VA | U.S. Department of Veterans Affairs

Franchise Fund Annual Report

Delivering remarkable value and exceptional services to our federal customers

FY2021

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VA's Mission

To fulfill President Lincoln's promise—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 the 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 the 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 the VA. These values include integrity, commitment, advocacy, respect and excellence.

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 the 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.

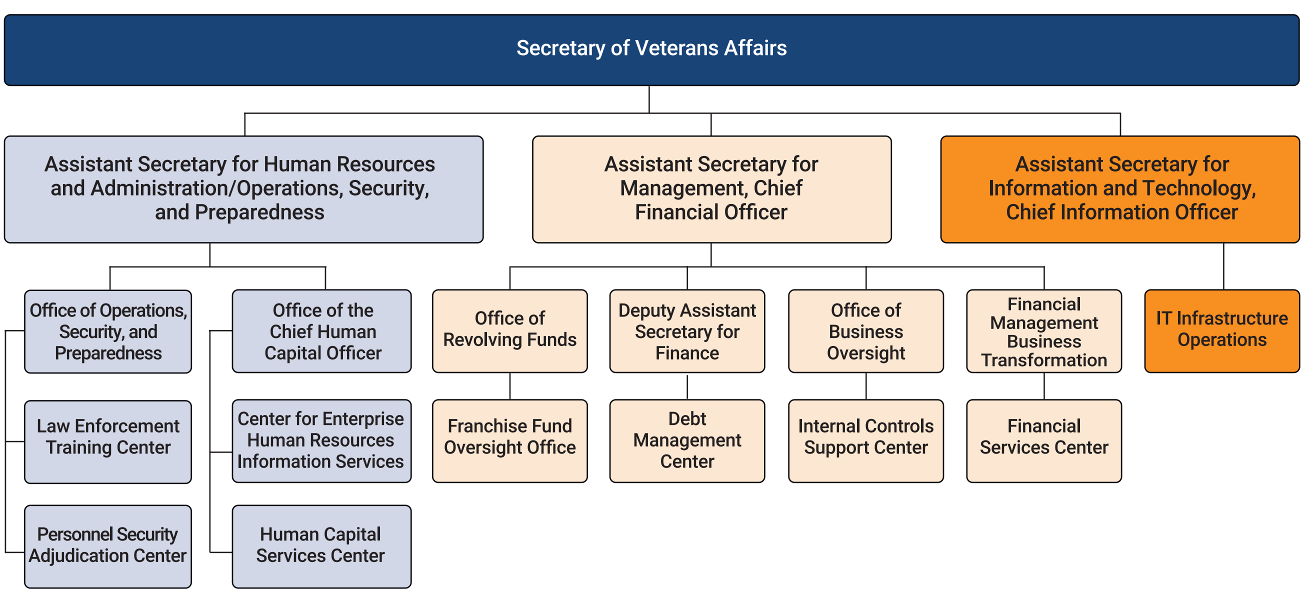
Members of the VA Franchise Fund Network

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. The 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 the VA and other Government agencies (OGA) 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 Funds Executive Director along with the Directors of the individual Enterprise Centers and their staffs are responsible for customer liaison and coordination, business planning and development, staffing, and execution of day-to-day business activities consistent with their annual business plans. The Revolving Fund Board of Directors is composed of the Office of Management; Office of Human Resources and Administration/Operations, Security, and Preparedness (HRA/OSP); Office of Acquisition, Logistics, and Construction (OALC); Office of Information and Technology (OIT); Veterans Health Administration (VHA); Veterans Benefits Administration (VBA); National Cemetery Administration (NCA); and pertinent VA Staff Offices.



Entrepreneurial Network

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

Business Segments

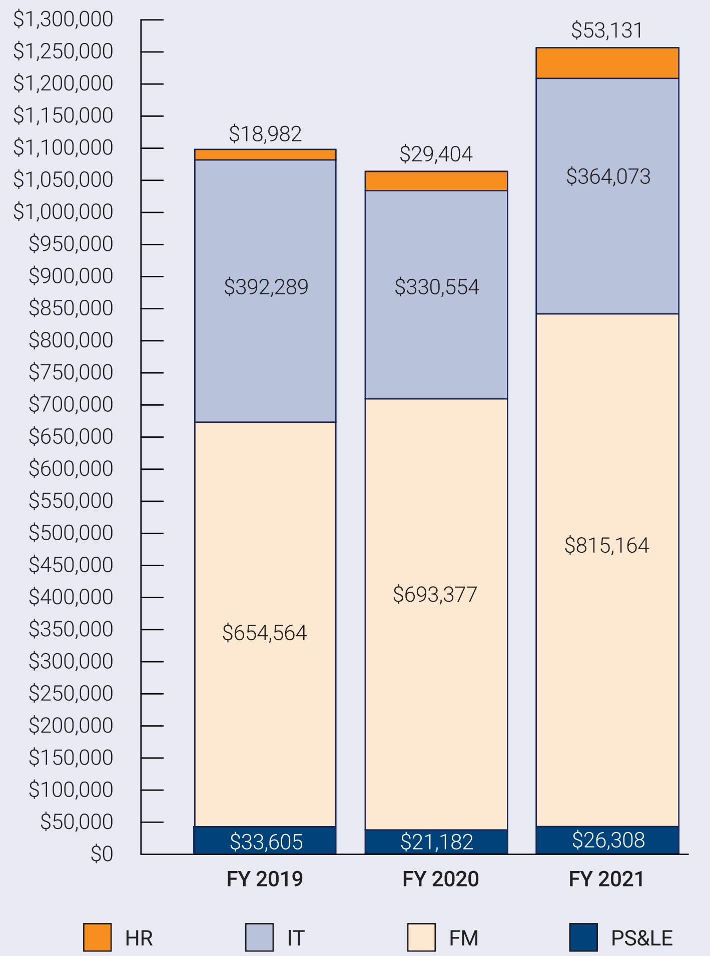
The VA Franchise Fund consists of four major segments: Information Technology (IT), Financial Management (FM), Personnel Security and Law Enforcement (PS&LE) and Human Resources (HR). The chart at right shows the revenue among our segments for FY 2019 through FY 2021.

The IT segment generated $364 million in revenue in FY 2021, which is a notable increase from $330 million in FY 2020. This increase was primarily due to an increase in business from various customers including the VHA, Veterans Canteen Services, OIT, and Office of Acquisitions and Logistics.

The FM segment generated $815 million in FY 2021, which is a significant increase from $693 million in FY 2020. This significant growth in revenue is primarily due to additional business from several VA customers including the OIT and OALC, as well as the VHA and VBA. Furthermore, the FM segment provided additional business to OGA customers including Department of Homeland Security (DHS) and Department of Health and Human Services (HHS).

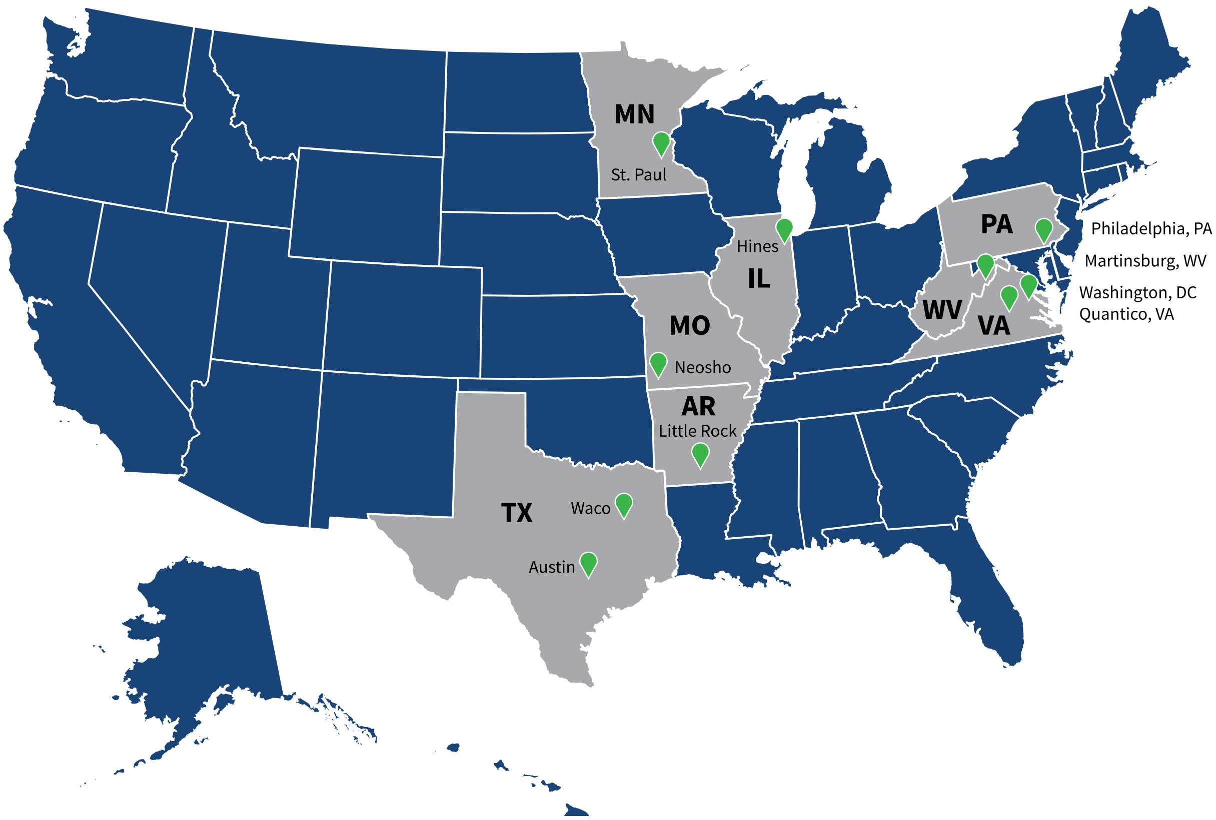
The PS&LE segment ended FY 2021 with $26 million in revenue, which is a notable increase from the $21 million in revenue reported at the end of FY 2020. This increase in revenue is due to additional business services provided to VHA customers as well as an increase in service rates compared to prior year.

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



Not charted: OM: FY 2019, -$272; FY 2020, $0; FY 2021, $0

The HR segment ended FY 2021 with $53 million in revenue. This is a significant increase from $29 million in revenue reported during FY 2020. This increase in revenue is primarily due to the addition of a new enterprise center, the Center for Enterprise Human Resources Information Services, an HR segment of the Franchise Fund.



Members of the VA Franchise Fund Network

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; Washington, DC)

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

Financial Management (FM)

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

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

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

Personnel Security and Law Enforcement (PS&LE)

Personnel Security Adjudication Center
(Little Rock, AR)

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

Personnel Security and Law Enforcement (PS&LE)

Law Enforcement Training Center
(Little Rock, AR)

- VA Police Officer Standardized Training
- Department of Air Force Civilian Police Academy
- Fact Finding Course
- Administrative Investigation Board Course
- Firearms Instructor
- Ground Defense and Recovery Instructor
- Long Gun Instructor
- Instructor Development Course
- Introduction to Police Supervision
- K-9 Recalibration Course
- Physical Security Course
- Verbal Defense in Healthcare

Information Technology (IT)

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

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

Human Resources (HR)

Human Capital Services Center
(Washington, DC)

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

Human Resources (HR)

Center for Enterprise Human Resources Information Services
(Washington, DC)

- Personnel Management and Employee Records
- Position Management
- Manager Self Service
- Employee Self Service
- Manpower Management
- Compensation and Benefits
- Performance Management

Members of the VA Franchise Fund Network

Joshua Blockburger
Director,
Personnel Security
Adjudication Center

Reginald Cummings
Executive Director,
IT Infrastructure
Operations

Dionne Dent-Lockett
Acting Director,
Human Capital
Services Center

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

Conrad Hamp
Director,
Law Enforcement
Training Center

Melvin Phillips
Director,
Franchise Fund
Oversight Office

Curt Rauhut
Executive Director,
Financial Services Center

Joe Schmitt
Executive Director,
Debt Management Center

Joseph Thele
Director,
Center for Enterprise
Human Resources
Information Services

Financial Management Segment

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.

Debt Management Center (DMC)

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

Financial Services Center (FSC)

Located in Austin, Texas; Waco, Texas; Neosho, Missouri; 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, Texas, 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. The ICSC accomplishes this with a highly skilled workforce augmented with specialized contractor support. The result is a cost-effective function within the VA to ensure resources have the maximum impact helping Veterans.

Personnel Security and Law Enforcement Segment

Law Enforcement Training Center (LETC)

The LETC, located in Little Rock, Arkansas, provides special training for police officers working in a health care or service-oriented environment. Emphasizing training in health care or limited jurisdiction environments, the LETC is available to approximately 4,500 law enforcement personnel working at VA health care facilities and to law enforcement professionals at other Federal agencies.

Personnel Security Adjudication Center (PSAC)

Located in North Little Rock, Arkansas, the PSAC provides quality background investigations and timely adjudications for VA employees in national security and public trust positions as well as VA contractors nationwide. Additionally, the PSAC provides security checks for appointees and high level award recipients centralized to the Secretary of VA (SECVA), and supports the Personal Identification Verification process for employees, contractors and affiliates of the Department.

Human Resources Segment

Human Capital Services Center (HCSC)

Located in the HRA/OSP, Office of the Chief Human Capital Officer (OCHCO) VA Central Office in Washington, DC, the HCSC provides common human capital support services. These products and services include learning management programs, employee accountability services, internship programs and learning content curation for nearly 630,000 VA employees, contractors, volunteers and academic affiliates. HCSC products and services reduce costs, streamline processes and save VA employees time so they can focus on delivering the best care and service to our Veterans.

Center for Enterprise Human Resources Information Services (CEHRIS)

Located in the HRA/OSP, OCHCO VA Central Office in Washington, DC, the CEHRIS provides a standard and reliable suite of services supporting core HR business processes; manager and employee-facing HR processes, to include capturing and managing employee and HR information throughout the employee life cycle, ensuring the VA can properly execute recruiting, staffing, employee relations, labor relations, performance management, employee benefits, payroll, separations, record keeping, and data analysis and reporting.

Information Technology Segment

IT Infrastructure Operations (ITIO)

Composed of staff living and working across the United States, ITIO provides application hosting and technical support services for operations throughout the VA. ITIO manages the VA's core data centers in Austin, Texas; Martinsburg, West Virginia; Hines, Illinois; Philadelphia, Pennsylvania; and Quantico, Virginia. The organization also provides IT services in support of applications running in customer-owned facilities and non-VA facilities (such as public cloud). ITIO focuses on the customer experience to deliver IT services and solutions that foster modernization, reliability and simplicity. Key services include IT security, application hosting, storage, network infrastructure, operating systems, mainframe, database, middleware, web hosting services, and data center operations and logistics.

Letter to Stakeholders

Leroy Larkins
Executive Director,
Office of Revolving Funds

On behalf of the Franchise Fund, I invite you to examine our FY 2021 Annual Report, outlining the VA Enterprise Centers' accomplishments during FY 2021, upcoming plans for FY 2022 and the Franchise Fund's audited financial statements.

This report documents the Franchise Fund's progress in the delivery of exceptional support services to the VA and OGAs. We ended FY 2021 with a total revenue of $1.3 billion, which is an increase from FY 2020 revenue of $1.1 billion.

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

- Attaining an unmodified audit opinion of our financial statements for the 24th consecutive year.
- Implementing the Light Electronic Action Framework (LEAF) service during FY 2021. LEAF is a secure, self-service cloud technology platform product that empowers VA employees in digital process management, enabling rapid implementation of digital forms, workflows and reports. This low code platform has been adopted across the VA and has been used for several national, mission-critical initiatives. (ITIO)
- Implementing Integrated Financial and Acquisition Management System (iFAMS) at DMC in select areas such as the collection of Government Operating Expense (GOE) receivables. DMC successfully began GOE collection in February 2021 using the iFAMS platform. DMC continued to partner with stakeholders to ensure the successful deployment of future iFAMS waves. (DMC)
- Centralizing payroll services for over 24,700 employees in 9 VHA stations, raising the total number of payroll customers served by the FSC to 106,000. Additionally, the consolidation of payroll at the FSC provides cost savings to VA customers through economies of scale and greater payroll customer service from 226 dedicated subject matter experts, allowing Administrations and Staff Offices to focus on their core missions. (FSC)
- Continuing to follow an effective reconstitution plan that complies with the Centers for Disease Control and Prevention (CDC) guidelines. This plan, developed working closely with the VHA and the Central Arkansas Veterans Health System, ensures the VA's security personnel is adequately trained under safe conditions, ensuring protection of Veterans, employees and VA facilities during the COVID-19 pandemic. (LETC)
- Continuing to develop the purchase requirements for a commercial off-the-shelf application during FY 2021. This application will automate and manage the requesting of a background investigation from its customers. The application will replace the current manual system of creating PDFs and uploading them to the PSAC SharePoint Portal. (PSAC)
- Increasing value to the Department during FY 2021 by expanding relationships with existing program office customers. In addition, ICSC expanded the scope of Homeless Provider Reviews to track and validate CARES funding. (ICSC)
- Providing training to Emergency Managers to help educate VA leadership on the Emergency Alerting and Accountability System (EAAS) operating systems capabilities and functionality. Furthermore, assistance was provided during the planning, preparation and execution phases of their emergency actions Command Post Exercises and EAAS Emergency Deployment Readiness Exercises as required. (HCSC)
- Transitioning from a reimbursable agreement-funded operation to a Franchise Fund Enterprise Center during FY 2021. This will allow CEHRIS to continue its existing programs as well as add additional business lines within a sustainable revolving fund framework. (CEHRIS)

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

I am pleased to submit the VA Franchise Fund FY 2021 Annual Report. As the Franchise Fund looks forward to this coming year, I am confident it will continue to demonstrate sound business practices under the current governance structure.

Leroy Larkins

Leroy Larkins

Our Stakeholders

Our ultimate stakeholders are Veterans and their families who directly benefit from the services the 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 the VA and OGA.

Veterans and their families directly benefit from services the VA provides.

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 their own unique missions, our collective experience enables us to give expert advice from an insider's point of view, as we understand unique requirements and financial constraints. We realize that we must compete for business every day to retain our customers' trust and confidence.

The American public holds us accountable to high standards as we spend their tax dollars to administer Government programs. Expensive and wasteful practices are not acceptable. We embrace resilience and resourcefulness as we adopt business practices that enable us to become more efficient and responsive.

External Stakeholders

- Veterans and their families
- Congressional authorization and appropriations committees and subcommittees
- Defense Finance and Accounting Service
- Department of Health and Human Services
- Department of Homeland Security
- Surface Transportation Board
- Department of the Army
- Department of the Air Force
- Veterans Service Organizations
- Private sector vendors

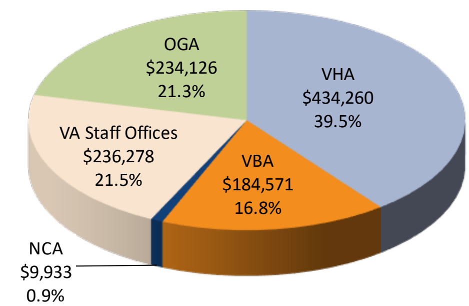
Internal Stakeholders

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

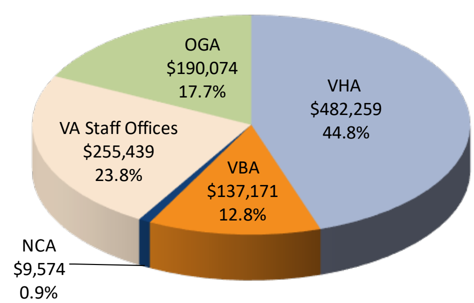
Comparison of Customer Revenue from FY 2019–2021

Approximately 82% of Franchise Fund revenue comes from VA customers. Within the VA, VHA programs provide the most revenue to the Enterprise Centers. The remaining 18% comes from several different OGA customers. During FY 2021, revenue from VHA, VBA and Staff Office customers increased by $51 million, $9 million and $88 million, respectively. These increases are primarily due to a significant surge in service agreements with all Enterprise Centers, especially FSC and ITIO, as well as the most recently added Enterprise Center, CEHRIS.

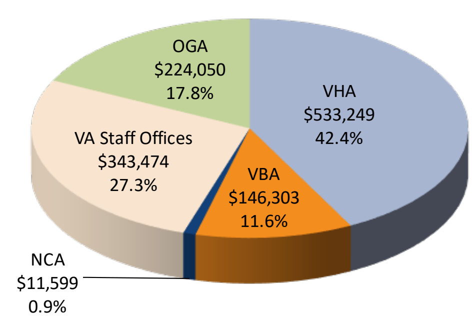
Revenue from OGA customers increased notably between FY 2020 and FY 2021. The Franchise Fund ended FY 2021 with $224 million in revenue, which is an increase of $34 million from FY 2020 levels. This revenue increase was due to an increase in business provided to OGA customers by FSC. Specifically, FSC provided additional business to the DHS Immigration and Customs Enforcement and HHS Office of Refugee Resettlement.



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

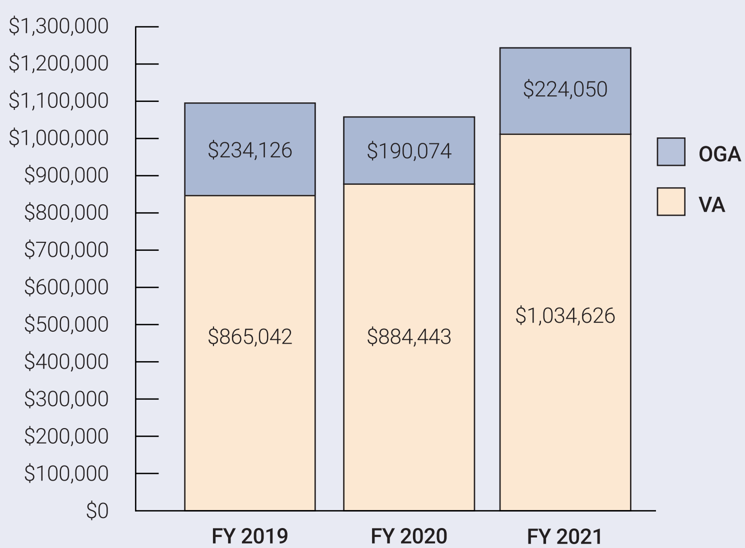


VA Franchise Fund Revenue by Customer as of September 30, 2020
(Dollars in Thousands)



VA Franchise Fund Revenue by Customer as of September 30, 2021
(Dollars in Thousands)

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



Meeting VA Franchise Fund Objectives

Information Technology Segment – ITIO

VA Enterprise Cloud (VAEC)

During FY 2021, the ITIO Enterprise Cloud team had been very successful with efforts to migrate VA applications from on-premises locations to the cloud. As of the end of FY 2021, 125 systems/applications are in production in the VAEC, and 71 systems/applications are currently in the process of being migrated to or implemented in the VAEC. An additional 156 systems/applications are being assessed for migration to the VAEC across 9 available cloud service provider regions.

During FY 2021, as part of ongoing security initiatives, ITIO expanded cybersecurity monitoring to an additional 270 VA facilities.

Adopting Technology Business Management Standards

During FY 2021, ITIO continued to expand its use of Technology Business Management (TBM) by modifying the framework to align with the OIT's evolution to Product Line Management. TBM is a standardized cost accounting framework for IT organizations, which is mandated by the OMB. This advanced technology business information is used to conduct recurring customer meetings and provide transparency into IT spending. ITIO was part of the VA group that won the TBM Excellence Award in 2018, and the team is up for a similar award for 2021. ITIO continues to lead the VA in IT financial management and reporting.

Cybersecurity

During FY 2021, as part of ongoing security initiatives, ITIO expanded cybersecurity monitoring to an additional 270 VA facilities. ITIO now has visibility into the network activities of over 1 million devices. The ITIO Cybersecurity team also established the Enterprise Vulnerability Management Program, which provides strategic and tactical response guidance to address Enterprise Vulnerability Management gaps. This effort directly supports reduction and mitigation of Office of Inspector General audit recommendations and material weaknesses. ITIO also designed and executed the VA's response to the SolarWinds incident, which included accelerating the implementation of security agent(s) for every application and environment in the VAEC and VA data centers to mitigate the impact of SolarWinds or similar attacks.

Data Center Consolidation

During FY 2021, ITIO continued its strategic objective to consolidate and streamline data processing by consolidating its data centers. As a result of ITIO's efforts, the VA received a "A" on the Data Center Optimization Initiative Federal Information Technology Acquisition Reform Act Scorecard, which was a full grade higher from the previous year. The organization managed the closure of 13 data centers, which exceeded the OMB target of 11, resulting in $7.8 million in cost savings for the VA.

ITIO supported the VA's increase in remote work and telehealth services during the COVID-19 pandemic.

Remote Work Optimization

During FY 2021, ITIO directly supported the VA's increase in remote and virtual work during the COVID-19 pandemic and continues to support and optimize these environments. ITIO quickly purchased and installed IT infrastructure to support a five-fold increase in concurrent teleworking employees and a 1,100% increase in telehealth services. This initiative has allowed ITIO to ensure continuity of operations while simultaneously ensuring the safety of its employees and contractors throughout the pandemic.

Financial Management Segment – FSC

Invoice Payment Processing

During FY 2021, FSC's Invoice Payment Processing System achieved an over 99% success rate with regard to timeliness and accuracy of payments. Additionally, FSC processed over 22,000 payments for construction invoices, totaling $2.2 billion. In FY 2021, 1.65 million invoices were processed, valued at $20.5 billion, with less than .0003% interest paid per million of payments processed. Additionally, FSC completed the implementation of a Vendor Management Portal for ongoing monitoring of vendor files using Treasury Do Not Pay and Death Master File Data Analytics.

Travel Services

During FY 2021, FSC's Permanent Change of Station Division processed 446 employee relocations totaling $36.5 million, and adjudicated 2,116 employee claims and vendor invoices totaling $13.3 million within seven business days 95% of the time. Operations and International Travel Division provided centralized oversight and management of the foreign travel program supporting 150,000 Foreign Travel Portal users. TDY Travel Services Division successfully provided continuous Disaster Emergency Medical Personnel System (DEMPS) support for COVID-19 and hurricane relief.

Claims Processing and Services

During FY 2021, the newly implemented Electronic Claims Administration and Management System (eCAMS) processed 7 million medical claims, equating to $2.2 billion in payments. The system continues to improve the fiscal year auto adjudication rate to 42%, with an 83% success rate for timely processing. Additionally, FSC completed Builds 9 through 11 and deployed eCAMS Provider Portal to production. Each Build in the overall project focuses on key segments that aim to optimize processing of production claims. Recent Builds include dental claims in pre-payment scoring, new functionality to generate letters to vendors, updates to existing and new HealthBeat reports, inventory aging by program type, current vs. aged, and auto adjudication.

Elimination of Improper Payments

During FY 2021, FSC released six major updates to the P&LO Ordering Officer Report Dashboard. These enhancements improved oversight of the ordering process and the monitoring of compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 and OMB Circular A-123. FSC personnel screened over 1.1 million payment transactions, valued at $1.9 billion, for potential duplicate payments. Working with the applicable field station, FSC personnel identified 1,263 Potential Duplicates payment transactions, in the amount of $10 million. FSC verified 386 transactions worth $362,633 as confirmed duplicates. FSC recovered $20 million in FY 2021 from the BOC Portal.

Payroll Processing

During FY 2021, the FSC's Financial Payroll Service (FPS) transitioned nine stations in VHA, adding an additional 24,700 employees (33% increase from FY 2020) to FSC's local payroll support services and added an additional 7,500 employees to Payroll Centralization via agency realignments. As a result, services to local payroll now cover 106,000 employees. FPS supported VA Time and Attendance and payroll processing for over 444,000 employees nationwide and facilitated $1.8 billion in payroll processing each pay period. The self-service portal responded to over 124,000 tickets and answered over 46,000 calls. FPS provided centralized DEMPS timekeeping support to over 3,000 deployed personnel and processed $15 million in timely and accurate salary payments.

Financial Management Business Transformation

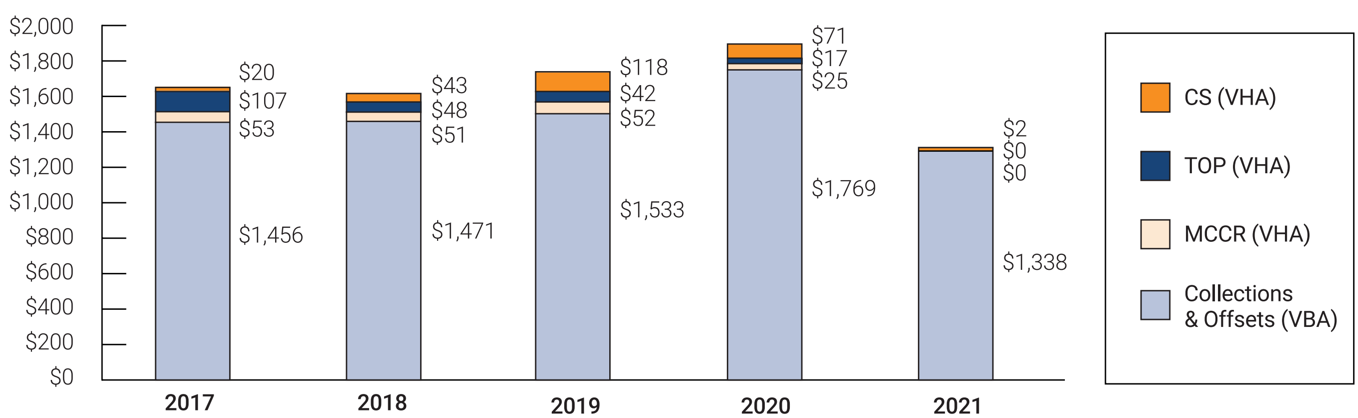
During FY 2021, in support of the Financial Management Business Transformation (FMBT), an objective of the Secretary's VA Business Systems Transformation goal, FSC successfully deployed the iFAMS for the NCA and VBA. The iFAMS Help Desk answered 96% of service desk tickets during initial customer contact and attained a 94% satisfaction rate on customer surveys. Additionally, FSC delivered 17 new training courses on FMBT payment procedures, which enabled a year-over-year increase in processing of 43% and reduced interest costs by 62%. FSC also produced 34 custom finance reports for NCA and VBA, provided 43 training events for users and developed an enhanced support plan to assist new users during the first FMBT fiscal year-end close.

Financial Management Segment – DMC

Debt Collection Process Improvement

In FY 2021, DMC continued to utilize compassionate debt collection methods when working with Veterans and their beneficiaries. To ease the financial burden on Veterans during the COVID-19 pandemic, DMC suspended collections for 760,000 new accounts valued at $1.1 billion from April 2020 through August 2021. Even with these relief efforts, DMC collected $1.34 billion in FY 2021. DMC's cost to customers was $45.4 million, or 3.4% of collections, which highlights DMC's emphasis on lean processes, right-sizing the DMC team to meet Veterans' demand and maintaining cost consciousness. In January 2021, DMC led a department-level initiative to provide Veterans with the first-ever online access to VA debt information. The activation of the debt landing page revolutionized how Veterans interact with their personal debt and met 21st century customer expectations with online access.

Total Collections and Offsets (Dollars in Millions)



Financial Management Business Transformation

In FY 2021, DMC focused outreach efforts on providing Veterans with information about the financial relief efforts. During the COVID-19 pandemic, DMC researched debt collection regulations and sought Office of General Counsel opinion to ensure relief options followed Extended Repayment Interim Guidance and the intent of the SECVA. The center continued to collaborate with National Veterans Service Organizations Commanders, engaged in conversations on past practices and developed a path forward to care for Veterans struggling due to the economic pressures created by COVID-19. These relief options included long-term repayment plans, hardship refunds and suspending collections for up to 12 additional months. DMC utilized a community approach with VA Administrations by establishing concurrent protocols, defining the parameters for declaring relief, setting criteria for relief assistance and developing a robust communication plan. This plan increased collective communication through social and digital media, informational letters and the launch of a new self-service portal on VA.gov. DMC reached 65 million Veterans with these communication tools, and the self-service portal freed up the call center to focus on Veterans who need direct assistance. In addition, DMC added a toll-free line for School Certifying Officials to support increased call volumes resulting from a legislative change that made schools financially responsible for benefits paid under the Post-9/11 GI Bill. DMC's Veteran Experience Division provided exceptional customer service to Veterans and their beneficiaries. They answered 493,345 Veterans' phone calls in the contact center, which represented 93% of calls offered, with an average speed of answer (ASA) of two minutes. This was the most Veteran-friendly ASA ever recorded in DMC's 45-year history.

Veterans Account Management System

During FY 2021, DMC successfully implemented integration with VA Profile in a multistaged approach that allows real-time read and write-back capabilities to include integration with USPS address validation services. This initiative will impact Veterans, beneficiaries and key stakeholders by ensuring DMC notifications are received timely and have the most accurate data available. Efforts to transition all operational functions into the Veteran Account Management System (VAMS) have been largely successful. DMC successfully deployed all required business processes for the Veteran Communication Division and multiple business process functions for all other operational divisions. DMC will partner with VBA to ensure Salesforce functionality is fully utilized to efficiently serve Veterans and stakeholders.

Financial Management Segment – ICSC

ICSC Support of OMB Circular A-123 Internal Controls

In FY 2021, ICSC conducted six OMB Circular A-123, Appendix A, limited Test of Design and Effectiveness for six business processes to include: Compensation; Pension; Financial Reporting; Grants Management; Property, Plant and Equipment; and Office of Community Care. In addition, ICSC updated the Revenue and Receivables cycle memo to reflect current business processes at the DMC. ICSC focused its efforts on developing business process narratives and testing at an enterprise level, identifying and documenting key financial controls or gaps in the design of controls. By focusing on developing business processes and testing at the enterprise level, ICSC was able to concentrate limited resources in the most impactful areas to better ensure the entire department is achieving the Internal Controls Management objectives as set out in OMB Circular A-123.

ICSC Support of VA's Homeless Provider Programs

ICSC successfully completed 121 reviews for the Supportive Services for Veterans Families (SSVF) program, validating nearly $140 million in grantee funding. The reviews resulted in 916 recommendations to improve financial and operational practices of the grantee. Additionally, ICSC reviewed 24 grants administered by the Grants Per Diem (GPD) program, which amounted to $30.4 million in VA funding. Those reviews resulted in 194 specific recommendations to grantees. In addition to the financial reviews, ICSC staff also analyzed 30 Case Management offices to validate how the grantees are helping Veterans. During the Case Management reviews, ICSC made 40 recommendations to the grantee staff. As a result of ICSC's efforts, both the SSVF and GPD program office have confidence their grantees are using VA funds in a manner compliant with applicable laws, rules and guidance, and more importantly, ICSC knows their grantees are positively impacting the well-being of homeless Veterans.

Technology Transfer Program (TTP)

During FY 2021, ICSC auditors, under the direction of the VA's TTP office, completed 6 reviews of the VA's trading partners who hold 268 inventions, 64 invention licenses and nearly $4 million in revenue, expenses and royalties. Those reviews uncovered 70 inventions that were not previously disclosed to the VA. ICSC also performed audit work of an academic affiliate that was later referred to the U.S. Department of Justice for further action. The potential financial impact of this action is projected to be greater than $10 million.

NCA Compliance Review

During FY 2021, in response to COVID-19 safety protocols, NCA cancelled 3 of its 13 planned reviews. In the 10 reviews performed by ICSC staff, 128 recommendations were issued to improve cemetery operations and bring them into compliance with NCA directives. The result of ICSC working closely with the VA's NCA office is the VA now has confidence that State and Tribal Government cemeteries are operating on a level that adheres to VA national cemetery standards.

Personnel Security and Law Enforcement Segment – PSAC

Trusted Workforce 2.0

The PSAC established a Tiger Team to work closely with the Department of Veterans Affairs Central Office Personnel Security and Credential Management Office and the Defense Counterintelligence and Security Agency (DCSA) with enrolling over 7,500 VA employees and contractors into the Trusted Workforce Continuous Evaluation program. Accomplishments were recognized by the VA's Assistant Secretary Human Resource

Agent Gregory Holland instructs a new VA police officer. Unfortunately, the LETC family lost Gregory to COVID-19 in August 2021. Gregory will always be remembered for his dedication to duty.

Administration/Office of Operations, Security, and Preparedness, and Chief Security Officer.

Team Development

During FY 2021, the PSAC built a collaborative relationship with the Defense Counterintelligence and Security Agency's Center for Development of Security Excellence (CDSE), which resulted in 11 PSAC adjudicators completing the CDSE's national security adjudication training. This training achievement is critical to the department's successful implementation of the Federal Government's Trusted Workforce Continuous Evaluation transformation efforts. Additionally, the PSAC operational supervisory team has worked hard to improve working relationships with other administration security offices such as VHA, VBA and NCA. These critical partnerships have led to increasing efficiency and quicker onboarding times to ensure critical staffing needs are met during the COVID-19 pandemic.

National Security Adjudication Timelines

The PSAC has significantly surpassed the Office of Director of National Intelligence (ODNI) Security Clearance Process Timeliness goals this fiscal year. The ODNI requirement for the initiation of Security Clearance Background Investigations is 14 days from the receipt of a correctly completed request packet. The following are the PSAC reports results from ODNI:

- Tier 3 Secret – 1 Day
- Tier 5 Top Secret – 3 Days

The ODNI requirement for the adjudication of Security Clearance Background Investigations is 20 Days from the receipt of the closed case file from DCSA. The following are the PSAC reports results from ODNI:

- Tier 3 Secret – 4 Days
- Tier 5 Top Secret – 5 Days

The ODNI requirement for the combined process of initiation and adjudication of Security Clearance Background Investigations is 34 Days. The following are the PSAC reports results from ODNI:

- Tier 3 Secret – 5 Days
- Tier 5 Top Secret – 7 Days

PSAC performance in the area of Security Clearances enabled VA employees with this requirement to fulfill their full duties in a very short amount of time.

Personnel Security and Law Enforcement Segment – LETC

VA Police Officer Training

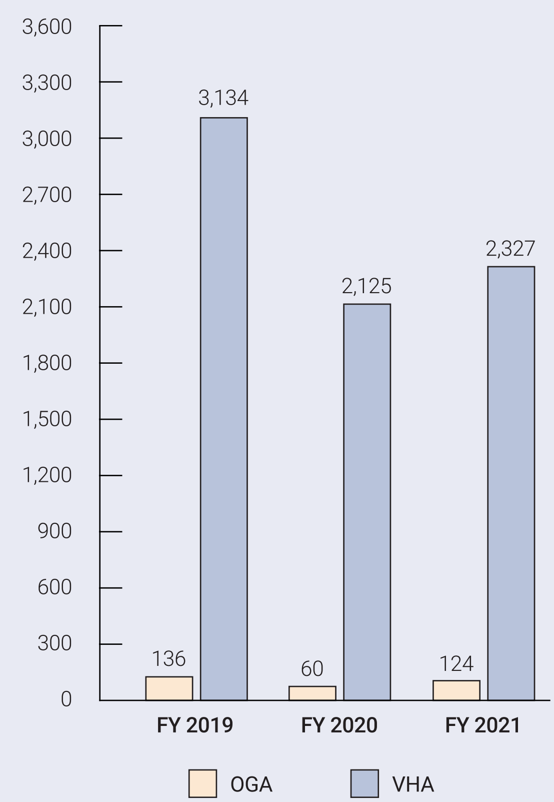
During FY 2021, the number of VA police officers trained was 2,327. This represents an 8.7% increase from the 2,134 VA police officers trained in FY 2020. OGA student numbers increased 107%. The increase in student attendance was a direct result of the LETC reconstitution plan. However, due to a surge in COVID-19 cases, LETC was required to close all training on July 8, 2021. Mobile training and all travel were also canceled due to the resurgence of the COVID-19 pandemic.

Despite the impact of the pandemic, LETC continues to consult with customers regarding its FY 2021 reconstitution plan. As a result, the number of OGA students trained more than doubled from FY 2020. LETC continues to work with OGA such as the U.S. Coast Guard to plan for possible training in the future when the pandemic recedes. In coordination with its Department of Air Force (DAF) customer, LETC has developed new courses, such as a leadership course and a supervisor course, for FY 2022. DAF has a backlog of officers waiting to be trained and has requested a significant increase in their FY 2022 franchise fund agreement with LETC to support their additional training needs.

Expanded Course Offering

During FY 2021, LETC provided safe alternate training platforms to its customers due to the continued impact of the COVID-19 pandemic. LETC expanded its course instruction methods to include virtual courses. These courses include the Fact Finding Course (FFC) and VA Police Officer Standardized Training Recertification Course (POST-R), which were reconstructed into virtual platforms. LETC also launched six virtual FFCs and one virtual POST-R in the fourth quarter of FY 2021 to assist with the COVID-19 reconstitution plan to safely provide

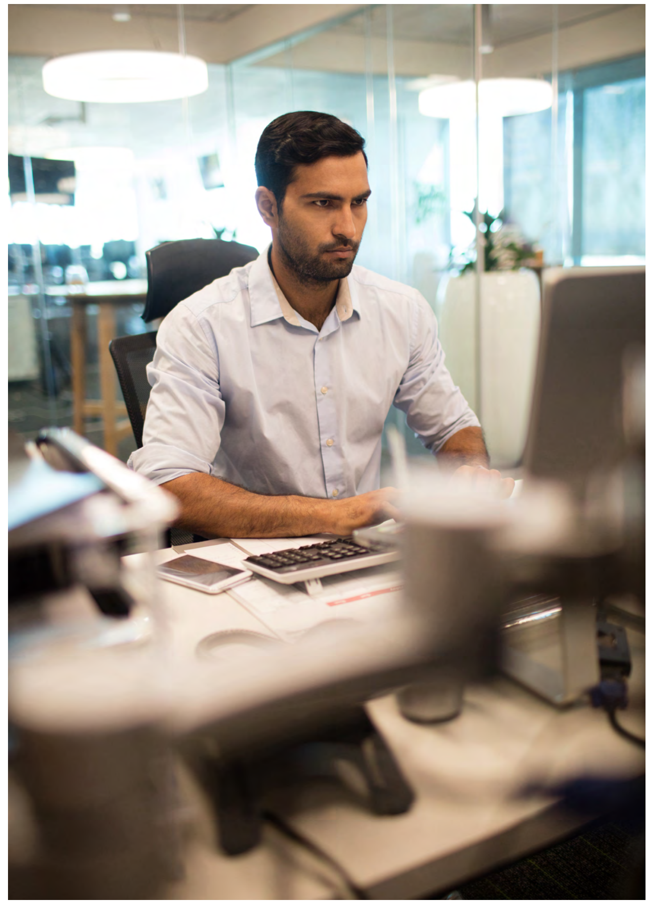
Number of Police Officers Trained



continued law enforcement training services to its customers. These new training platforms will continue into FY 2022 and the foreseeable future. Furthermore, incorporating these virtual platforms allows the Government to save on travel expenses associated with sending multiple attendees to in-person courses at LETC training facilities.

Additionally, LETC entered into a working relationship with the Marion, Indiana, VA Healthcare System as a satellite facility to assist with the training resources and space needed to provide an alternate training venue, and it proved to be an important asset in FY 2021. Having the alternate training venue assisted LETC, as Little Rock was considered a hotspot for COVID-19 and Marion's numbers for the virus remained low.

LETC also expanded its Mobile Training Team (MTT) program to include additional courses. The additional courses selected for the MTT program were the Firearms Instructor Recertification Course (FAI-R), Long Gun Instructor Recertification Course (LG-R), Active Threat Response Recertification Course (ATR-R), and the Ground Defense and Recovery Instructor Recertification Course (GDR-R). These courses required tremendous logistical planning, support and management due to the sensitive nature and equipment that required transportation.



HCSC increased employee registration for the EAAS to 95% and deployed a desktop alert system to all VA workstations.

Human Resources Segment - HCSC

Personnel Accountability and Notifications

During FY 2021, HCSC worked to increase employee registration for the EAAS from 30% in November 2019 to 95% in FY 2021. While many VA public servants maintained a virtual posture for their protection, the registration rate held steady at 90%. HCSC developed a new partnership with the Worklife and Benefits Service Office and the Corporate Senior Executive Management Office to incorporate VA EAAS training into the New Employee Orientation. This partnership ensured all new VA employees were registered in the EAAS database within their first 45 days of joining the VA. Furthermore, HCSC deployed an EAAS desktop alert system to all VA workstations as an additional notification tool. The application generates alerts to an employee's local computer where they can receive and respond accordingly. The application also provides easy access to employee profiles. HCSC later conducted an upgrade to the desktop pop up app to over 500,000 VA workstations.

Additionally, HCSC supported more than 540,000 active users across the VA to send critical safety and emergency alert notifications to gain awareness of the safety and work status of its employees, contractors, affiliates and associated workforce rapidly and accurately. HCSC also implemented standard operating procedures that standardize metric monitoring of the VA EAAS system. This Key Leaders' Engagement process guided HCSC on how to support VA departments in meeting their internal goals. This is achieved by helping to improve the competencies of Emergency Management officials and EAAS administrators at all levels, hence mitigating the potential effects of all types of disasters and emergencies that affect VA operations.

Consolidated Internship Program

During FY 2021, HCSC offered centralized support to internship programs, which included resources to participants, hiring and program managers, and leaders throughout an intern's career life cycle.

Through these programs, VA personnel continued to develop professional aptitude and competence. On December 7, 2020, the VA and Office of Personnel Management executed the biannual Memorandum of Understanding in accordance with Section 362.103 of Title 5, Code of Federal Regulations (CFR). This code authorizes the VA to make appointments to positions placed in the excepted service of Title 5, pursuant to the Pathways Programs. The Office of the Chief Human Capital Officer is responsible for establishing Department-wide policy governing the implementation and use of the VA Pathways Programs. As its designee, the Human Capital Services Center administers, manages and oversees the implementation of the VA Pathways Programs.

Talent Development Services (TDS)

During FY 2021, HCSC continued to provide exceptional support to the VA through the Department's learning and employee development system of record, the Talent Management System (TMS 2.0). TMS 2.0 registered over 16.6 million individual training completions for over 640,000 VA employees, contractors, volunteers, academic affiliates and other business partners. Leveraging existing VA tools, HCSC provided real-time solutions for emergent training needs as requested by the Department, resulting in this significant increase to completions recorded without additional cost. For example, HCSC reacted to situational changes and impacts of COVID-19, offering on-demand learning through LinkedIn Learning and other timely web-based content, including content specific to COVID-19 vaccination handling, distribution and delivery. HCSC also used existing resources to introduce new capabilities, such as career planning and mentor management, to equip the VA with tools to improve the employee experience through broader access to professional development tools. HCSC supported important VA initiatives, such as those addressing Diversity, Equity and Inclusion, by delivering new training, focused attention on related content, and content development support through the Learning Content Management System. Finally,

HCSC registered over 16.6 million individual training completions, offering on-demand web-based learning for emergent training needs.

HCSC ensured the ongoing operations of TMS 2.0 through two upgrades delivered during FY 2021. The first upgrade eliminated all aspects of Adobe Flash from the application in preparation for the worldwide deprecation of Flash. The second upgrade delivered the elements needed to provide new, integrated reporting capabilities that will be introduced in FY 2022.

Human Resources Segment – CEHRIS

CEHRIS Transition to the Franchise Fund

On January 12, 2021, the CEHRIS, formerly known as Human Resource Information Technology, received SECVA approval to enter the Franchise Fund and successfully transitioned on June 20, 2021. CEHRIS focuses on the strategic efforts required to meet the growing needs of the VA enterprise for HR information services supporting over 500,000 VA employees and academic affiliates. CEHRIS provides a standard and reliable suite of services supporting core HR business processing.

This includes managing employee-facing HR processes; capturing and managing employee and HR information throughout the employee lifecycle, ensuring the VA can properly execute position management, recruiting, staffing, employee relations, labor relations, performance management, employee benefits, payroll, separations, record keeping, data quality/analysis and reporting.

CEHRIS Core HR Product Lines

CEHRIS provides a standard and reliable suite of services that are available to VA customers. This suite consists of the following product line services:

✔ Core HR: HR Smart is a system that integrates HR activities and information technology, and enables data entry and tracking for HR, payroll and position-related data. CEHRIS Core HR programs include:

- **Personnel Management and Employee Records**. This program provides automated HR servicing capability to HR Offices, VA managers and employees. Additionally, it provides HR transactional services and archives VA authoritative employee records.
- **Position Management**. This program allows VA leadership and management to review organizational structures and execute personnel actions for onboarding and vacant positions. This program also includes dashboards with recurring actions and suspension dates.
- **Manager Self Service**. This program allows VA managers to manage direct reports using automated and integrated processes. Additionally, it also allows VA leadership and management to review organizational structures, submit personnel action requests on their employees and view status of actions.
- **Employee Self Service**. This program provides VA employees with a centralized platform to access all HR needs. This includes viewing personal and professional information and requesting updates to information.
- **Manpower Management**. This program enables manpower management across the VA enterprise. This service will share data with Personnel Management and Position Management services and provide end-to-end visibility and validation on human resource needs and vacancies.

CEHRIS Recruitment Product Lines

✔ Recruitment: CEHRIS is constantly refining its capabilities for attracting, recruiting, assessing, selecting and onboarding employees with the right skills and competencies. CEHRIS Recruitment programs include:

- **USA Staffing**. USA Staffing is a hiring and onboarding software solution for Federal agencies. This automated staffing system enables Federal agencies to recruit, assess, certify, select and onboard qualified candidates online in an efficient and cost-effective manner. USA Staffing converted the recruitment staffing process from paper to an automated system and is an integral part of reducing VA end-to-end hiring times.
- **USA JOBS**. The Federal Employment Information Program (USAJOBS) provides Federal employment information and services. This is the system used to post VA job vacancies and is therefore a critical part of the hiring infrastructure necessary to attract the best qualified candidates for VA vacancies.
- **Automated Classification (eClass360)**. A new and modernized iteration of the eClass system created by Monster, eClass360 provides paperless classification and offers a standardized, end-to-end classification process for all of the VA. Users can expedite classification actions with new features such as document builder wizards, improved position description library search functionality, user dashboards, automatic email notifications and much more, resulting in an efficient process to find the right candidates to support VA's mission.

Performance Summary Table

The performance information presented below accurately represents the Enterprise Centers' performance during fiscal years 2019–2021. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we continually seek to improve our data collection and monitoring techniques.

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

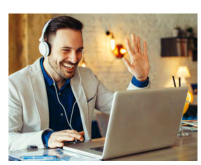
	Actual			Plan	Were 2021 Goals Achieved or Exceeded?	
Performance Measure	**2019**	**2020**	**2021**	**2021**	**Yes**	**No**
Percent of Veterans and/or beneficiaries who contacted the DMC without receiving a busy signal (DMC)	100.0%	100.0%	100.0%	100.0%	✓	
Class graduation rate (LETC)	94.0%	95.0%	93.38%	85.0%	✓	
Percent of adjudications that are completed within the established time frames (PSAC)	91.0%	87.0%	94.45%	90.0%	✓	
Payment processing accuracy rate (FSC)	99.0%	99.0%	99.0%	99.0%	✓	
Claim processing time (percent paid within 30 days) (FSC)	100.0%	100.0%	100.0%	100.0%	✓	
Invoices paid in accordance with Prompt Payment Act (FSC)	99.1%	99.0%	99.0%	99.9%	✓	
First call resolution (FSC)	99.3%	99.5%	99.5%	99.5%	✓	
Average wait time until caller speaks to a live person (minutes: seconds) (FSC)	2 min 20 sec	2 min 20 sec	2 min 20 sec	3 min	✓	
Percent of recalled records that are shipped securely and accurately to requesting facilities within established time frames (FSC)	99.9%	99.9%	99.9%	99.9%	✓	
Number of audit qualifications for the VA Enterprise Centers (FF)	0	0	0	0	✓	

Performance Highlights FY 2021

- During FY 2021, ITIO continued to modernize and improve IT operations in accordance with the strategic plans of VA's Chief Information Officer and Development Security Operations priorities. The organization developed a planning and execution proposal necessary to obtain Board approval for several new products which will significantly modernize ITIO's service offerings. These services include Enterprise Cloud Fax, VAEC and VA Platform One (VAPO). VAPO is a system that provides a faster, more secure way to move core business applications to any cloud through enterprise-ready containerized software solutions using innovative technologies. (ITIO)
- During FY 2021, ICSC worked diligently with its customers to develop alternative ways of gathering and analyzing data in light of the ongoing travel and face-to-face meeting constraints caused by the pandemic. ICSC was able to conduct all reviews with TTP trading partners remotely and experienced no degradation in product quality. Additionally, ICSC modified its plan for conducting Homeless Provider Office reviews, moving over 50% of the data gathering and analysis from face-to-face to virtual. ICSC experienced similar success in testing and evaluating internal controls, where in-person engagements were replaced by virtual interfacing. When a virtual option was not feasible, ICSC and NCA reworked schedules and locations to limit exposure of staff. (ICSC)

- In August 2021, FSC earned ISO 9001 recertification, which is an internationally recognized standard for quality management. To achieve the ISO recertification in the FSC's 22 quality objectives, FSC completed 13 Quality Management System ISO 9001 audits and 17 audits of business processes in FY 2021. By becoming an ISO 9001 organization, the FSC's business processes are objectively certified for effectiveness and delivery of quality customer service to the FSC's VA and OGA customers and stakeholders. (FSC)
- During FY 2021, the PSAC successfully met all customer service level agreements and ODNI/DCSA background investigation timeliness requirements. The PSAC was entrusted with full responsibility of enrolling over 7,500 VA employees and contractors in the Federal Government's new Trusted Workforce Continuous Evaluation program. The PSAC continues to serve as an integral part of the department's personnel security program and continues to set the benchmark for timely/accurate processing and adjudication of nearly 30,000 background investigations. The PSAC was able to far exceed DCSA's requirement of adjudication of suitability closed case files within 90 days of receipt, ensuring a backlog of cases did not reoccur. (PSAC)
- During FY 2021, the LETC Academy received accreditations for several course offerings. These courses include the Department of the Air Force Civilian Police Academy course, which received its Federal Law Enforcement Training Accreditation (FLETA) designation as well as its initial Department of Defense (DOD) accreditation. Additionally, the Firearms Instructor Course received its first FLETA designation. (LETC)

- During FY 2021, DMC continued to drive innovation with the implementation of front-end scanning in Pega using electronic processing. The improvements this year included automation of the OFS 9957 access request for new system access, standardization of the file number conventions to eliminate user errors when documents are uploaded into the system, and the added capability to scan and import high volume check research directly into the queue. This further enhanced the accuracy, timeliness and flexibility of day-to-day operations. (DMC)
- During FY 2021, HCSC updated and published VA Directive 0325, Personnel Accountability, that sets forth the policies, procedures and responsibilities for implementing and managing personnel accountability. This ensured VA personnel's safety and security in response to emergencies and daily operations. Additionally, HCSC established a new system authentication method compatible with USAccess credential cards before the new cards were issued VA-wide. The adoption of this new system occurred without a disruption of service. (HCSC)
- During FY 2021, CEHRIS successfully transitioned to the Franchise Fund cost model and on July 9, 2021, executed 24 new service level agreements, ensuring continuity of services for CEHRIS customers. Subsequently, CEHRIS partnered with VHA's Workforce Management Consulting (WMC) to implement a Talent Experience Portal (TXP) pilot within the Core HR solution. TXP is a unified experience layer enhancing the employee, manager, case management and knowledge capability experience. Successful implementation of the TXP pilot within WMC may result in a new CEHRIS product line for demonstration to the entire VA enterprise. (CEHRIS)



- For the 24th consecutive year, the audited financial statements of the VA Franchise Fund received an unqualified "clean" opinion. (FFO)

Financial Statement Analysis

Limitation Statement

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 United States Code (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 (GAAP) for Federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that 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 24th consecutive year (1998–2021), the VA Franchise Fund has received an unmodified "clean" audit opinion.

The consolidated financial statements present the Franchise Fund's financial position, cumulative results of operations, changes in net position, and information on budgetary resources for FY 2021 and FY 2020. Highlights of the information contained in the consolidated financial statements are summarized in this section.

Overview of Financial Position

Assets

The Consolidated Balance Sheet reflects the Fund's asset balances of $812 million as of September 30, 2021. This is an increase of $124 million, or 18%, over the previous year's total assets of $688 million. The variance is primarily attributed to an increase in Fund Balance with Treasury, which resulted from several factors. These factors include an overall increase in Intra-Governmental Payment and Collection System (IPAC) collections and an increase in reimbursements. These reimbursements were primarily due to an increase in service offerings to VA customers, including FSC's VHA customer and ITIO's OIT customer. Additionally, HCSC, LETC, ICSC and the newest enterprise center (CEHRIS) also contributed to the increased customer reimbursements compared with FY 2020.

During FY 2021, there was also an increase in Property, Plant and Equipment due to capitalization of eCAMS and iFAMS systems and the VAMS. The increase in Accounts Receivable is primarily due to an overall increase in services provided by FSC, ITIO and LETC. Additionally, there was an increase in Advances and Prepayments from the U.S. Postal Service, Government Publishing Office and DOD.

Liabilities

The Fund had total liabilities of $142 million as of September 30, 2021. This represents a decrease of $41 million over the previous year's total liabilities of $183 million. The decrease in Accounts Payable was primarily due to reduction in public accounts payable. Additionally, the decrease in Other Liabilities is primarily due to a reduction in advances from DHS U.S. Immigration and Customs Enforcement and the HHS Office of Refugee Resettlement.

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

Dollars in Thousands		
	2021	**2020**
Fund Balance with Treasury	$411,802	$386,373
Property, Plant and Equipment, Net	$265,252	$193,368
Accounts Receivable, Net	$114,841	$100,638
Advances and Prepayments	$20,111	$7,154
Total Assets	**$812,006**	**$687,533**

Dollars in Thousands		
	2021	**2020**
Accounts Payable	$81,574	$88,634
Advances from Others	$33,957	$71,478
Other Liabilities	$26,129	$23,009
Total Liabilities	**$141,660**	**$183,121**

Net Position

The Fund's net position increased by $166 million in FY 2021 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position. The net position for the Fund was $670 million, a 33% increase over the previous year's ending net position of $504 million. Net position is the sum of unexpended funds and cumulative results of operations.

Net Cost of Operations

The Fund's net cost of operations incurred a net gain of $147 million in FY 2021, as reflected in the Consolidated Statement of Net Cost.

Budgetary Resources

The Statement of Budgetary Resources provides information on the sources and status of funding available to the Franchise Fund. 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 $1.6 billion, a $283 million increase from the FY 2020 level of $1.3 billion. The Fund's budgetary resources as presented in the Combined Statement of Budgetary Resources are summarized in the following table:

Dollars in Thousands		
	2021	**2020**
Beginning Unobligated Balance	$307,006	$110,984
Spending Authority Earned and Collected	$1,317,187	$1,229,876
Total Budgetary Resources	**$1,624,193**	**$1,340,860**

Management Assurances

VA management is responsible for managing risks and maintaining effective internal controls to meet the objectives of § 2 and § 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). VA conducted its assessment of risks and internal controls in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of the assessment, the Department can provide reasonable assurance that internal controls over operations, reporting and compliance were operating effectively as of September 30, 2021, except for the following reported material weaknesses: (1) Controls over Significant Accounting Estimates and Transactions; (2) Financial Systems and Reporting; and (3) Information Technology Security Controls.

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

The Department noted noncompliance with: (1) FMFIA § 2 and § 4; (2) Anti-Deficiency Act (ADA); (3) Payment Integrity Information Act of 2019; (4) Title 38 U.S.C. § 5315, Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States and 31 U.S.C. § 3717, Interest and Penalty on Claims; and (5) Federal Financial Management Improvement Act (FFMIA).

FFMIA requires agencies to implement and maintain financial management systems that substantially comply with Federal financial management system requirements, Federal accounting standards and the United States Standard General Ledger (USSGL) at the transaction level. VA assessed the Financial Management System (FMS) to determine conformance with FFMIA. FMS substantially complies with Federal accounting standards. However, it does not comply with application of the USSGL at the transaction level. Therefore, management cannot provide reasonable assurance that VA is in conformance with FFMIA.

VA has internal controls in place to provide reasonable assurance of the quality of data used for Digital Accountability and Transparency Act (DATA Act) reporting and is in the process of reviewing and strengthening the data quality assessment to increase trust and transparency in the data used.

VA is responsible for providing an annual certification that management has appropriate policies, controls and corrective actions to mitigate the risk of fraud and inappropriate use of charge cards as required by OMB Memorandum M-13-21, Implementation of the Government Charge Card Abuse Prevention Act of 2012. The Department can provide reasonable assurance that controls over charge cards are in place and effective with no material weaknesses.

https://www.va.gov/finance/docs/afr/2021-va-afr-full-web.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 2021 and 2020 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, 2021, and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses and one significant deficiency in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for fiscal year 2021 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 21-04 we have audited VA Franchise Fund's financial statements. VA Franchise Fund's financial statements comprise consolidated balance sheets as of September 30, 2021 and 2020; 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. 21-04, Audit Requirements for Federal Financial Statements. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

VA Franchise Fund's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; and (3) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, VA Franchise Fund's financial statements present fairly, in all material respects, VA Franchise Fund's financial position as of September 30, 2021, and 2020, 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, 2021, 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 2021 and 2020, dated November 15, 2021 reported three material weaknesses. They include: (1) Controls Over Significant Accounting Estimates and transactions; (Repeat Condition), (2) Financial Systems and Reporting; (Repeat Condition), (3) Information Technology Security Controls; (Repeat Condition) These material weaknesses could have a direct effect on the VA Franchise Fund's internal control over financial reporting.

In accordance with, *Government Auditing Standards*, we are required to report findings of significant deficiencies. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

1. Liquidation of Obligations

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

Intended Purpose of Report on Internal Control over Financial Reporting

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

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2021 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 2, 2021

Section I – Significant Deficiencies

We consider the following deficiency in internal control to be a significant deficiency during our audit of the Veterans Affairs Franchise Fund financial statement audit as of September 30, 2021. Our finding is presented below.

Condition:
During our testing of undelivered orders at June 30, 2021 we noted that 40 out of 40 transactions should be de-obligated, which would enable the unused funds to become available for other program needs. The exceptions noted totaled $16,455,715.72.

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

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

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

Recommendation(s):

We recommend VAFF perform the following:

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

Management's Response:
Management concurs with recommendations and will continue to review and validate all UDOs greater than 90 days. By September 30th, with continued oversight and monthly reviews, the Franchise Fund de-obligated $7.8M of the $16.5M that was tested as of June 30th.

Department of Veterans Affairs Franchise Fund
Consolidated Balance Sheet
as of September 30, 2021, and 2020
(Dollars in Thousands)

		2021		As Adjusted 2020
Assets				
Intragovernmental:				
Fund Balance with Treasury (Note 2)	$	411,802	$	386,373
Accounts Receivable (Note 3)		114,806		100,608
Advances and Prepayments		20,111		7,154
Total Intragovernmental	**$**	**546,719**	**$**	**494,135**
With the Public:				
Accounts Receivable (Note 3)		35		30
General Property, Plant and Equipment, Net (Note 4)		265,252		193,368
Advances and Prepayments		–		–
Total With the Public	**$**	**265,287**	**$**	**193,398**
Total Assets	**$**	**812,006**	**$**	**687,533**
Liabilities				
Intragovernmental:				
Accounts Payable		13,649		12,116
Advances from Others and Deferred Revenue		33,957		71,478
Other Liabilities (Note 6)		3,386		2,770
Total Intragovernmental Liabilities	$	50,992	$	86,364
With the Public:				
Accounts Payable		67,925		76,518
Other Liabilities (Note 6)		22,743		20,239
Total With the Public	**$**	**90,668**	**$**	**96,757**
Total Liabilities	**$**	**141,660**	**$**	**183,121**
Net Position:				
Cumulative Results of Operations				
Funds from other than Dedicated Collections	**$**	**670,346**	**$**	**504,412**
Total Net Position	**$**	**670,346**	**$**	**504,412**
Total Liabilities and Net Position	**$**	**812,006**	**$**	**687,533**

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, 2021 and 2020
(Dollars in Thousands)

		2021		2020
Program Costs:				
Gross Costs Intragovernmental (Note 9)	$	1,100,049	$	1,020,863
Less: Earned Revenue-Intragovernmental		(1,258,677)		(1,074,518)
Net Program Costs - Intragovernmental	$	(158,628)	$	(53,655)
Gross Costs Indirect Administrative		12,017		10,697
Net Cost of Operations	**$**	**(146,611)**	**$**	**(42,958)**

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, 2021 and 2020
(Dollars in Thousands)

	2021	2020
Cumulative Results of Operations:		
Beginning Balance	$ 504,412	$ 445,182
Other Adjustments (+/-)	–	–
Beginning Balance, as Adjusted	**$ 504,412**	**$ 445,182**
Budgetary Financing Sources:		
Transfers In/Out Without Reimbursement	–	–
Other Financing Sources (Nonexchange):		
Transfers In/Out Without Reimbursement	7,452	1,812
Imputed Financing (Note 5)	11,871	14,460
Total Financing Sources	19,323	16,272
Net (Cost) of Operations (Note 9)	146,611	42,958
Net Change	**$ 165,934**	**$ 59,230**
Ending Cumulative Results Operations	**$ 670, 346**	**$ 504,412**
Net Position	**$ 670, 346**	**$ 504,412**

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, 2021 and 2020
(Dollars in Thousands)

	2021	2020
Budgetary Resources:		
Unobligated Balance from Prior Year Budget Authority, Net	$ 307,006	$ 110,984
Spending Authority from Offsetting Collections	1,317,187	1,229,876
Total Budgetary Resources	**$ 1,624,193**	**$ 1,340,860**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments	$ 1,358,874	$ 1,163,087
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	265,319	177,773
Unapportioned, Unexpired Accounts		
Unobligated Balance, End of Year (Total)	265,319	177,773
Total Status of Budgetary Resources	**$ 1,624,193**	**$ 1,340,860**
Outlays, Net		
Outlays, Net (Total)	**$ (25,429)**	**$ (102,561)**
Distributed Offsetting Receipts (-)	–	–
Outlays, Net (total)	**$ (25,429)**	**$ (102,561)**

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

Department of Veterans Affairs Franchise Fund

Notes to the Consolidated Financial Statements
for the years ended September 30, 2021 and 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

Created as a revolving fund, the VAFF began providing services to VA and other Government agencies on a fee-for-service basis in 1997. By law, the business lines within the Fund can only sell to Federal entities. This organization accounted for its funds in eight activity centers (VA Enterprise Centers) and one administrative organization: IT Infrastructure Operations, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Personnel Security Adjudication Center, Human Capital Services Center, Internal Controls Support Center, Center for Enterprise Human Resources Information Services established June 2021 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 VAFF consolidated financial statements report all activities of VA Enterprise Centers. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that the VAFF is a component unit of the U.S. Government, which is a sovereign entity. VAFF interacts with, and is dependent upon, the financial activities of the Federal Government. Therefore, the results of all financial decisions reflected in these consolidated financial statements are not the sole decisions of VA or VAFF as a stand-alone entity. VAFF's fiscal year end is September 30.

VAFF's Consolidated Financial Statements and the Combined Statement of Budgetary Resources (SBR) report VAFF activities. VAFF components are fully described in the Management's Discussion and Analysis of Section I. The consolidated financial statements meet the requirements of the CFO Act of 1990 and the Government Management Reform Act of 1994. The principal financial statements have been prepared to report the financial position and results of VAFF operations, pursuant to the requirements of 31 U.S.C. 3515(b).

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

C. Basis of Accounting

The Franchise Fund's fiscal year (FY) 2021 and 2020 financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements, as revised. The Statement of Federal Financial Accounting Standards (SFFAS) 34, The Hierarchy of GAAP, including the Application of Standards Issued by the Financial Accounting Standards Board, establishes a hierarchy of GAAP for Federal financial statements. The Franchise Fund's financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources. The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual method, revenues and other financing sources are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

D. Fund Balance with Treasury

The Department of the Treasury (Treasury) performs cash management activities for all Federal Government agencies. The Fund Balance with Treasury (FBWT) represents the right of the VAFF to draw funds from the Treasury for allowable expenditures. The FBWT are reported in Note 2.

E. Accounts Receivable

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

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

F. Property, Plant and Equipment

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

Internal Use Software (IUS) encompasses software design, development, and testing of projects adding significant new functionality and long-term benefits. Franchise Fund accumulate costs for developing IUS in Work-in-Process (WIP) until the project phase is placed in service and final acceptances are successfully completed. Once completed, Franchise Fund transfer the costs to depreciable property. IUS is also subject to the $1 million threshold for capital assets. The capitalized costs are amortized on a straight-line basis, and the amortization term is in accordance with the planned life cycle established during the software's planning phase. Preliminary design phase costs and post implementation costs are expensed as incurred.

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

Leasehold improvements and related depreciation are accounted for as Departmental assets. The Franchise Fund utilizes these assets in the production of revenue. Since the leasehold improvements are VA assets, they are recorded at the Departments threshold. A summary of PP&E components is reported in Note 4.

G. Advances and Prepayments

There are three types of advances handled by the Fund. The first is when Treasury processes charges from other agencies to the Franchise Fund via the Intra-Governmental Payment and Collection System (IPAC). Charges are recorded as an advance until the applicable obligation is located and the charges can be transferred. These charges are for General Services Administration (GSA) rent, Government Printing Office (GPO) printing services, Federal Telecommunications Service, and motor pool.

The second type of advance is advances paid to employees for travel. This includes payment for both PCS and Temporary Duty (TDY) travel.

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

H. Accounts Payable

Intragovernmental Accounts Payable consists of amounts owed to other Federal Government agencies. The remaining Accounts Payable consist of amounts due to the public. Accounts Payable are amounts owed by the Fund for goods and services received, progress in contract performance, and rents due. 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 accounts payable consists of amounts owed to other Federal Government agencies, primarily to Department of Labor (DOL), OPM and Department of Justice (DOJ). The remaining accounts payable consist of amounts due to the public. Intragovernmental and Public Accounts Payable are covered by budgetary resources.

I. Other Liabilities

Other Liabilities are classified as either intragovernmental or public. Intragovernmental Liabilities arise from transactions between the Fund and Federal entities, whereas Public Liabilities arise from transactions between the Fund and non-Federal entities. Budgetary resources cover all other liabilities, both intragovernmental and public. All liabilities are current.

J. Revenues and Financing Sources

The Fund receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee-for-service" basis. Revenue is recognized when earned i.e., goods are delivered, or services are rendered. Expenses are recognized when incurred. All significant intra-entity balances and transactions have been eliminated in consolidation.

For financial reporting purposes under accrual accounting, operating expenses are recognized currently, while those for capital and other long-term assets are capitalized and depreciated and/or amortized over its useful life. Financing sources for these expenses, which derive from both current and prior year appropriations and operations, are also recognized this way.

K. Accounting for Intragovernmental Activities

In order to prepare reliable financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated from the Fund's consolidated financial statements.

L. Annual, Sick and Other Types of Leave

Annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates for leave that has been earned but not taken. Sick leave and other types of nonvested leave are not earned benefits. Accordingly, nonvested leave is expensed when used.

M. Workers' Compensation Liability

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

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

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

N. Pension, Other Retirement Benefits, and Other Post-Employment Benefits

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and postretirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by the Office of Personnel Management (OPM) to each agency.

The Fund's employees are covered under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS); the Fund makes contributions according to both plan's requirements. CSRS and FERS are multiemployer plans administered by OPM. VA does not maintain or report information about the assets of the plans, nor does it report actuarial data for the accumulated plan benefits. That reporting is the responsibility of OPM.

O. Application of Critical Accounting Estimates

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

P. Commitments and Contingencies

VA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of VA Franchise Fund management and legal counsel, the ultimate resolutions of these proceedings, actions, and claims will not materially affect the financial position or results of VA Franchise Fund operations other than as disclosed in Note 9, Commitments and Contingencies.

Q. Subsequent Events

Subsequent events have been evaluated through the auditors' report date which is the date the financial statements were available to be issued, and management determined that there are no other items to disclose.

R. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. For fiscal years 2021 and 2020, VAFF had no classified activities.

Note 2. Fund Balance with Treasury

The undisbursed account balance for the Fund is a revolving fund comprised of only entity assets. VAFF does not receive an appropriation from Congress. VAFF receives an annual apportionment that allows it to incur obligations and to recognize revenue from its customers on a "fee-for-service" basis.

Status of funds available as of September 30,

(Dollars in Thousands)

	2021	2020
Unobligated Apportionment:		
Available	$ 265,319	$ 177,773
Obligated Balance not yet Disbursed	146,483	208,600
Fund Balance with Treasury	**$ 411,802**	**$ 386,373**

Note 3. Accounts Receivable

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

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

As of September 30,

(Dollars in Thousands)

	2021	2020
Intragovernmental:		
Accounts Receivable	$ 114,806	$ 100,608
Public:		
Accounts Receivable	35	30
Total Accounts Receivable	**$ 114,841**	**$ 100,638**

Note 4. General Property, Plant and Equipment

As of September 30, 2021
(Dollars in Thousands)

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Furniture & Equipment	$ 17,794	$ (8,981)	$ 8,813
ADP Equipment	68,432	(61,956)	6,476
Capital Lease Equipment	2,119	(2,119)	–
Software	209,778	(38,052)	171,726
Software in Development	77,105	–	77,105
Leasehold Improvements	7,673	(6,541)	1,132
Total PP&E	**$ 382,901**	**$ (117,649)**	**$ 265,252**

As of September 30, 2020
(Dollars in Thousands)

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

Property, Plant and Equipment
(Dollars in Thousands)

	2021	2020
Balance as of October 1,	$ 193,368	$ 161,779
Capital acquisitions	110,008	53,479
Disposals	(21,281)	–
Depreciation expense	(16,843)	(21,890)
Balance as of September 30	**$ 265,252**	**$ 193,368**

Note 5. Federal Employee Benefits – Inter-Entity Cost

Imputed Expenses – Employee Benefits
As of September 30,
(Dollars in Thousands)

		2021		2020
Civil Service Retirement System	$	805	$	820
Federal Employees Retirement System		(26)		3,307
Federal Employee Health Benefits		11,061		10,305
Federal Employee Group Life Insurance		31		28
Total Imputed Expenses - Employee Benefits	**$**	**11,871**	**$**	**14,460**

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

Note 6. Other Liabilities

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

As of September 30,
(Dollars in Thousands)

				(As Adjusted)
		2021		2020
Other Liabilities - Intragovernmental:				
Accrued VA Contributions for Benefits	$	3,385	$	2,770
Total Other Liabilities - Intragovernmental	**$**	**3,385**	**$**	**2,770**
Other Liabilities - With the Public:				
Accrued Salaries & Benefits	$	9,250	$	7,875
Accrued Funded Annual Leave		13,490		12,361
Capital Lease Liability		3		3
Total Other Liabilities - With the Public	**$**	**22,743**	**$**	**20,239**

Note: 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 7. Leases

The Franchise Fund's FY 2021 operating lease costs were $9,039 for real property rentals and $81 for equipment rentals. The Franchise Fund's FY 2020 operating lease costs were $8,357 for real property rentals and $64 for equipment rentals. Operating leases consist of equipment and real property leases that are funded annually and expensed as incurred. Operating equipment leases generally consist of office equipment with terms of 5 years or less and level payments over the lease term. Operating real property leases generally consist of offices and administrative facilities that enable 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, 2021. 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, 3.1 percent in FY 2022 and assuming a 3.2 percent increase for the years thereafter.

Operating Leases

(Dollars in Thousands)

Fiscal Year	Percentage Increases	GSA OAs	Third-Party Direct Leases	Total Real Property
2022	3.1	$ 9,316	$ 84	$ 9,400
2023	3.2	9,614	87	9,701
2024	3.2	9,922	89	10,011
2025	3.2	10,239	92	10,331
2026	3.2	10,567	95	10,662

Note 8. 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 9. Intragovernmental Costs and Exchange Revenue

As of September 30,

(Dollars in Thousands)

	2021	2020
Intragovernmental Costs	$ 1,100,049	$ 1,020,863
Less: Earned Revenue - Intragovernmental	(1,258,677)	(1,074,518)
Net Intragovernmental Cost	(158,628)	(53,655)
Indirect Administrative Cost	12,017	10,697
Total Net Cost of Operations	**$ (146,611)**	**$ (42,958)**

Earned Revenue: Revenue earned by VAFF for fees charged for services for the period ended September 30, 2021 was $1,258,677. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2020 was $1,074,518.

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

Note 10. Disclosures Related to the Statements of Budgetary Resources

Apportionment Categories of Obligations Incurred

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

Reimbursable Obligations as of September 30,

(Dollars in Thousands)

	2021	2020
Category B, Reimbursable	$ 1,358,816	$ 1,163,087
Category B, COVID-19 OPM Emergency Leave	58	–
Total Reimbursable Obligations	**$ 1,358,874**	**$ 1,163,087**

Undelivered Orders at the End of Period

Budgetary resources obligated for Undelivered Orders:

As of September 30,

(Dollars in Thousands)

	2021	2020
Paid Undelivered Orders Federal	$ 20,111	$ 7,154
Paid Undelivered Orders Non-Federal	–	–
Total Paid Undelivered Orders	**$ 20,111**	**$ 7,154**
Unpaid Undelivered Orders Federal	16,115	21,496
Unpaid Undelivered Orders Non-Federal	348,395	306,709
Total Unpaid Undelivered Orders	**$ 364,510**	**$ 328,205**

Note 11. Adjustments to Budgetary Resources and Prior Year Recoveries

The Franchise Fund reported approximately $129 million and $78 million recoveries of prior year unpaid and paid obligations (recoveries) for fiscal years ended September 30, 2021 and 2020, respectively.

Note 12. 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, 2021

(Dollars in Thousands)

	Intragovernmental	With the Public	Total
Net Cost of Operations (SNC)	**$ (1,070,041)**	**$ 923,430**	**$ (146,611)**
Components of Net Operating Cost Not Part of the Budget Outlays:			
Property, Plant, and Equipment Depreciation	–	(16,843)	(16,843)
Property, Plant, and Equipment Disposal and Revaluation	–	(21,281)	(21,281)
Losses on Disposition of Assets - Other	–	–	–
Increase/(Decrease) in Assets:			
Accounts Receivable	14,198	5	14,203
Advances and Prepayments	12,957	–	12,957
(Increase)/Decrease in Liabilities:			
Accounts Payable	(1,525)	8,592	7,067
Salaries and Benefits	(616)	(1,373)	(1,989)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	37,513	(1,130)	36,383
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(11,871)	–	(11,871)
Transfers Out (In) Without Reimbursement	(58)	–	(58)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ 50,598**	**$ (32,030)**	**$ 18,568**
Components of the Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	–	110,008	110,008
Transfers Out (In) Without Reimbursement	–	(7,394)	(7,394)
Total Components of Net Outlays That are Not Part of Net Cost	**$ –**	**$ 102,614**	**$ 102,614**
Net Outlays (Calculated Total)	**$ (1,019,443)**	**$ 994,014**	**$ (25,429)**
Related Amounts on the Statement of Budgetary Resources:			
Outlays, Net (total)			$ (25,429)
Distributed Offsetting Receipts			–
Outlays, Net			**$ (25,429)**

The BAR as of the period ending September 30, 2020

(Dollars in Thousands)

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

A Veteran salutes during the observance of Veterans Day at the Tomb of the Unknown Soldier at Arlington National Cemetery.

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

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

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

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

Internal Controls Support Center
7600 Metropolis Drive
Austin, TX 78744
Phone: 512-663-2341
e-mail: charles.fiquett@va.gov

Personnel Security Adjudication Center
2200 Fort Roots Drive, Building 192
North Little Rock, AR 72114
Phone: 501-257-4469/4490
Fax: 501-257-4018
e-mail: vhalitbackgroundinvestigations@va.gov
Internet: https://www.va.gov/securityinvestigationscenter/Forms_and_Documents.asp

Human Capital Services Center
1100 1st Street NE
Washington, DC 20002
Internet: http://www.va.gov/FUND/index.asp

Center for Enterprise Human Resources Information Services
810 Vermont Ave NW
Washington, DC 20420
Phone: 202-461-7803
Email: vacohritbu@va.gov

Department of Veterans Affairs

Franchise Fund Oversight Office
810 Vermont Ave NW
Washington, DC 20420
vacoefo@va.gov

Contact the
U.S. Department of Veterans Affairs for additional information
on this report or download from the Web:

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