

# Management's Discussion and Analysis

## Mission Statement

To be the provider of choice of common administrative support services for VA and other government agency (OGA) customers, enabling them to best meet their primary missions.

## Vision

Comprehensive Business Solutions for Tomorrow's Government

## Values

To guide us in fulfilling our mission as well as the Department's mission, our employees strive to uphold a set of core values, which are consistent and closely aligned with VA's core values. These values include: commitment, excellence, people, communication and stewardship.



*Within the Department's headquarters in Washington, DC, the respective Enterprise Centers are managed by three VA component organizations (1) the Office of Management, (2) the Office of Policy, Planning and Preparedness, and (3) the Office of Information and Technology.*

## Commitment

Veterans have earned our respect and commitment, and their health care, benefits, and memorial service needs drive our actions. We will value our commitment to veterans through all contingencies and remain fully prepared to achieve our mission.

## Excellence

We strive to exceed the service delivery expectations of veterans and their families. We perform at the highest level of competence with pride in our accomplishments.

## People

We are committed to a highly skilled, diverse, and compassionate workforce. We foster a culture of respect, equal opportunity, innovation, and accountability.

## Communication

We practice open, accurate, and timely communication with veterans, employees, and external stakeholders, and seek continuous improvement in our programs and services by carefully listening to their concerns.

## Stewardship

We will ensure responsible stewardship of the human, financial, information, and natural resources entrusted to us. We will improve performance through the use of innovative technologies and sound business principles.

# VA Franchise Fund

## At-A-Glance



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



Daniel Osendorf, Director  
Debt Management Center



Rodney Wood, Director  
Financial Services Center



Ronald Angel, Director  
Law Enforcement  
Training Center



Christopher Price  
Business Manager  
Security and  
Investigations Center



Steve Swanson, Director  
Enterprise Fund Office

### Who We Are

The VA Franchise Fund (Enterprise Centers) 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. After careful screening, VA was selected by the Office of Management and Budget in 1996 as one of six franchise fund pilots. The VA Franchise Fund was established as a revolving fund and began providing common administrative support services to VA and OGA in 1997 on a fee-for-service basis.

The VA Franchise Fund is comprised of an administrative office (Enterprise Fund Office) and six self-supporting lines of business that are divided into three major segments: (1) the **financial management segment** is comprised of the Debt Management Center and the Financial Services Center, (2) the **security and law enforcement segment** is comprised of the Law Enforcement Training Center and the Security and Investigations Center, and (3) the **information technology segment** is comprised of the Austin Automation Center and the Records Center and Vault.

The directors of the individual Enterprise Centers and their staff 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.

Within the Department's headquarters in Washington, DC, the respective Enterprise Centers are managed by three VA component organizations (1) the Office of Management, (2) the Office of Policy, Planning and Preparedness, and (3) the Office of Information and Technology.

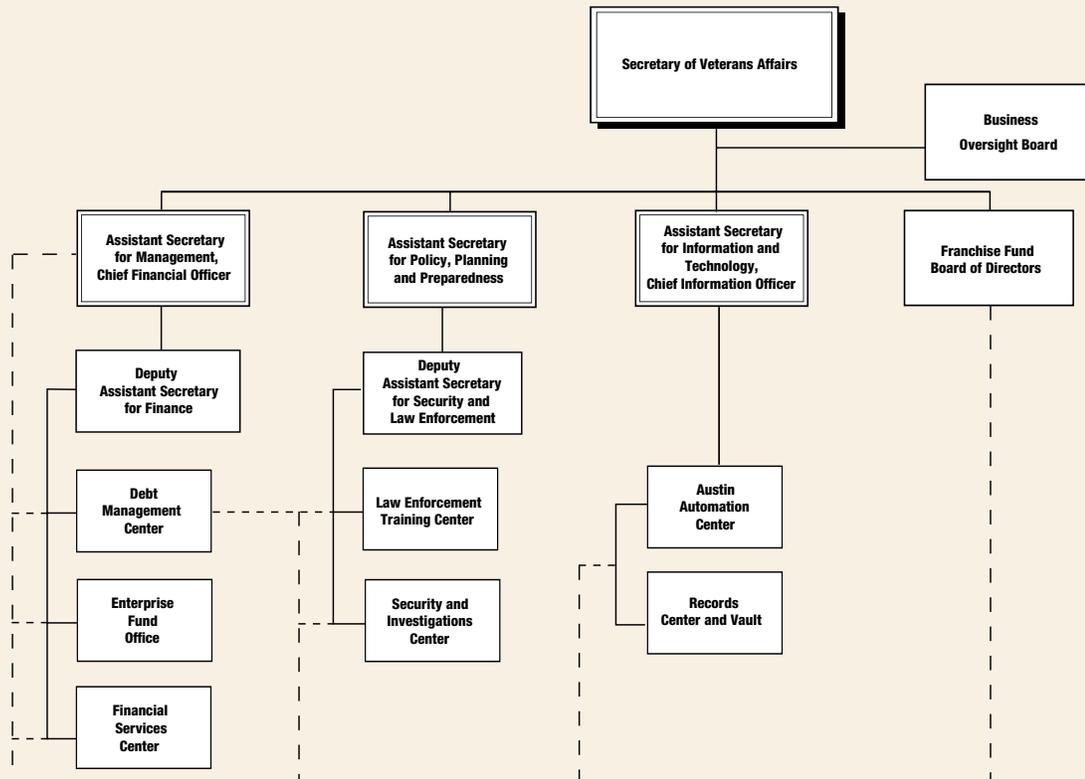
In addition, the VA Franchise Fund Board of Directors (Board) and the VA Business Oversight Board (BOB) provide oversight to the VA Franchise Fund.

The Board represents the major organizations within VA, including the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National

Cemetery Administration (NCA), and staff offices within VA Central Office. The Chairman of the Board is VA's Chief Financial Officer. Significant Board responsibilities include reviewing and approving the addition and/or deletion of Enterprise Centers, annual budgets and rates, capital projects, maintenance of financial integrity and accountability, and revisions to the charter.

The BOB serves as the Department's senior management forum on all business activities and is chaired by the Secretary of Veterans Affairs. Its mission is to review and oversee the performance, efficiency and effectiveness of the Department's business processes. Specific activities include identifying, monitoring and managing key business issues facing VA; reviewing and approving business activities planning, performance planning, and performance reporting documents; and monitoring business processes and goal attainment.

## VA Franchise Fund Organization Structure



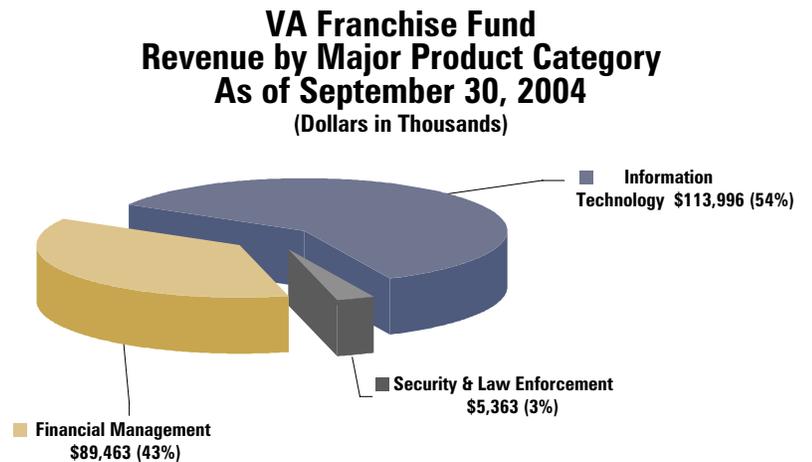
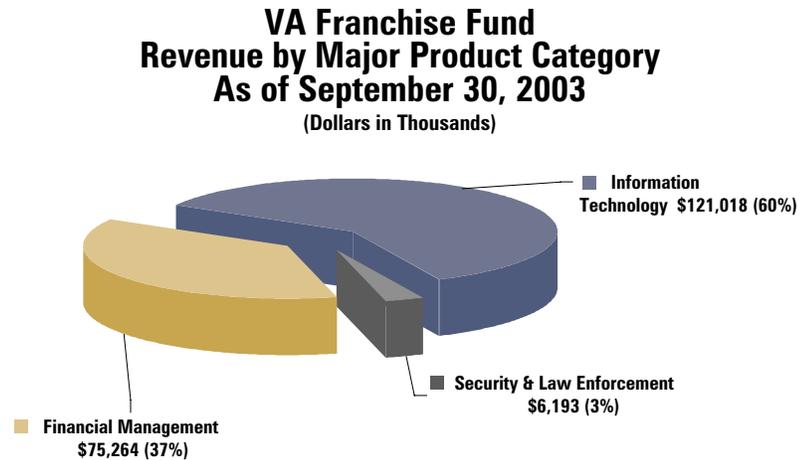
The charts show that the information technology segment continues to generate the majority of revenue for the Franchise Fund. However, as a result of new OGA business at the Financial Services Center, the financial management segment shows significant growth over FY 2003.

### What We Do

We provide common administrative support services to VA and OGA customers, enabling them to best meet their primary missions. A brief description of the Centers and the wide range of services offered include:

**Austin Automation Center (AAC).** Located in Austin, TX, the AAC provides comprehensive e-government solutions to match the critical needs of VA and other federal agency customers, from managing data to automating business processes. The AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits and supply functions. In addition, the AAC offers a full complement of technical solutions (IT system hosting, application management, information assurance, customer business continuity, configuration management, data conversion and data interfacing, and acquisition services) to best meet customers' varied projects.

**Debt Management Center (DMC).** Located in St. Paul, MN, the DMC is a centralized facility that provides direct collection of delinquent consumer debt owed to VA. The DMC also provides administrative support for a local Cooperative Administrative Support Unit.



Note: The FY 2003 Financial Management segment revenue number was revised to reflect the change from \$75,265 to \$75,264 to correct a rounding error previously reported.

**Financial Services Center (FSC).** Located in Austin, TX, the FSC provides VA and OGAs with a full range of financial services including financial reports and accounting, invoice payments, credit card payments, medical claims payments, vendor file maintenance, discount subsistence purchases, payroll processing, travel payment processing, electronic commerce/electronic data interchange, automated document management, audit recovery, data matching and reconciliation, and consulting.

**Law Enforcement Training Center (LETC).** Located in Little Rock, AR, the LETC provides special training for police officers working in a health care or service-oriented environment. Emphasizing training in medical center patient situations, the LETC is available to approximately 2,400 law enforcement personnel working at VHA health care facilities and to law enforcement professionals at other federal agencies.

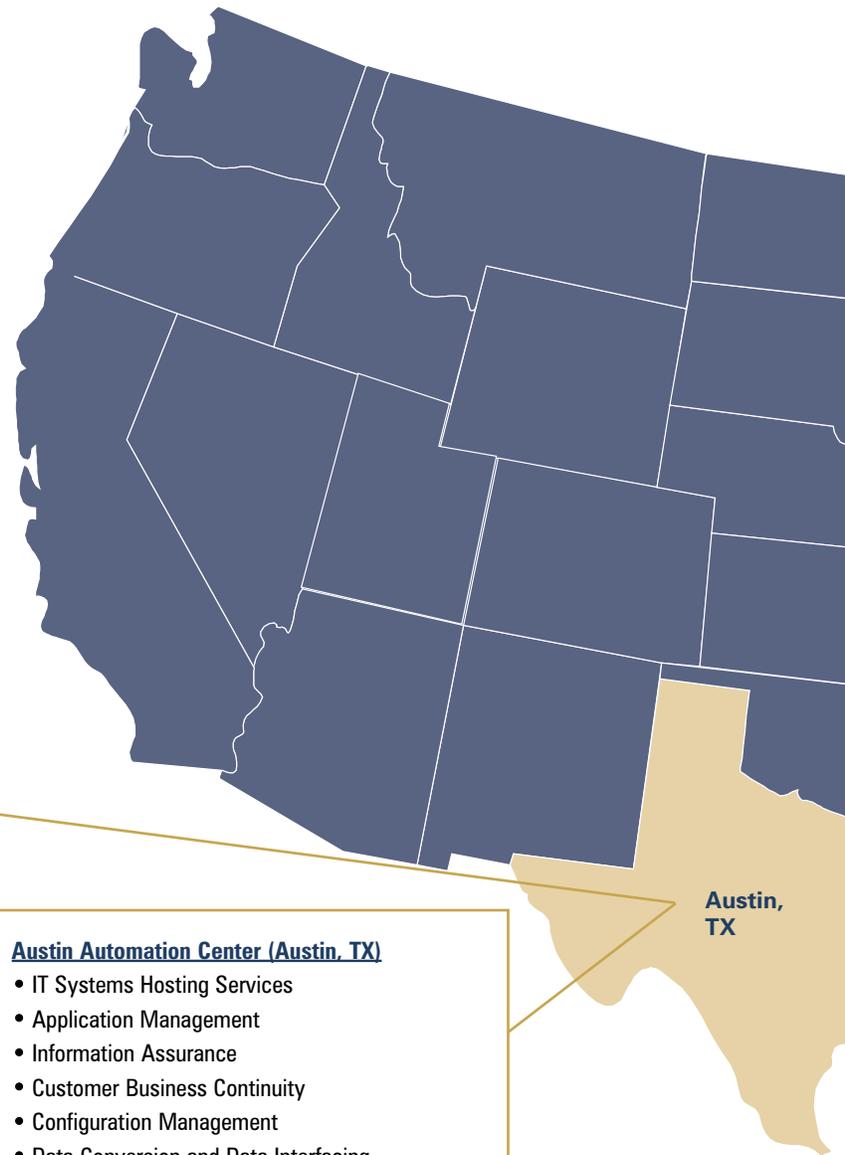
**Records Center and Vault (RC&V).** Located in a subterranean, climate-controlled facility in a remote Midwestern part of the country, the RC&V provides records storage, protection, and retrieval services for official federal records. The facility has been certified by NARA to operate as an agency records center. The RC&V can store records in any type of medium. This includes offsite storage of systems backups as well as general, vital, and classified records on paper, film, and electronic media.

**Records Center and Vault (Midwest)**

- Records Storage
- Retrieval Services

**Financial Services Center (Austin, TX)**

- Invoice and Payment Processing
- Payroll Services
- Financial Reports and Accounting
- Audit Recovery Services
- Financial Consulting Services
- Credit Card Processing
- Travel Services
- Document Management Services
- Electronic Commerce/Electronic Data Interchange
- Common Administrative Services
- Vendor File Maintenance
- Medical Claims Processing and Payments
- Data Matching and Reconciliation
- Discount Subsistence Purchases

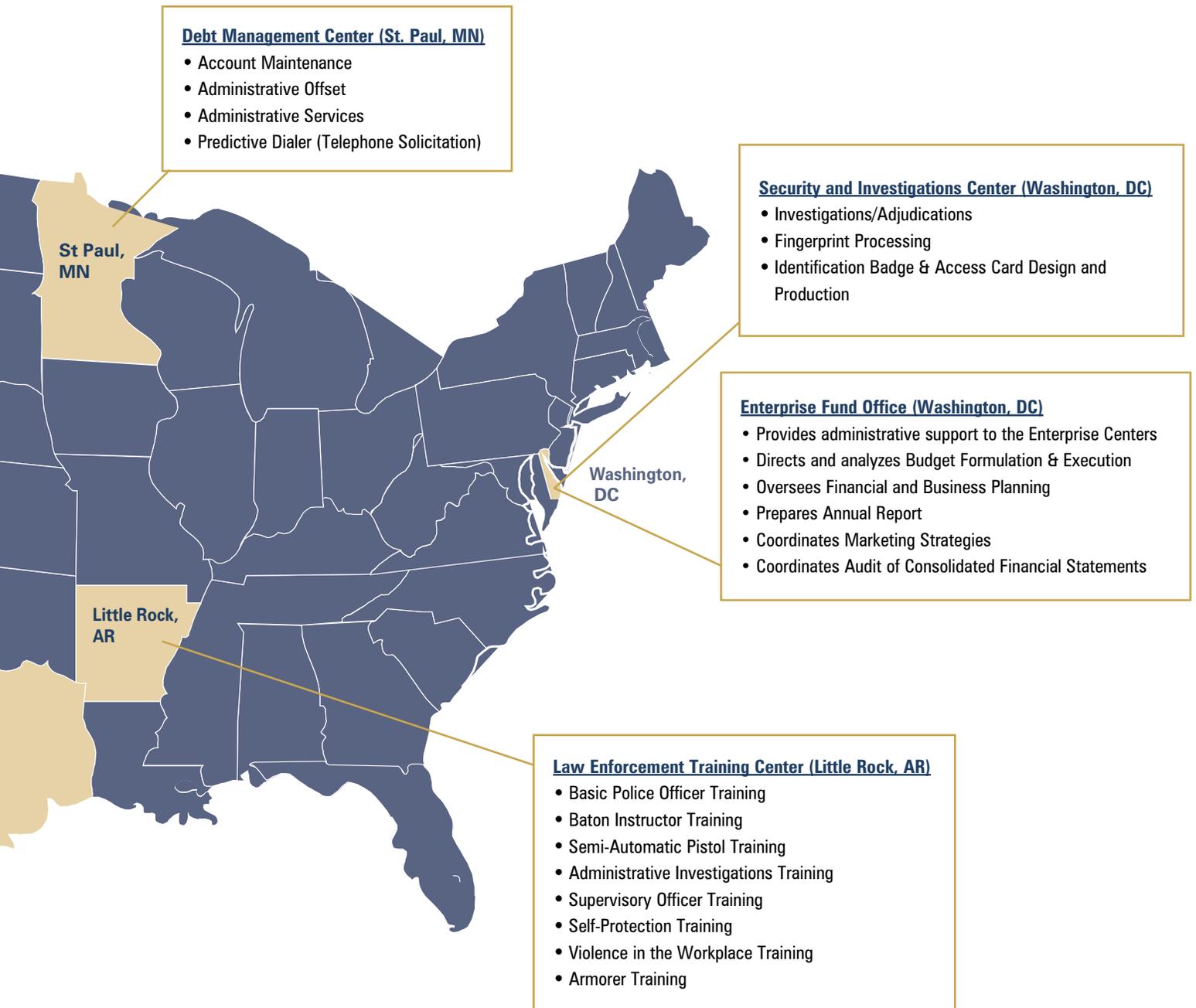


**Austin Automation Center (Austin, TX)**

- IT Systems Hosting Services
- Application Management
- Information Assurance
- Customer Business Continuity
- Configuration Management
- Data Conversion and Data Interfacing
- Information Technology Laboratory
- Independent Verification and Validation Services
- IT Acquisition Services

**Security and Investigations Center (SIC).** Located in Washington, DC, the SIC provides quality and timely background investigations and adjudications for employees and contractors in sensitive positions for all VA entities nationwide. The SIC also issues and manages employee identification badges and provides fingerprint processing for VA employees and other federal customers in the Washington, DC area.

**Enterprise Fund Office (EFO).** The Enterprise Centers are supported by the EFO, which is responsible for the overall VA Franchise Fund operations including administering the financial resources, coordinating all business activities, and serving as the liaison between the VA Franchise Fund, customers, and the VA Franchise Fund Board of Directors.

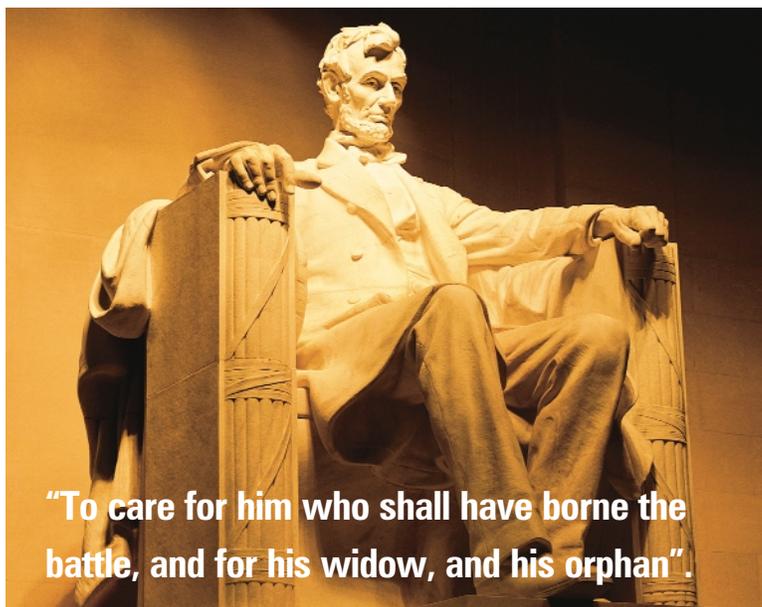


## Who We Serve

Our ultimate stakeholders are those who directly benefit from the services VA provides and those who carefully monitor the delivery of these services including the Office of Management and Budget, Congressional authorizations and appropriations committees and sub-committees, and veterans service organizations.

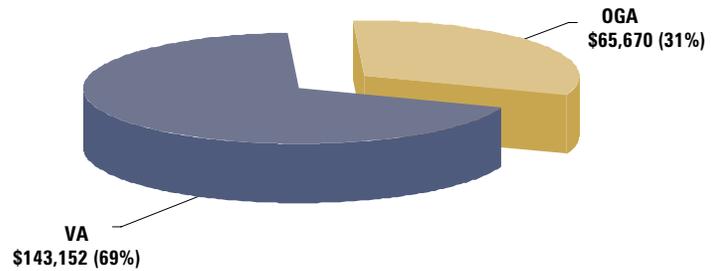
VA is the veterans' principal advocate for promoting the health, welfare, and dignity in recognition of their service to the Nation. As stated by President Abraham Lincoln, the Department's mission is *"To care for him who shall have borne the battle and for his widow and his orphan"*. The VA Franchise Fund takes great pride in supporting VA's mission.

We primarily serve VA—our parent agency, which accounted for 69 percent (\$143 million) of our FY 2004 revenue. VHA is by far the largest customer of five of the six Enterprise Centers (Austin Automation Center (AAC), Financial Services Center (FSC), Law Enforcement Training Center (LETC), Security and Investigations Center (SIC), and the Records Center and Vault (RC&V). VBA is the Debt Management Center's (DMC) largest customer.



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

**Revenue Sources - VA vs. OGA**  
**As of September 30, 2004**  
 (Dollars in Thousands)



In the IT segment, the AAC provides VHA, VBA, and NCA with IT services that support many of the key systems (MyHealthVet, Home TeleHealth, Scheduling Replacement Project (SRP), Veterans Service Network (VETSNET), Veterans Assistance Discharge System (VADS), and the Presidential Memorial Certificate) that directly support veterans. The RC&V indirectly supports the veteran population by providing a climate-controlled, highly secure facility for storage of their vital records, and prompt, courteous service in the retrieval of these records when requested by VA field facilities.

In the financial management segment, the DMC collects debts resulting from an individual's participation in VA programs in the most efficient and cost-effective manner, while maintaining compassion and high-quality service. The FSC ensures vendors who participate in VA's multi-billion dollar Prime Vendor Procurement Program are paid on time. These vendors provide VA medical centers with an efficient way to order supplies at low, negotiated contract prices and guarantee delivery within 24 hours, eliminating the need for warehousing large volumes of supplies.

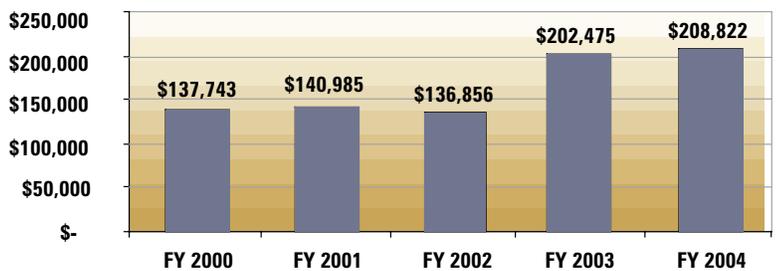
In the security and law enforcement segment, the LETC provides well-trained police officers to ensure the safety of veterans, their families and visitors, and staff at VA medical centers. The SIC ensures that employees

who provide patient protection, process claims, have access to veterans' information, and provide medical care receive the appropriate level of background investigations and timely adjudications.

We operate in a dynamic business environment where our operations are totally dependent upon revenues realized from customer purchases of our services. Accordingly, it is imperative that we maintain a high level of customer satisfaction by delivering high-quality services at competitive prices. Meeting customer expectations and delivering high-quality results begin with committed, principled leadership. The VA Franchise Fund's businesslike practices have enabled the Centers to become more efficient, responsive, and cost conscious. Together they have successfully combined best business practices and state-of-the-art technology to improve service delivery. As a result, we have become a part of the federal evolution of working better and costing less.

With the exception of the slight decrease in revenue in FY 2002, our total revenue has steadily increased each year. By the end of FY 2004, our total revenue grew to more than \$208 million—a 3 percent increase over FY 2003 (\$202 million) and a 34 percent increase over FY 2002 (\$136 million).

**VA Franchise Fund Revenue Trend**  
(Dollars in Thousands)



## VA Franchise Fund Customers

### External Stakeholders

Veterans and their families  
Office of Management and Budget  
Congressional authorizations and appropriations committees and sub-committees  
Veterans service organizations  
Private sector vendors  
Denali Commission  
Department of Agriculture  
Department of Defense  
Department of Energy  
Department of Health and Human Services  
Department of Homeland Security

Department of Justice  
Department of Labor  
Department of State  
Department of the Interior  
Department of the Treasury  
Federal Energy Regulatory Commission  
General Services Administration  
Government Accountability Office  
Mid-Atlantic Cooperative Administrative Support Unit  
Minnesota Cooperative Administrative Support Unit  
National Aeronautics and Space Administration

National Archives and Records Administration  
Office of Federal Housing Enterprise Oversight  
Postal Rate Commission  
Securities and Exchange Commission  
United States Capitol Police  
Other federal organizations

### Internal Stakeholders

Veterans Benefits Administration  
Veterans Health Administration  
National Cemetery Administration  
Staff offices within VA

# Performance Measures Highlights

The performance information presented in this report accurately represents the performance during FYs 2001 – 2004. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we constantly seek to improve our data collection and monitoring techniques.

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

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

- Ensuring all applications processing support and general support are of the highest quality
- Ensuring debt management collection services for delinquent consumer debt meet customer needs and requirements
- Ensuring payroll and financial services meet customer needs and requirements
- Ensuring VA's work environment is recognized by employees as conducive to productivity and achievement, and fosters respect among all

*Each component that makes up the VA Franchise Fund is committed to achieving their performance goals to ensure we remain a performance-based organization.*

- Ensuring high quality and timely investigations and adjudications for employees in national security and public trust positions and managing and issuing customer identification badges
- Ensuring accurate records management and secure archival storage, protection and retrieval services for veterans and other stored federal records
- Establishing and managing the business aspects of the Fund



## Performance Summary Table

Performance Measure	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2004 Plan	Was the 2004 Performance Goal Met?	
						Yes	No
<b>Austin Automation Center</b>							
Benchmarked Customer Satisfaction rating (ranking in the top percentage of Information Technology Customer Satisfaction (ITCS) peer database)	10%	12.5%	10%	6%	15%	✓	
Availability of on-line systems rate <sup>1,2</sup>	99%	99.9%	99.8%	99.8%	99.8%	✓	
Help Desk First-Contact Resolution (Tier 1) rate <sup>3</sup>	58%	67.4%	69.6%	73%	70%	✓	
Help Desk Abandoned Call Rate <sup>4</sup>	5.6%	4.1%	4%	3%	4%	✓	
<b>Debt Management Center</b>							
Rate of Return (Collections versus Expenses)	N/A	N/A	\$63	\$63	\$61	✓	
<b>Financial Services Center</b>							
W-2 release dates met (All W-2s must be mailed by January 31 <sup>st</sup> )	100%	100%	100%	100%	100%	✓	
FMS will be updated with credit card transactions daily, unless the FSC does not receive the transactions from Citibank	100%	100%	100%	100%	100%	✓	
Payment processing accuracy rate <sup>5</sup>	96%	97.9%	98.9%	98.4%	98.0%	✓	
Customer satisfaction rating (range 1-5) <sup>6</sup>	N/A	4.0	4.1	3.8	4.1		✓

<sup>1</sup> The industry standard is 99 percent and best practice is 99.5 percent.

<sup>2</sup> Goal will be 99.9 percent upon Corporate Data Center Infrastructure (CDCI) implementation for mission critical systems architected for high availability.

<sup>3</sup> The industry standard is 66 percent and best practice is 70 percent.

<sup>4</sup> The industry standard is 7 percent and best practice is 5 percent.

<sup>5</sup> Payment processing accuracy has been successfully maintained as a result of utilizing an automated solution, strong training, measuring and reporting accuracy on a daily basis, and continuous process improvements at the work center level.

<sup>6</sup> The FSC management responded to customer feedback by reducing rates and simplifying service level and franchise agreements. Process improvements, in addition to implementing a new survey structure include increased senior management oversight of survey results on a monthly basis. During FY 2004, the FSC made some minor adjustments in its survey methodology. The end result was a lower than expected customer satisfaction rating but better quality customer satisfaction data in FY 2004.

## Performance Summary Table

Performance Measure	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2004 Plan	Was the 2004 Performance Goal Met?	
						Yes	No
<b>Law Enforcement Training Center</b>							
Class graduation rate	98%	98%	95%	95.6%	95.0%	✓	
<b>Security and Investigations Center</b>							
Timeliness rate of investigations <sup>7</sup>	98%	95%	98%	98%	98%	✓	
Timeliness rate of arrest Records processed	100%	100%	100%	100%	100%	✓	
<b>Records Center and Vault</b>							
Timeliness rate of routine recall requests	98%	99%	99.8%	99.8%	97%	✓	
Timeliness rate of emergency recall requests	100%	98%	99.9%	99.5%	97%	✓	
Timeliness rate of rights and interests records that are available after a period of approximately 20 days in the event of a major national disaster <sup>8</sup>	N/A	N/A	N/A	N/A	97%		
Timeliness rate of accession number assignment <sup>9</sup>	N/A	N/A	N/A	99.7%	97%	✓	
<b>Enterprise Fund Office</b>							
Operating Reserves Target	70%	100%	100%	100%	100%	✓	
Number of audit qualifications for the VA Enterprise Centers	0	0	0	0	0	✓	

<sup>7</sup> As a result of September 11<sup>th</sup>, the Office of Personnel Management alerted Federal agencies that they were experiencing a backlog on the completion of most background investigations. Due to this backlog, the SIC could not make its 98 percent goal of timeliness rate of investigations in FY 2002.

<sup>8</sup> National disaster record recalls will only occur in the event of a national disaster.

<sup>9</sup> This is a new measure. Results were tracked in FY 2004.

# Limitation Statement

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Veterans Affairs Franchise Fund (VA Franchise Fund), pursuant to the requirements of 31 U.S.C. 3515 (b). Brown & Company CPAs, PLLC, performed the audit of the statements under the direction of the VA Office of Inspector General.

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

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

## Auditors' Reports

<b>32-33</b>	VA Office of Inspector General's Report of Audit
<b>34</b>	Independent Auditor's Report on the Financial Statements
<b>35-36</b>	Independent Auditor's Report on Internal Control Over Financial Reporting
<b>37</b>	Independent Auditor's Report on Compliance with Laws and Regulations

## Consolidated Financial Statements

<b>38</b>	Consolidated Balance Sheets
<b>39</b>	Consolidated Statement of Net Cost
<b>39</b>	Consolidated Statement of Changes in Net Position
<b>40</b>	Combined Statement of Budgetary Resources
<b>41</b>	Consolidated Statement of Financing
<b>42-47</b>	Notes to the Consolidated Financial Statements