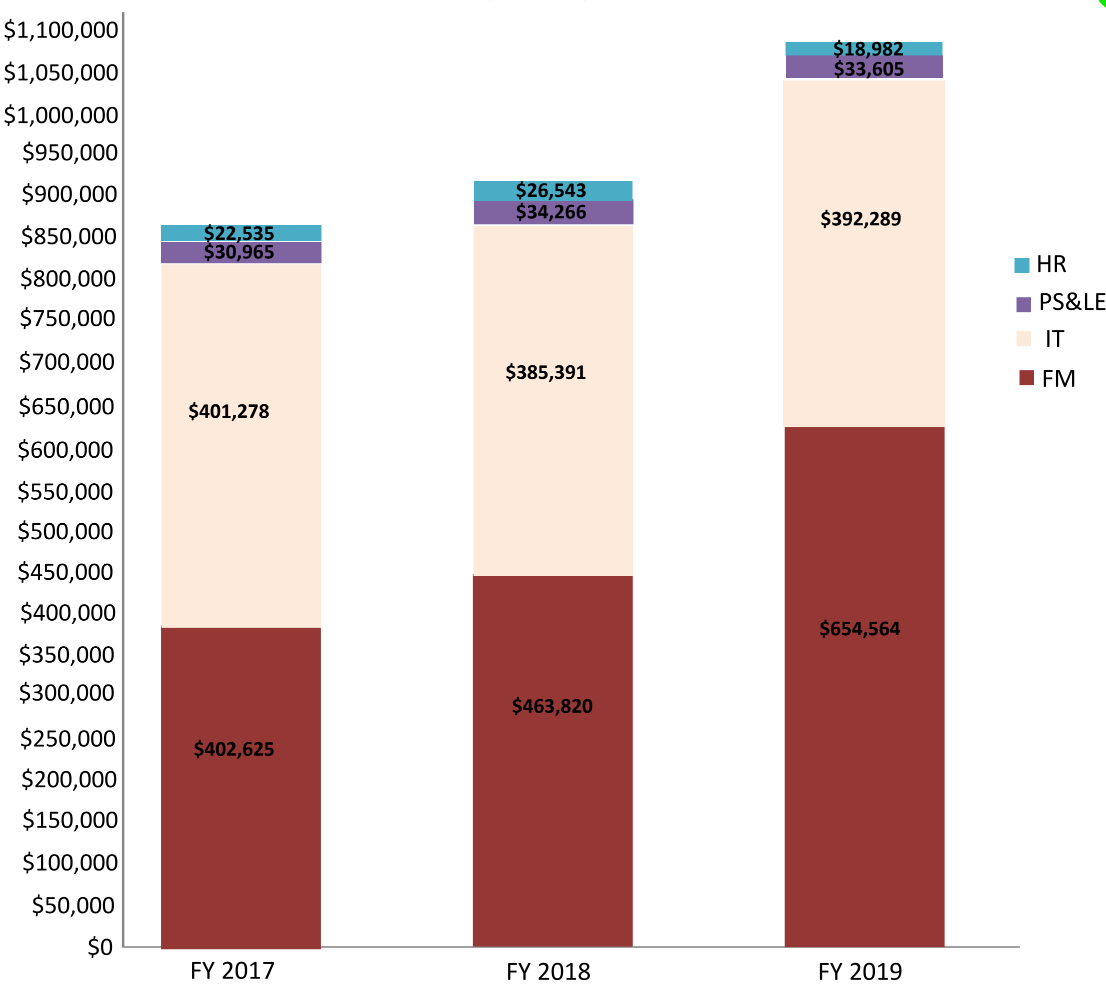
The FM segment generated $655 million in FY 2019, which is a significant increase from $464 million in FY 2018. This significant growth in revenue is primarily due to additional business from several VA customers including the Office of Finance, Board of Veterans Appeal and Office of Acquisitions and Logistics, as well as OGA customers including the Department of Homeland Security and the Department of Health and Human Services.

The PS&LE segment ended FY 2019 with almost $34 million in revenue which is consistent with the $34 million in revenue reported at the end of FY 2018.

The HR segment ended FY 2019 with $19 million in revenue. This is a notable decrease from $27 million in revenue reported during FY 2018. This decrease in revenue is primarily due to a reduction in business from the Veterans Health Administration.

During FY 2019, HREC was presented under the HR segment and RCV was moved to the FM segment.

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



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

Franchise Fund Oversight Office (FFO)

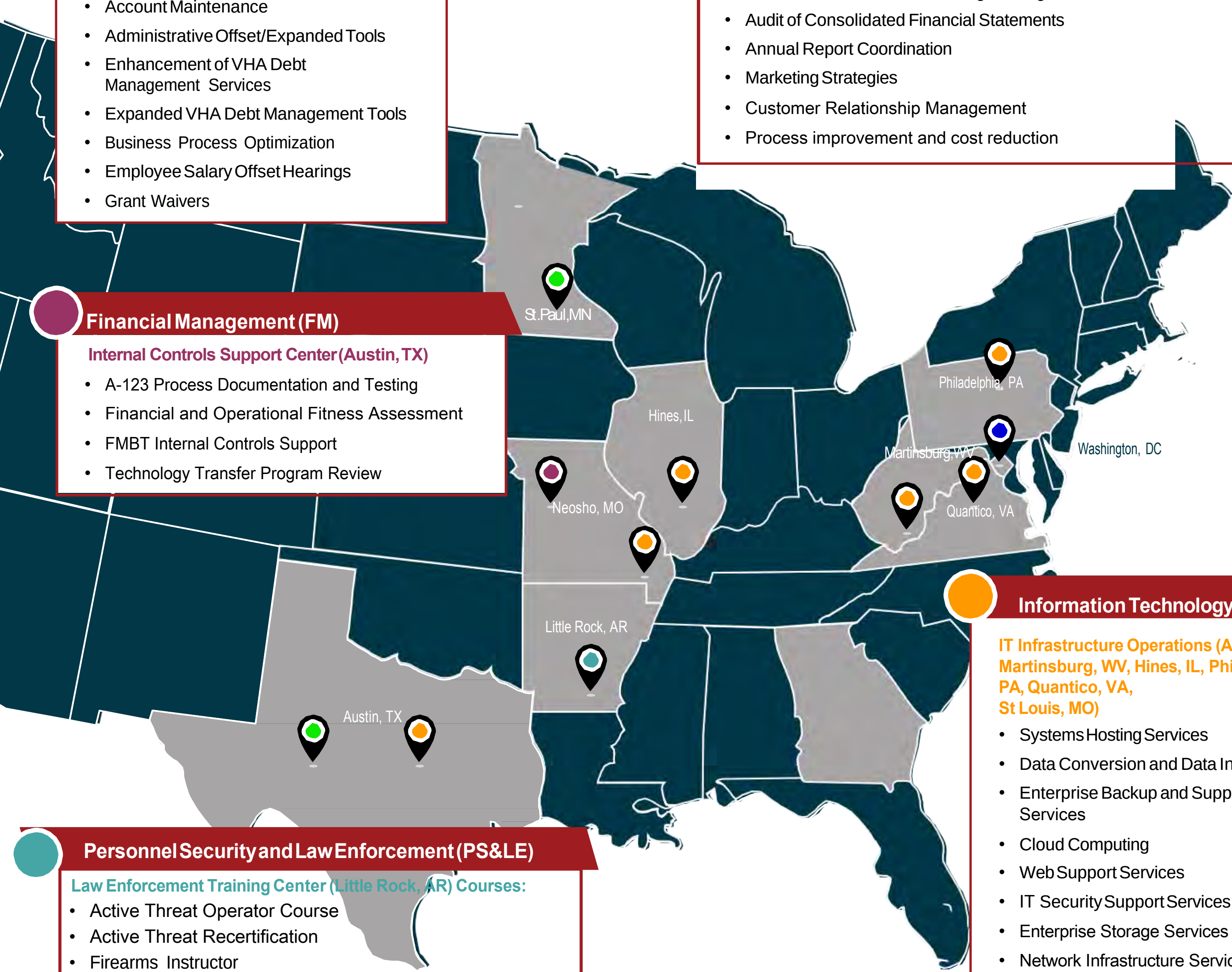
Washington, DC

- 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

Financial Management (FM)

Debt Management Center (St. Paul, MN)

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



Financial Management (FM)

Internal Controls Support Center (Austin, TX)

- A-123 Process Documentation and Testing
- Financial and Operational Fitness Assessment
- FMBT Internal Controls Support
- Technology Transfer Program Review

Information Technology (IT)

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

- 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)

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

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

Human Resources (HR)

Human Resource Enterprise Center (Washington, DC)

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

Personnel Security and Law Enforcement (PS&LE)

Security and Investigations Center (Little Rock, AR)

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

Members of the VA Franchise Fund Network

Joe Schmitt, Executive Director, Debt Management Center

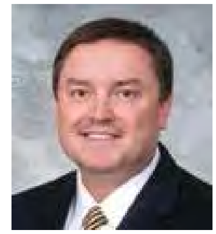
Reginald Cummings, Executive Director, IT Infrastructure Operations

Jared Martin, Director, Financial Services Center and Records Center and Vault

Roberta Lowe, Executive Director, Office of Business Oversight and Internal Controls Support Center

James Ward, Director, Law Enforcement Training Center

Amy L. Parker Executive Director, Human Resource Enterprise Center and Chief Learning Officer



Joshua Blockburger, Director, Security and Investigations Center

Information Technology

IT Infrastructure Operations (ITIO).

Composed of data centers in Austin, TX; Martinsburg, WV; Hines, IL; Philadelphia, PA; Quantico, VA; and St Louis, MO; 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 consumer 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 benefits offsets and those referred to the Department of Treasury (Treasury) for offset under the Treasury Offset Program (TOP) and Cross Servicing (CS) Program.

Financial Services Center (FSC).

Located in Austin, TX, Waco, TX and Washington, DC, the FSC provides a full range of financial and accounting services. These services include financial reports and accounting, 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.

Internal Controls Support Center (ICSC).

Located in Austin, TX, 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. 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.

Records Center and Vault (RCV).

Located in a subterranean, climate-controlled facility in a remote Midwestern part of the country, the RCV provides records storage, protection, and management services for official Federal records. The 403,160 square foot facility is certified by the National Archives and Records Administration to operate as an agency records center. General, vital, and unscheduled records, as well as records pending litigation freezes are safely and securely stored in paper or film format for Federal customers.

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.

Security and Investigations Center (SIC).

Located in North Little Rock, AR, the SIC 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 SIC provides security checks for appointees, high-level award recipients centralized to the Secretary of VA, and supports the Personal Identification Verification (PIV) process for employees, contractors, and affiliates of the Department.

Human Resources

Human Resource Enterprise Center (HREC).

The HREC, located in Washington, D.C. established in January 2017 provides Department-wide limited HR support services to improve support services capability, performance and to optimize existing support service delivery processes. HREC supports continuing and emerging VA customer requirements while delivering best-in-class human resource (HR services and capabilities to VA's Administrations and Staff Offices, allowing them to focus on delivering world-class benefits and services to Veterans and eligible beneficiaries. HREC provides products and services to nearly 600,000 VA employees, contractors, volunteers and academic affiliates.

LETTER TO STAKEHOLDERS

J.Christian Poole

Chief Financial Officer, Revolving Fund

On behalf of the Franchise Fund, I invite you to examine our FY 2019 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 2019 with total revenue of $1.1 billion, which is a significant increase from FY 2018 revenue of $910 million.

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

- Attaining an unqualified audit opinion of our financial statements for the 22nd consecutive year.
- Implementing the Technology Business Management (TBM) taxonomy during FY 2019. TBM is a value-management methodology to provide IT cost, consumption and performance transparency. TBM taxonomy will improve ITIO's financial management practices and align cost accounting with the IT industry. Its full implementation will also put ITIO ahead of the Office of Management and Budget (OMB) implementation schedule of TBM. (ITIO)
- Providing disaster relief to Veterans by suspending collections on 85,400 accounts in six months for those living in the Federal Emergency Management Agency declared disaster zones due to hurricanes and wild fires. (DMC)
- Deploying a healthcare claims processing system (eCAMS) capable of auto adjudicating Mission Act claims received from local community healthcare providers. eCAMS was used to process over 318,000 claims in FY 2019. (FSC)
- Increasing classroom space in FY 2019 by working with local government, police agencies and community colleges to find training facilities to meet LETC's increased student enrollment. LETC is also working with Central Arkansas Veterans Health System (CAVHS) on renovations to some of CAVHSs local buildings to provide LETC more usable classroom space and office space. (LETC)
- Implementing cost transparency initiatives during FY 2019 by providing customers with a consolidated bill of services performed. Background investigations, which were previously performed by OMB, is now being performed by the Defense Counterintelligence Security Agency (DCSA). The DCSA will provide a consolidated bill for all services performed outside the adjudication process including low-risk background investigations and fingerprinting. (SIC)
- Transitioning from a reimbursable agreement-funded operation to a Franchise Fund Enterprise Center during FY 2019. This will allow ICSC to continue its existing programs as well as add additional business lines within a sustainable revolving fund framework. (ICSC)
- Deploying the new Emergency Alerting and Accountability System (EAAS) during FY 2019. This system provides a comprehensive VA-wide accountability and notification method to send critical safety and emergency alert notifications and accurately gain cognizance of the safety and work status of VA employees, contractors, affiliates, and associate workforce. (HREC)

These successful endeavors are examples of the Franchise Fund delivering remarkable value and exceptional services to its Federal customers. The success of the Franchise Fund would not have been possible without the support of its customers. We thank all of our customers for their continuing support.

I am pleased to submit the VA Franchise Fund FY 2019 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.

Christian Poole

J. Christian Poole

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
- Department of Army
- Department of Air Force
- Department of Defense (DOD)
- Defense Finance and Accounting Service
- Department of Health and Human Services (HHS)
- Department of Homeland Security (DHS)
- Surface Transportation Board
- Veterans Service Organizations (VSO)
- Private Sector Vendors

Internal Stakeholders

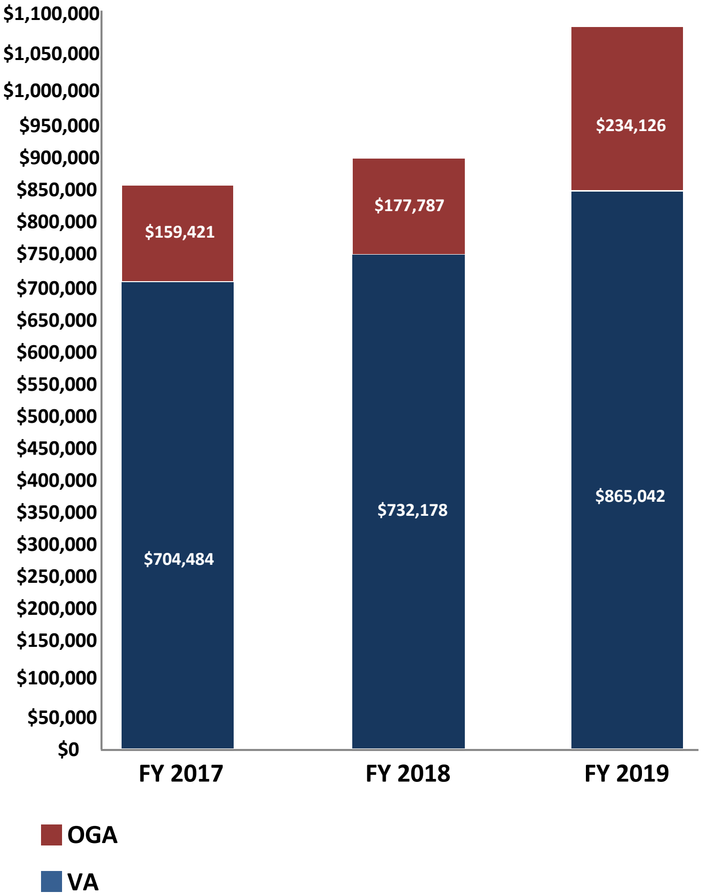
- Veterans Health Administration (VHA)
- Veterans Benefits Administration (VBA)
- National Cemetery Administration (NCA)
- VA Staff Offices
- Board of Veterans' Appeals
- Franchise Fund Enterprise Centers
- Office of Acquisition and Logistics
- Office of Information & Technology
- Office of the Inspector General

Comparison of Customer Revenue from FY 2017 – 2019

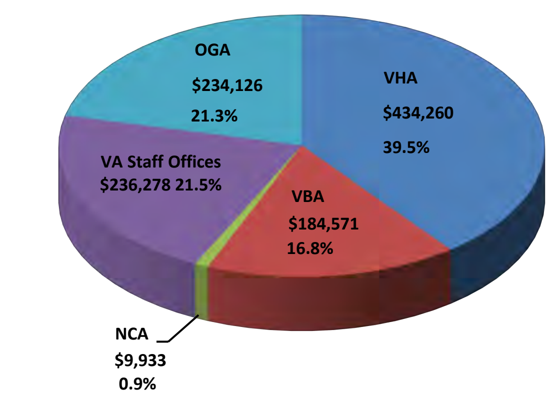
Approximately 80 percent of Franchise Fund revenue comes from VA customers. Within VA, VHA programs provide the most revenue to the Enterprise Centers. The remaining 20 percent comes from several different OGA customers. During FY 2019, revenue from VHA customers increased by $68 million while revenue from VBA customers increased by $18 million.

Revenue from OGA customers increased notably between FY 2018 and FY 2019. The Franchise Fund ended FY 2019 with $234 million in revenue, an increase from FY 2018 levels of $178 million. This revenue increase was due to the growing business needs of FSC's OGA customers including the Department of Homeland Security (DHS), Department of Health and Human Services (HHS) as well as the Surface Transportation Board (STB) in the amount of $56 million.

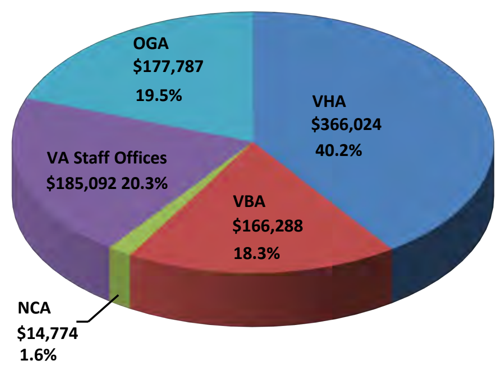
VA Franchise Fund Revenue Sources - VA vs. OGA
(Dollars in Thousands)



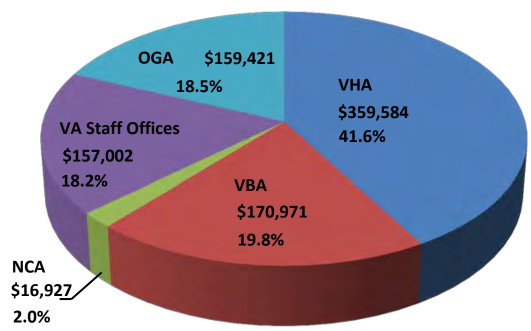
VA Franchise Fund Revenue by Customer
As of September 30, 2019
(Dollars in Thousands)



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



VA Franchise Fund Revenue by Customer
As of September 30, 2017
(Dollars in Thousands)



Meeting VA Franchise Fund Objectives

Information Technology Segment – ITIO

Financial Management System

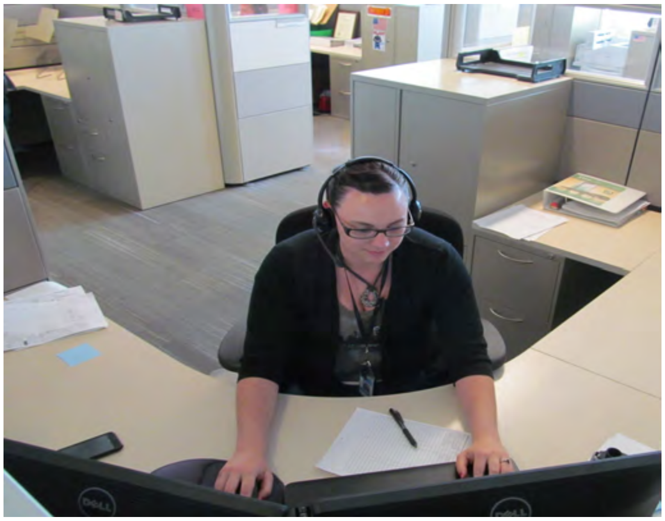
During FY 2019, ITIO modernized customer invoicing practices by implementing the Apptio IT financial management system. Customer invoicing was transformed from a manual process with PDF invoices to a cloud-based, accessible invoicing system which allows customers to drill into data, trend data over time, analyze the resources being consumed by specific applications, and export data for further analysis.

Cloud Architecture and Operations

During FY 2019, the ITIO Cloud Architecture and Operations team created a service line to support the VA Enterprise Cloud (VAEC) initiative and assisted with the migration of multiple applications to VAEC. The service line works with the Enterprise Cloud Solutions Office (ECSO) and Cloud Operations Migration Services (COMS) team to operate and maintain the General Support Services (GSS) for both the VAEC-Azure and VAEC-AWS cloud environments. The GSS is used by VAEC applications and includes Operating System Operations and Maintenance, Operating System Monitoring, Operating System Patching, Operating System Baseline Images, Virus Protection, Endpoint Security Management, Automation, Repository and Active Directory Management. The GSS provides VAEC Applications with the infrastructure and services to remain in compliance with VA policies.

Data Center Consolidation

During FY 2019, the ITIO closed 16 computer rooms, exceeding the Office of Management and Budget (OMB) target of 14; migrated 67 VistA instances from St. Louis to the Philadelphia Information Technology Center (PITC); and moved print and Dynamic Host Configuration Protocol (DHCP) services for five VBA regional offices to the Austin Information Technology Center (AITC) and the Hines Information Technology Center (HITC) to provide more timely support and better availability of services for the claims offices.



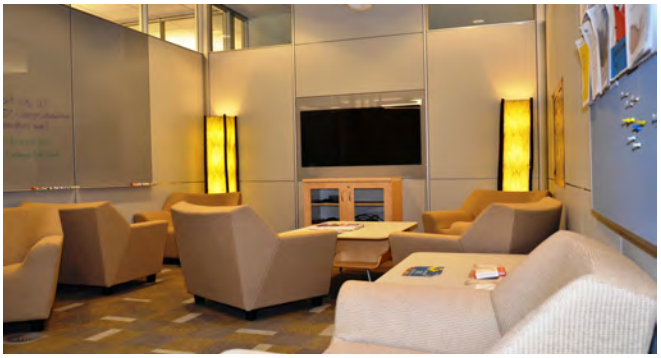
Infrastructure Modernization

During FY 2019, ITIO completed $34 million in infrastructure modernization including upgrades to server, mainframe, and network equipment, which supports hundreds of VA applications. This infrastructure modernization effort has replaced older technologies with new integrated technologies which provide better performance through integration between computation and storage. The technical refreshes avoid technical debt to ensure infrastructure stability and security. Other benefits derived include less floor space, power, and cooling requirements. ITIO also tech refreshed the local and global load balancing infrastructure that supports data center customer processing throughout the 5 core data centers.

Financial Management Segment – FSC

Invoice Payment Processing

During FY 2019, the FSC set a record for the processing of vendor payments through its Invoicing Payment Processing System (IPPS). This system enabled the processing of 1.7 million invoices valued at $21 billion, an increase from 1.5 million invoices processed during FY 2018. Timeliness and accuracy of payments in FY 2019 exceeded 99 percent, with 96 percent of all available prompt pay discounts received. VA customers earned $4.85 million worth of discounts. Additionally, the FSC lowered the interest paid per million of payments processed to less than 0.0009 percent.



Choice Claims Processing

During FY 2019, the FSC completed configuration and began deployment of a new medical claims processing system (eCAMS) in support of processing Office of Community Care (OCC) claims. During FY 2019, eCAMS was deployed to eight VISNs which resulted in the processing of 318 thousand claims and an additional 10 million claims projected to be processed in FY 2020. The FSC also modified the system configuration of its Plexis Claims Manager system to process patient-centered community care (PC3) claims in support of OCC during FY 2019. These modifications allowed OCC to centralize processing of 2.8 million claims during FY 2019, with $944 million in claim payments disbursed. Additionally, 99.9 percent of PC3 claims and 100 percent of all dialysis claims were processed within 30 days of receipt.

Elimination of Improper Payments

During FY 2019, the FSC screened over 800K payment transactions, valued at $1.4 billion, for potential duplicate payments. Working with the applicable field station, FSC personnel identified $5.4 million in duplicate payments of which $2.2 million were recovered. The team identified and recovered $662 thousand in Franchise Fund improper payments in FY 2019.

Data Analytics

During FY 2019, the FSC released 19 new data analytics dashboards enabling customers to visualize and interact with numerous financial metrics and data sources through an improved user interface. The FSC's data analytics team created VA's first CFO dashboard, putting visualized financial metrics at the fingertips of VA administration CFO's in order to improve audit readiness and transparency. The FSC expanded the use of its purchase card dashboard, adding 4,410 VA users in FY 2019. Additionally, the FSC continued to invest in its partnership with the University of Texas McCombs School in FY 2019, which recognized FSC's data analytics capstone as the capstone of choice for the third consecutive year.

Payroll Processing

During FY 2019, the FSC's Financial Payroll Service helped execute $1.7 billion in bi-weekly payroll for over 409,000 VA employees. Additionally, the FSC transitioned an additional 15 stations (28,000 employees) to its local payroll service while providing contingency support (temporary payroll services) to another 8 stations (11,000 employees). During FY 2019, the FSC responded to over 183,000 customer support tickets, with 93 percent of tickets responded to in 6.5 hours or less. Additionally, the FSC's customer support team answered over 75,000 calls from payroll customers, keeping its abandoned call rate to only 3.3 percent.

RCV Transition

As RCV worked with FSC management teams to seamlessly transition to the FSC, RCV Operations continued to support our VA and OGA customers with outstanding records management support. Over the course of FY 2019, RCV worked with a commercial incineration facility to destroy over 8,600 cubic feet of inactive records that had passed their retention period. This includes primarily paper records, along with CDs, DVDs, VHS and cassette tapes. During the year, RCV automated and streamlined the destruction notification process for our customers. Notices will be issued as fillable forms using e-signatures, and all documentation will be retained in electronic format. This makes the process easier for the customers and eliminates excessive paper documentation for record-keeping purposes by RCV.

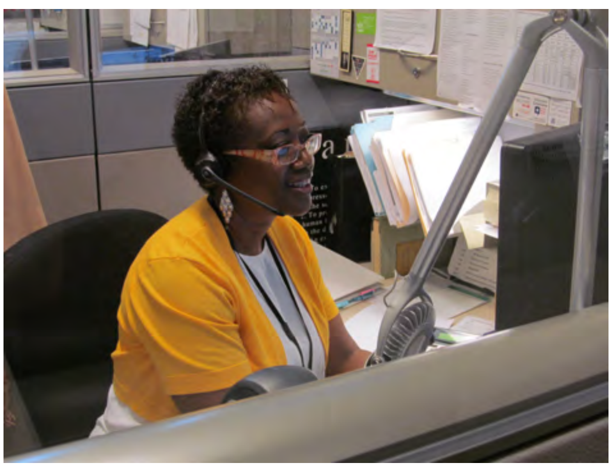
Financial Management Segment – DMC

Improving Veterans' Experience

In FY 2019, DMC continued to lead process changes to improve the Veterans' experience and provide quality customer-focused receivables management services for the VA. These changes included customer service enhancements within its call center. This enhancement reduced call wait times to less than 3 minutes, reduced blocked calls by 58 percent and call abandonment by 28 percent, while increasing the number of calls handled. Additionally, DMC instituted 100 percent call recording to enhance training, solve problems and protect Veteran interest while calling into the call center.

Furthermore, DMC is in the process of developing an innovative case management solution, which consolidates 18 systems into one robust user interface. To date this initiative produced a 28 percent productivity increase, 23 percent increase in timely service to Veterans, and a 25 percent increase in DMC's call center capacity.

Additionally, DMC conducted six quality audits of its core processes enabling the center to seek ISO 9001 certification 9 months ahead of schedule. This embodies DMC's core competency of continuous improvement of its financial process, products, and services.



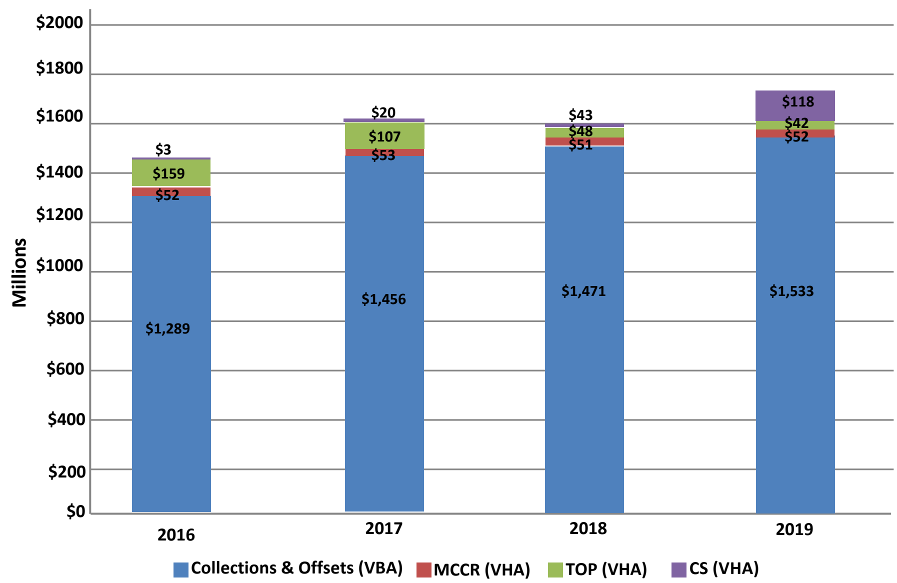
Financial Management Business Transformation

During FY 2019, DMC continued to support the VA's Financial Management Business Transformation (FMBT) initiative which will replace the current VA financial system with the Integrated Financial and Acquisition Management System (iFAMS). Extensive data cleansing related to cost of living adjustments and unapplied proceeds were completed which will increase collections and preparedness for FMBT. DMC has also documented the VA debt pools to affect centralization throughout VA at DMC and ensure better reporting, financial integrity, and compliance.

Debt Collection Process Improvement

In FY 2019, DMC employed compassionate collection methods when working with Veterans to help them understand their rights and obligations. DMC collected $1.7 billion in FY 2019; $1.5 billion on behalf of VBA and $212 million on behalf of VHA while demonstrating fiscal responsibility by maintaining expenses less than 2 percent of collections. In July 2019, DMC, Treasury, and VHA launched a pilot to refer VHA first-party medical debts for three medical stations to the private collection agencies (PCAs) for collection. DMC plans to expand the pilot to the remaining 127 medical stations over the next fiscal year.

Total Collections and Offsets



Strategic Outreach Initiative

During FY 2019, DMC executed a strategic outreach initiative aimed at reducing improper payments and educating a network of Veterans supporters to achieve a common goal of debt avoidance. This initiative reached 10,900 Veteran Service Officers/VA School Certifying Officials and 3,500 VHA partners. The DMC Nationwide Outreach plan is focused on educating key stakeholders who interact with Veterans, beneficiaries, and schools.
A typical outreach event will include a large group presentation and/or small group break-out sessions.
DMC uses a geographic heat map of debtor populations to focus outreach to debt-dense regions.
Stakeholder groups targeted for outreach include Veteran Service Organizations, internal VA partners, County Veterans Service Officers (VSO) and School Certifying Officials (SCO).

Personnel Security and Law Enforcement Segment – SIC

SIC Name Change

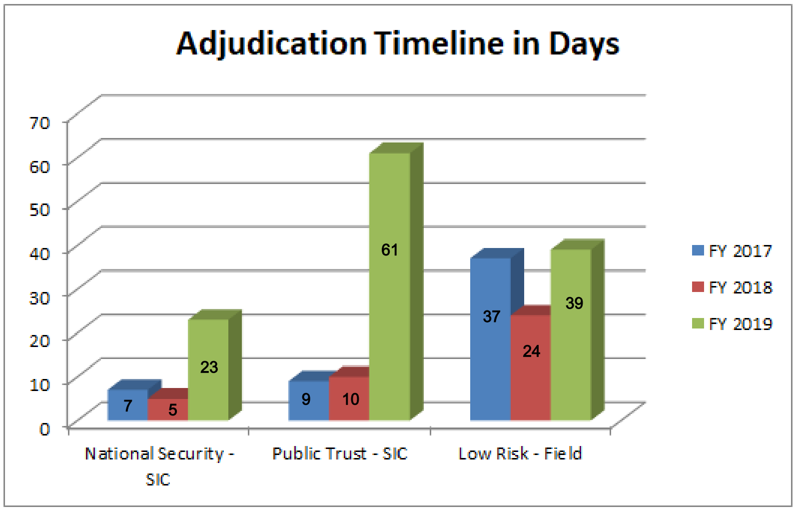
During FY 2019, SIC requested and was granted approval from the Revolving Fund Board of Directors (RFBOD), a name change from SIC to the VA-Personnel Suitability Adjudication Center (VA-PSAC). The original name implied that the Enterprise Center (EC) has a law enforcement mission, however, its actual function falls under the category of personnel security. Specifically, the EC adjudicates the results of background investigations of VA personnel which is being performed by the Defense Counterintelligence Security Agency (DCSA). The name change from Security and Investigation Center to the VA-Personnel Suitability and Adjudication Center is effective in FY 2020.

Customer Billing Process Improvement

During FY 2019, SIC initiated direct-billing of its customers for background investigations in lieu of said cost being received by SIC then subsequently billed to customers through their service level agreements (SLAs). This change affected VA Administrations but not staff offices. The restructuring of SIC's billing process occurred when third-party background investigations, previously performed by the Office of Personnel Management (OPM), was transfered to DCSA. The DCSA agreed to provide SIC with a consolidated bill for all services performed outside the adjudication process including low-risk background investigations and fingerprinting. This consolidated bill would allow SIC customers to know exactly what cost is incurred for these services.

Adjudication Timeline

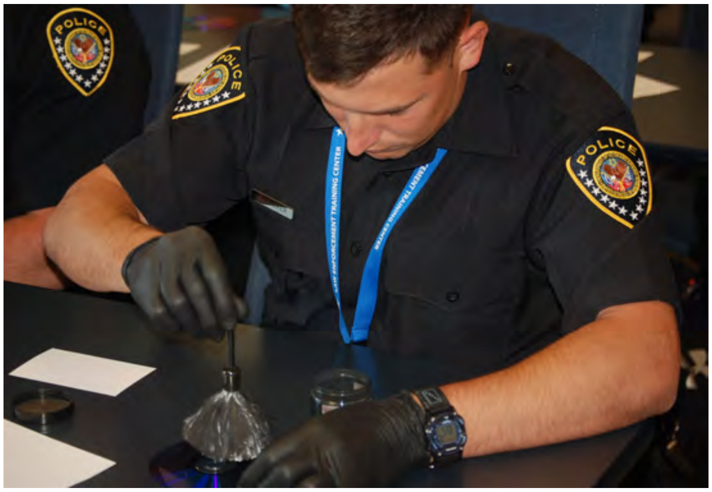
During FY 2019, SIC experienced an increase in adjudication timeline due to a shortage of full-time employees (FTEs). This FTE shortage was a direct result of a two year hiring freeze. Additionally, during FY 2019, two adjudicators lost access to their security clearance and were re-assigned out of SIC pending an appeals board ruling; this led to a further reduction of adjudicator resources. Also during FY 2019, SIC was the first VA organization to implement a new VA database system of record that required significant re-training of the workforce. These factors revealed that the SIC would require an additional 13 FTE to meet the present customer demand and this was presented to the Revolving Fund Board and approved in March of 2019. Hiring and onboarding to full FTE is on-going and the adjudication timeline is being progressively reduced.



Personnel Security and Law Enforcement Segment–LETC

Verbal Defense Training

During FY 2019, LETC's Verbal Defense in Healthcare (VDH) training continued to be in high demand for VA Medical Centers throughout the nation. LETC traveled to 37 VA Medical Centers and provided 162 VDH training courses to approximately 4,800 non-law enforcement personnel many of whom were VA hospital personnel. VHA has requested LETC continue these VDH trainings and LETC is scheduled to visit 37 VA Medical Centers during FY 2020.

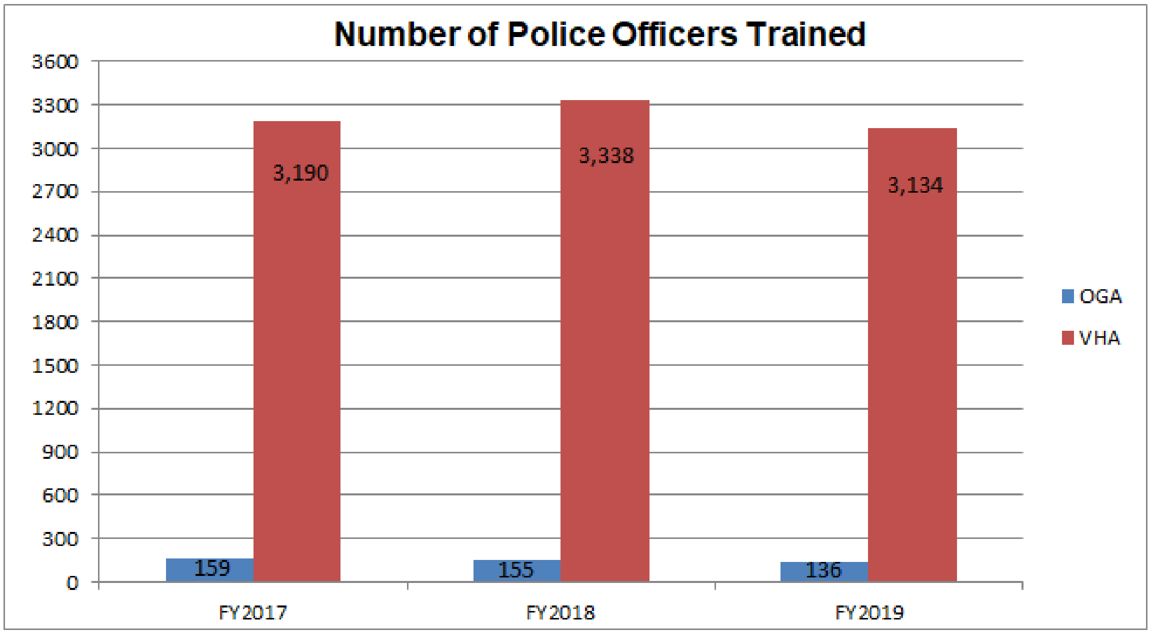


New LETC Courses

In FY 2019, LETC significantly expanded its course offerings. These courses include Chief of Police Development Course, Chief of Police Development Program, Fact Finding Course, Advanced Ground Defense and Recovery Course II, and VA Long Gun Recertification Course. In addition, LETC developed the Department of Air Force (DAF) Field Training Officer Course, Leadership Course, and Supervisor Course. The development of these new courses either provided new training or extended training opportunities to approximately 1,500 personnel.

VA Police Officer Training

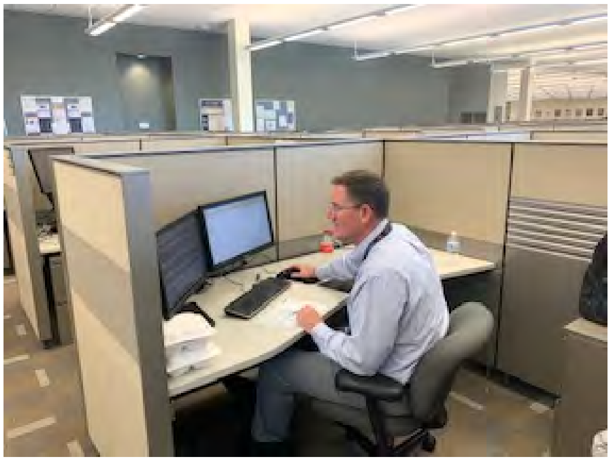
During FY 2019, the number of VA police officers trained were 3,134. This represents a 6 percent decrease from FY 2018. OGA student numbers have also decreased 12 percent during the same period. The decline in VA Police officer students was a result of lower 3rd and 4th quarter enrollments in the VA Police Officer Standardized Training (VA-POST). This occurred because many field stations were unable to on-board their projected new hires until the end of the fiscal year. As a result, the training of those new hires will likely occur during the first quarter of the new fiscal year. This created a time delay which reduced the number of potential students that were trained during FY 2019.



Internal Controls Support Center - ICSC

ICSC Transition to the Franchise Fund

In March 2019, ICSC began operating as a Franchise Fund entity to offer customers more diverse, cost-effective examination into the financial reporting and operational aspects of an organization. FY 2019 was a year of transition for ICSC, as the organization moved from a traditional reimbursement account into the Franchise Fund.



ICSC Support of VA's Homeless Provider Programs

ICSC continued to support VA's Homeless Provider Programs by performing Financial and Operational Reviews of their Grantees. In FY 2019, ICSC reviewed over 100 Grantees on behalf of the Grant Per Diem (GPD) and Supportive Services for Veterans Families (SSVF) Program Offices. Our reviews ensured Grantees complied with regulatory guidance (38 CFR Part 62), Notice of Funding Availability Requirements, Grant Agreements, Uniform Grant Guidance (2 CFR Part 200) and Program Requirements. ICSC provided GPD and SSVF leadership with an assessment of how well Grantees are meeting the needs of Homeless Veterans and utilizing the Federal funding they've received. ICSC also provided input into ways to meet program challenges and opportunities by developing Best Practices, Program/Process Standardization and Improved Internal Controls. The efforts of ICSC are helping Homeless Veterans and the organizations tasked to assist them achieve positive results.

Technology Patent Review

During FY 2019, ICSC performed three reviews of invention patent license agreements and royalties between non-governmental organizations and VA. The purpose of these reviews was to obtain reasonable assurance that the terms of said license agreements were being met. ICSC reviewed $1.8 million in sales revenue with $167 thousand of royalties due to VA for 35 patented licensed inventions. ICSC found 82 additional inventions associated with VA researchers that universities had not previously disclosed. This may result in future patent license royalty revenue being due to VA.

NCA Grants Program

During FY 2019, ICSC added the National Cemetery Administration (NCA) Grants Program as a new line of business within the Franchise Fund. This program assists states, territories and Federally-recognized tribal governments to provide grave sites for Veterans in those areas where national cemeteries cannot fully satisfy their burial needs. ICSC works on behalf of NCA to ensure these cemeteries maintain the same high standards of service and appearance that is required of all NCA facilities.

Human Resources Segment - HREC

HREC Name Change

During FY 2019, HREC requested and was granted approval from the Revolving Fund Board of Directors (RFBOD), to change and update its name from the HREC to the Human Capital Services Center (HCSC). The name change was requested to provide a more adequate description of the Enterprise Center's line of business and to reinforce the types of services provided. The name changed from Human Resources Enterprise Center to the Human Capital Services Center is effective in FY 2020.

National Diversity Internship Program

During FY 2019, HREC managed the Department of Veterans Affairs (VA) National Diversity Internship Program (NDIP) to provide internship opportunities and invaluable work experience in various career fields. These internships were available to undergraduate and graduate students enrolled full-time or part-time, in degree-seeking programs at accredited post-secondary institutions. During FY 2019, HREC made significant upgrades to the internship program. The NDIP awarded a new contract, which increased the number of vendors to recruit diverse students and part-time interns. The new contract also allowed for easier on-boarding and off-boarding of vendors to meet changing VA workforce requirements. Additionally, VA executed a memorandum of understanding (MOU) with the Office of Personnel Management (OPM) to use the Pathways program's hiring authority to convert 100 percent of the Presidential Management Fellows (PMF) Class of 2017 to full-time employees (FTEs). PMF class years are designated when they onboard and not at program completion, therefore the class of 2017 graduated in calendar year 2019 and thus became eligible for conversion to FTEs.

Cloud-Based VA Notification System

During FY 2019, HREC deployed the VA Emergency Alerting and Accountability System (EAAS), which replaced the VANS and VA-PAS resulting in cost savings of approximately $25 million over the duration of the contract. EAAS allows all VA employees to be accounted for in one system. In July through September, the EAAS team traveled to and connected with as many Administration Emergency Managers and Leadership as possible. During FY 2019, HREC trained 12 of the 18 Veterans Integrated Service Networks (VISNs) across all 56 regional offices and also ensured that the National Cemetery Administration (NCA) was fully trained. The NCA Watch Desk in the VA Integrated Operation Center, which manages the alerting system from a central location, was trained to send alerts to the field when required.

Talent Management System (TMS)

In FY 2019, HREC continued to deploy TSM 2.0, contributing to the VA future state enterprise Learning Management solution. This system will continue to allow more than one million instances of training each year. TMS 2.0 ensures VA has a sustainable, extended official system of record for VA employee development and training. Prior to deployment of the new system, over 2,500 TMS administrators across VA were trained to support the TMS program at the local, facility, Veterans Integrated Service Networks (VISN), Regional and national level. Through the newly released TMS 2.0, VA will track and report more than 10 million instances of employee development and training throughout the enterprise.

The performance information presented below accurately represents the Enterprise Centers' performance during fiscal years 2017 – 2019. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we continually seek to improve our data collection and monitoring techniques.

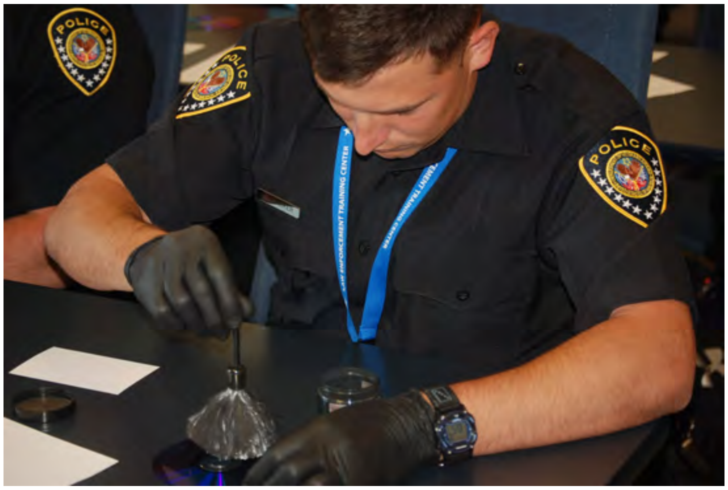
Each component of the VA Franchise Fund is committed to achieving its performance goals to ensure that we remain a performance-based organization.

Performance Summary Table

	Actuals			Plan	Were 2019 Goals Achieved or Exceeded?	
Performance Measure	2017	2018	2019	2019	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)	96.1%	95.0%	94.0%	94.0%	✓	
Percent of adjudications that are completed within the established time frames (SIC)	99.0%	100.0%	91.0%	90.0%	✓	
Payment processing accuracy rate (FSC)*	99.7%	99.0%	99.1%	99.0%	✓	
Claim processing time (percent paid within 30 days)* (FSC)	N/A	100.0%	100.0%	98.0%	✓	
Invoices paid in accordance with Prompt Payment Act* (FSC)	N/A	99.4%	99.1%	95.0%	✓	
First call resolution* (FSC)	N/A	97.6%	99.5%	90.0%	✓	
Average wait time until caller speak to a live person (minutes:seconds)* (FSC)	N/A	2 minutes 39 seconds	2 minutes 20 seconds	< 3 minutes	✓	
Percent of recalled records that are shipped securely and accurately to requesting facilities within established timeframes (RCV)	99.9%	99.9%	99.9%	99.0%	✓	
Number of audit qualifications for the VA Enterprise Centers (FF)	0	0	0	0	✓	

*New performance measures established during FY 2018

Performance Highlights During FY 2019



- During FY 2019, ITIO continued it's infrastructure modernization efforts to replace older technologies with new integrated technologies. These improvements provide better performance by enhancing infrastructure stability and security, including enterprise-wide cybersecurity threat response, as well as local and global load balancing infrastructure that supports data center processing. (ITIO)
- During FY 2019, the ICSC completed review activities for Office of Inspector General, Office of Accountability and Whistleblower Protection, Office of General Counsel and Congress. Additionally, ICSC performed 93 reviews of VA grantees and identified systematic operational issues for the program office as well as aided in the recovery of VA funds. (ICSC)
- During FY 2019, FSC supported the FMBT initiative by establishing an organization to cleanse and correct NCA financial data. NCA accounting data was cleansed ahead of schedule, boasting a 98 percent correction rate, clearing a major hurdle required for NCA to transition to the new financial management system as planned in July 2020. (FSC)
- During FY 2019, SIC submitted 15,944 full cases for investigation to the National Background Investigation Bureau (NBIB), while 14,506 cases were adjudicated by SIC staff. Of those adjudicated cases, there were 10,686 adjudication-only cases submitted by the field sites. (SIC)
- During FY 2019, LETC provided 37 Verbal Defense in Healthcare (VDH) programs at 33 different VA Medical Centers. These programs comprised of 163 individual 8-hour VDH classes. The VDH courses provide hospital personnel with the verbal skills needed to assist with de-escalation and have been very well received. According to participant critiques, it is one of the best training courses offered within the VA. (LETC)
- During FY 2019, DMC executed a strategic outreach initiative aimed at reducing improper payments and educating a network of Veteran supporters to achieve a common goal of debt avoidance. This initiative reached 10,900 Veteran Service Officers and VA School Certifying Officials as well as 3,500 VHA partners. (DMC)
- For the 22nd consecutive year, the audited financial statements of the VA Franchise Fund received an unqualified "clean" opinion.

Limitation Statement

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

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

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

Audit Opinion

For the 22nd consecutive year (1998 - 2019), the VA Franchise Fund has received an unmodified "clean" audit opinion.

Financial Statement Analysis

The consolidated financial statements present the Franchise Fund's financial position, cumulative results of operations, changes in net position, and information on budgetary resources for FY 2019 and FY 2018. 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 $567 million as of September 30, 2019. This is an increase of $109 million, or 24 percent, over the previous year's total assets of $458 million. The variance is primarily attributed to increase in Fund Balance with Treasury as a result IPAC collections and reimbursements from DHS, DHHS, ORR and VA customers. Additionally, there was an increase in property plant and equipment (work-in-process balance) due to capitalization of eCAMS as well as FMBT Phase 1 and Phase 2 for FSC. The increase in other assets can be directly attributed to FSC and ITIO's advances to USPS.

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

(Dollars in Thousands)	2019	2018
Fund Balance with Treasury	$ 283,812	$ 254,294
Property, Plant and Equipment, Net	161,779	83,444
Accounts Receivable, Net	106,247	118,816
Other Assets	15,043	1,117
Total Assets	$ 566,881	$ 457,671

Liabilities

The Fund had total liabilities of $122 million as of September 30, 2019. This represents a decrease of $1 million over the previous year's total liabilities of $123 million. The decrease in Accounts Payable is primarily due to increase in scheduled payments processed by the FF Enterprise Centers. Additionally, the decrease in other liabilities is primarily due to an increase in payroll accruals.

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

(Dollars in Thousands)	2019	2018
Accounts Payable	$ 79,311	$ 84,864
Other Liabilities	42,389	37,790
Total Liabilities	$ 121,700	$ 122,654

Net Position

The Fund's net position increased by $110 million in FY 2019 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was $445 million; a 33 percent increase over the prior year's ending net position of $335 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 $71 million in FY 2019, as reflected in the Consolidated Statement of Net Cost.

Budgetary Resources

The Combined Statement of Budgetary Resources presents budgetary resources made available to the Fund during the year and the resulting status of budgetary resources at year-end. The Fund does not receive an annual appropriation from Congress. The Fund is fully self-sustained by recovering all costs through reimbursements for services provided. The Fund has total budgetary resources of $1.088 billion, a $2 million increase from the FY 2018 level of $1.086 billion.

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

(Dollars in Thousands)

	2019	2018
Beginning Unobligated Balance	$23,230	$ 115,002
Unpaid Obligations	50,508	37,643
Other Changes in Unobligated Balance	27	1
Spending Authority from Offsetting Collection	1,014,077	933,161
	---------------	---------------
Total Budgetary Resources	$ 1,087,842	1,085,807

Management Assurances

The financial and performance data presented in this report are complete and reliable. Throughout the year, VA Franchise Fund senior managers assess the efficiency and effectiveness of their organizations by analyzing financial and performance data. Management relies on this data to identify material inadequacies in the financial and program performance areas and to identify corrective tasks needed to resolve them.

The Department of Veterans Affairs management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, (3) ensuring VA's financial management systems are in substantial compliance with FFMIA requirements, and (4) complying with other applicable laws, regulations, contracts, and grant managements. With respect to internal controls, the auditors, CliftonLarsonAllen LLP, identified five material weaknesses. (1) Controls over Significant Accounting Estimates and Transactions: (2) Accrued Liabilities, Undelivered Orders, and Reconciliation; (3) Financial Systems and Reporting; (4) Information Technology Security Controls; (5) Entity controls including CFO Organizational Structure.

CliftonLarsonAllen LLP identified five noncompliance with (1) Federal Managers' Financial Integrity Act, (2) Federal Financial Management Improvement Act of 1996, (3) Title 38 United States Code §5315 pertaining to the charging of interest and administrative costs, (4) Actual and potential violations of the Anti-Deficiency Act and (5) Improper Payments Elimination and Recovery Act.

https://www.va.gov/finance/docs/afr/2019VAafrSectionII.pdf

OLLIE GREEN & COMPANY
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 2019 and 2018 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, 2019, and 2018, 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 2019 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, 2019 and 2018; 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

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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, 2019, and 2018, 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, 2019, 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 Internal 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 2019 and 2018, dated November 19, 2019 reported five material weaknesses. They include: (1) Controls Over Significant Accounting Estimates and transactions; (Repeat Condition), (2) Accrued Liabilities, Undelivered Orders, and Reconciliations; (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.

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

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 2019 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 11, 2019

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2019, and 2018
(Dollars in Thousands)

	2019	2018
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 283,812	$ 254,294
Accounts Receivable (Note 3)	106,224	118,718
Other Assets (Note 5)	15,043	1,117
Total Intragovernmental Assets	405,079	374,129
Accounts Receivable (Note 3)	23	98
General Property, Plant and Equipment, Net (Note 4)	161,779	83,444
Other Assets (Note 5)	-	-
Total Assets	**$ 566,881**	**$ 457,671**
LIABILITIES		
Intragovernmental:		
Accounts Payable	10,502	14,495
Other Liabilities (Note 7)	27,259	24,932
Total Intragovernmental Liabilities	37,761	39,427
Accounts Payable	68,808	70,369
Other Liabilities (Note 7)	15,130	12,858
Total Liabilities	**$ 121,699**	**$ 122,654**
Unexpended Appropriation	-	-
Cumulative Results of Operations	**445,182**	**335,017**
NET POSITION	**$ 445,182**	**$ 335,017**
TOTAL LIABILITIES AND NET POSITION	**$ 566,881**	**$ 457,671**

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, 2019 and 2018
(Dollars in Thousands)

	2019	2018
PROGRAM COSTS:		
Gross Costs Intragovernmental (Note 10)	$ 1,019,670	$ 877,102
Less: Earned Revenue-Intragovernmental	(1,099,168)	(909,964)
Net Program Costs - Intragovernmental	$ (79,498)	$ (32,863)
Gross Costs Indirect Administrative	8,625	7,643
NET COST OF OPERATIONS	**$ (70,873)**	**$ (25,220)**

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, 2019 and 2018
(Dollars in Thousands)

	2019	2018
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	$ 335,017	$ 294,068
Prior Period Adjustments (+/-)	-	-
Beginning Balance, as Adjusted	**$ 335,017**	**$ 294,068**
BUDGETARY FINANCING SOURCES:		
Transfers Without Reimbursement	-	-
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers In/Out Without Reimbursement	27,057	5,459
Imputed Financing (Note 6)	12,235	10,270
Total Financing Sources	**39,292**	**15,729**
Net Cost of Operations (Note 13)	**(70,873)**	**(25,220)**
Net Change	**$ 101,165**	**$ 40,949**
NET POSITION	**$ 445,182**	**$ 335,017**

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, 2019 and 2018

(Dollars in Thousands)

	2019	2018
BUDGETARY RESOURCES:		
Unobligated Balance from Prior Year Budget Authority, Net	$ 73,765	$ 152,646
Spending Authority from Offsetting Collections	1,014,077	933,161
Total Budgetary Resources	**1,087,842**	**1,085,807**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments	1,054,486	1,062,577
Unobligated Balance, End of Year	33,356	23,230
Total Status of Budgetary Resources	**1,087,842**	**1,085,807**
OUTLAYS, NET		
Outlays, Gross	1,093,108	906,344
Actual Offsetting Collections	(1,122,626)	(891,140)
Net Outlays	**$ (29,518)**	**$ 15,204**

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

VA was selected by the Office of Management and Budget in 1996 as one of six executive branch agencies to establish a franchise fund pilot program. In this program, entrepreneurial organizations or Enterprise Centers are authorized to sell common administrative support services to VA and other Government agencies and operate entirely on revenues earned from customers. Enterprise Centers receive no Federally appropriated funding. The VA Franchise Fund (Fund) was established under the authority of the Government Management Reform Act of 1994 and the VA and Housing and Urban Development and Independent Agencies Appropriations Act of 1997. In 2006, under Public Law 109-114, permanent status was conferred upon the VA Franchise Fund.

Created as a revolving fund, the VA Franchise Fund began providing services to VA and other Government agencies on a fee-for-service basis in 1997. By law, the business lines within the Fund can only sell to Federal entities. This organization accounted for its funds in eight activity centers (VA Enterprise Centers) and in one administrative organization: IT Infrastructure Operations, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, Human Resources Enterprise Center, Internal Controls Support Center and the Franchise Fund Oversight Office. The consolidated financial statements include the eight individual activity centers of the Fund. All material intrafund transactions have been eliminated.

B. Basis of Presentation

The VA Franchise Fund consolidated financial statements report all activities of VA Enterprise Centers. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that the VA Franchise Fund is a component unit of the U.S. Government, which is a sovereign entity. VA Franchise Fund 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 VA Franchise Fund as a stand-alone entity. VA Franchise Fund's fiscal year end is September 30.

VA Franchise Fund's Consolidated Financial Statements and the Combined Statement of Budgetary Resources (SBR) report VA Franchise Fund activities. VA Franchise Fund 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 VA Franchise Fund 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 VA Franchise Fund'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) 2019 and 2018 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 Generally Accepted Accounting Principles, 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 VA Franchise Fund to draw funds from the Treasury for allowable expenditures. The fund balance with Treasury is reported in Note 2.

E. Accounts Receivable

Accounts receivable due from the public typically result from advances for Permanent Change of Station travel or advances for Federal Employees Health Benefits when employees are on leave without pay and, their health benefits are paid to the health carriers. These receivables are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary.

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 until the project phase is placed in service and final acceptances are successfully completed. Once completed, Franchise Fund transfers 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 Work-in-Process (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 rent, Government Printing Office printing services, Federal Telecommunications Service, and motor pool.

The second type of advance is advances paid to employees for travel. This includes payment for both permanent change of station (PCS) and temporary duty (TDY) travel.

The third type of advance is set up when the purchase card payments are scheduled. Charges are then IPAC'd to the applicable 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 post-retirement 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 2019 and 2018, VA Franchise Fund 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. The funds available as of September 30,

	2019	2018
Fund Balance with Treasury	**$ 283,812**	**$ 254,294**

The Fund does not receive an appropriation from Congress. The Fund receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee-for-service" basis.

Status of Fund Balance with Treasury

	2019	2018
Unobligated Apportionment		
Available	$ 33,356	$ 23,230
Obligated balance not yet Disbursed	$ 250,456	$ 231,064
Total Unexpended Apportionment	**$ 283,812**	**$ 254,294**

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.

Accounts Receivable as of September 30,

	2019	2018
Intragovernmental		
Accounts Receivable	$ 106,224	$ 118,718
Public		
Accounts Receivable	23	98
Total Accounts Receivable	**$ 106,247**	**$ 118,816**

Note 4. General Property, Plant and Equipment

General PP&E as of September 30, 2019:

	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)**

General PP&E as of September 30, 2018:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	$ 19,416	$ (15,663)	$ 3,753
Structure	581	(228)	353
Furniture & Equipment	18,177	(6,273)	11,904
ADP Equipment	93,566	(70,180)	23,386
Capital Lease Equipment	2,119	(2,119)	-
Software	20,976	(15,672)	5,304
Software in Development	17,599	-	17,599
Leasehold Improvements	36,586	(15,441)	21,145
Total PP&E	**$ 209,020**	**$ (125,576)**	**$ 83,444**

Note 5. Other Assets

Other Assets as of September 30,

	2019	2018
Intragovernmental		
Advance Payment – Federal	$ 15,043	$ 1,117
Total Intragovernmental	**$ 15,043**	**$ 1,117**
Public		
Advances to Employees	$ -	$ -
Total Public	$ -	$ -
Total Other Assets	**$ 15,043**	**$ 1,117**

Note 6. Federal Employee Benefits - Inter-Entity Cost

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

	2019	2018
Civil Service Retirement System	$ 960	$ 1,221
Federal Employees Retirement System	3,038	1,792
Federal Employee Health Benefits	8,213	7,237
Federal Employee Group Life Insurance	24	20
Total Imputed Expenses - Employee Benefits	**$ 12,235**	**$ 10,270**

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 VA Franchise Fund'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**.

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**	**$ -**

Other Liabilities account balance as of September 30, 2018:

		CURRENT		UNFUNDED
Intragovernmental				
Accrued Expenses – Federal	$	190	$	-
Accrued VA Contributions for Benefits		1,298		-
Advances - Federal		23,444		-
Total Other Intragovernmental Liabilities	**$**	**24,932**	**$**	**-**
Accrued Salaries & Benefits	$	4,724	$	-
Accrued Funded Annual Leave		8,131		-
Capital Lease Liability		3		-
Total Other Liabilities	**$**	**12,858**	**$**	**-**

*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 2019 operating lease costs were $6,287 for real property rentals and $11,208 for FY 2018. Operating leases consist of GSA and Third-party real property leases that are funded annually and expensed as incurred. Operating real property leases generally consist of offices and administrative facilities that enable VA Franchise Fund Enterprise Centers to fulfill its mission.

Leases are executed by GSA on behalf of VA Franchise Fund. 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, 2019. VA Franchise Fund 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 range of 3.2 to 3.3 percent annual increases in cost.

OPERATING LEASES

Fiscal Year	Percentage Increases	GSA OAs	Third-Party Direct Leases	Total Real Property
2020	3.3	$ 6,282	$ 214	$ 6,495
2021	3.2	6,483	221	6,703
2022	3.2	6,690	228	6,918
2023	3.2	6,604	235	7,139
2024	3.2	7,125	243	7,368

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,	2019	2018
Intragovernmental costs	$ 1,019,670	$ 877,102
Less: Earned Revenue - Intragovernmental	(1,099,168)	(909,965)
Net Intragovernmental Cost	(79,498)	(32,863)
Indirect Administrative Cost	8,625	7,643
Total Net Cost of Operations	**$ (70,873)**	**$ (25,220)**

Earned Revenue: Revenue earned by VA Franchise Fund (VAFF) for fees charged for services for the period ended September 30, 2019 was $1,099,168. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2018 was $909,965.

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

Note 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 VA Franchise Fund obligations are apportioned by activity.

Reimbursable Obligations as of September 30,

	2019	2018
Category B, Reimbursable Obligations	**$ 1,054,486**	**$ 1,062,577**

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

For the period ended September 30, 2019 and 2018, budgetary resources obligated for undelivered orders are as follows:

		2019		2018
Paid Undelivered Orders Federal	$	15,043	$	1,117
Paid Undelivered Orders Non- Federal		-		-
Total Paid Undelivered Orders	$	**15,043**	$	**1,117**
Unpaid Undelivered Orders Federal		20,473		16,420
Unpaid Undelivered Orders Non-Federal		275,586		365,634
Total Undelivered Orders	**$**	**296,059**	**$**	**382,054**

Note 12. Adjustments to Budgetary Resources and Prior Year Recoveries

The Franchise Fund reported approximately $51 million and $38 million recoveries of prior year unpaid and paid obligations (recoveries) for fiscal years ended September 30, 2019 and 2018, 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, 2019:

	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		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 and 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 Total			**$ 29,518**

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Law_Enforcement_Training_Center_LETC.asp

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Internet: http://www.osp.va.gov/
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Human Resource Enterprise Center
1100 1st Street NE
Washington, DC 20002
Internet: http://vaww.va.gov/FUND/index.asp

DEPARTMENT OF VETERANS AFFAIRS

Franchise Fund
ANNUAL REPORT

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

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