



FY 2017



DELIVERING
REMARKABLE VALUE
AND EXCEPTIONAL
SERVICES TO OUR
FEDERAL CUSTOMERS



DEPARTMENT OF VETERANS AFFAIRS

FRANCHISE FUND
ANNUAL REPORT



DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND FY 2017 ANNUAL REPORT

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VA's Mission

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

VA Franchise Fund's Mission

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

VA Franchise Fund's Vision

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

VA Franchise Fund's Values

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



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

VA CORE VALUES

Integrity

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

Commitment

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

Advocacy

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

Respect

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

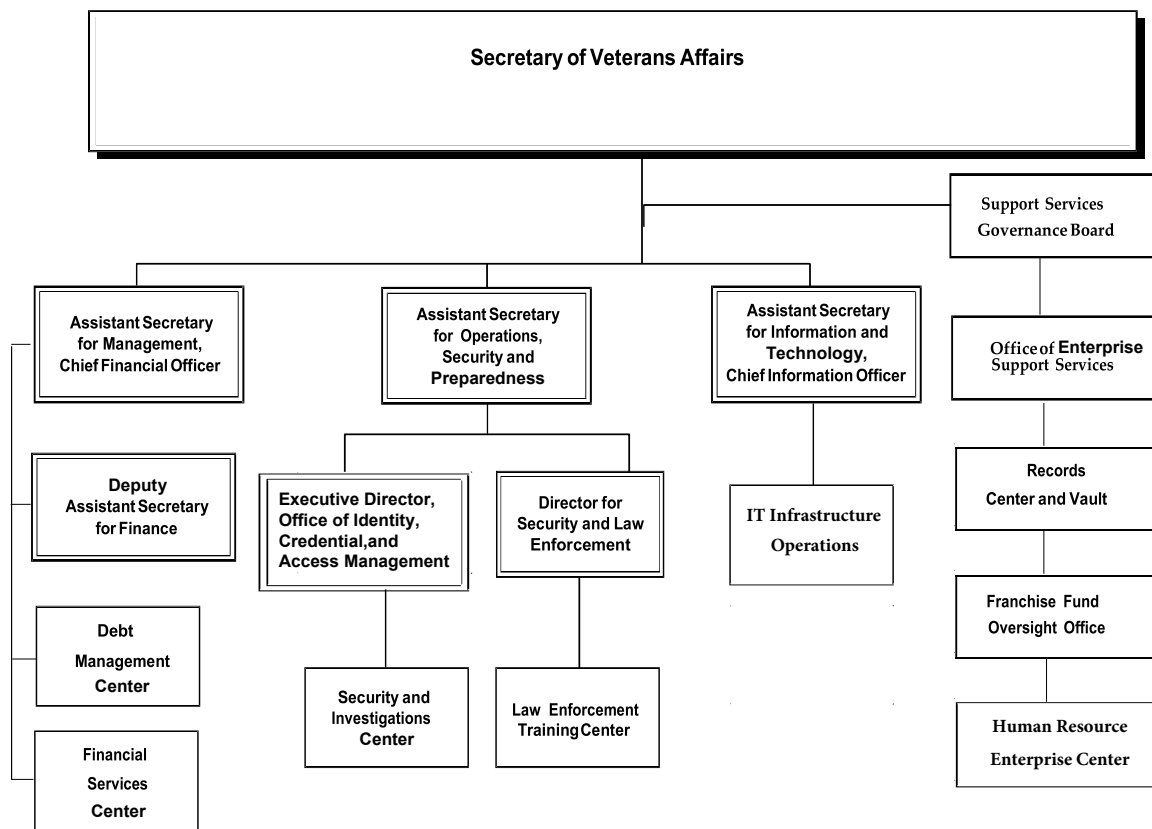
Excellence

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

MEMBERS OF THE VA FRANCHISE FUND NETWORK

Origin of the VA Franchise Fund

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



Organizational Structure

The VA Franchise Fund consists of administrative offices (Franchise Fund Oversight Office and Office of Enterprise Support Services) and seven self-supporting lines of business (Enterprise Centers). The Principal Executive Director of Enterprise Support Services 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 Franchise Fund Board of Directors was subsumed by the Support Services Governance Board (SSGB) in November 2015 and is composed of representatives from the four VA organizations that manage the Enterprise Centers (the Office of Management; the Office of Operations, Security, and Preparedness; Office of Enterprise Support Services and the Office of Information and Technology), major organizations within VA, Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), and National Cemetery Administration (NCA), and pertinent VA staff offices.

Members of the VA Franchise Fund Network

Entrepreneurial Network

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

Business Segments

The VA Franchise Fund consists of four major segments: Information Technology (IT), Financial Management (FM), Personnel Security and Law Enforcement (PS&LE) and Enterprise Support Services (ESS). The chart below shows the revenue among our segments for FY 2015 through FY 2017.

The IT segment generated \$401 million in revenue in FY 2017, which is a significant decrease from \$489 million in FY 2016.

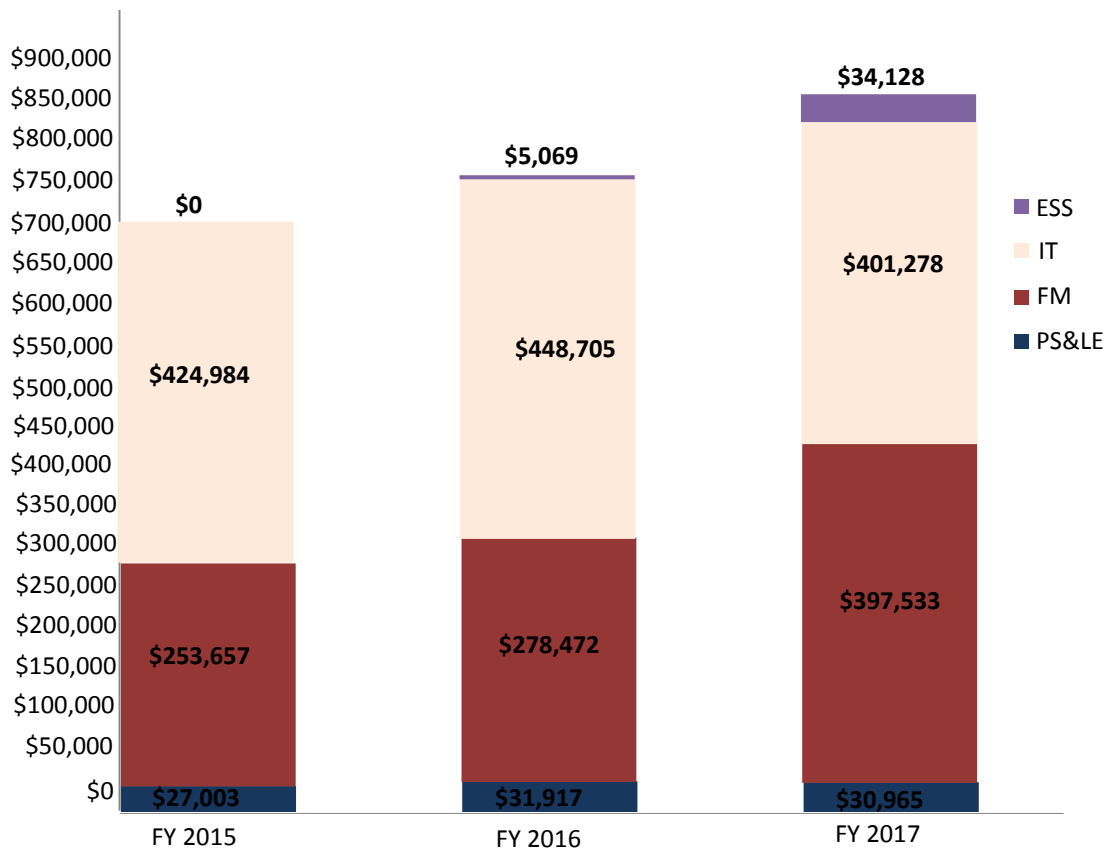
The FM segment generated \$397 million in FY 2017, which is a significant increase from \$278 million in FY2016.

The PS&LE segment ended FY 2017 with over \$31 million in revenue which is a notable decrease from the \$32 million in revenue reported at the end of FY 2016.

The ESS segment ended FY 2017 with \$34 million in revenue. This is a significant increase from \$5 million in revenue reported during FY 2016.



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



Financial Management (FM)

Financial Services Center (Austin, TX)

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

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

Enterprise Support Services (ESS)

Franchise Fund Oversight Office / Enterprise Support Services (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
- Strategic Plan Coordination
- Customer Relationship Management
- Process improvement and cost reduction

Enterprise Support Services (ESS)

Records Center and Vault (Neosho, MO)

- Records Storage
- Records Destruction Services
- Records Management Services

Information Technology (IT)

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

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

Personnel Security and Law Enforcement (PS&LE)

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

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

Personnel Security and Law Enforcement (PS&LE)

Security and Investigations Center (Little Rock, AR)

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

Enterprise Support Services (ESS)

Human Resource Enterprise Center (Washington, DC)

- Consolidated Internship Programs
- Competency Course Offerings
- Competency Modeling and Mapping
- VA Talent Management System Administration
- Learning Management Systems Training
- Electronic Course Content Management
- OESS Website and SharePoint Management
- VA Personnel Notification and Accountability
- OESS HR Management

Members of the VA Franchise Fund Network



Roberta "Robbie"
Lowe, Acting
Director, Debt
Management Center



Eddie Pool,
Executive Director,
IT Infrastructure
Operations



Teresa Riffel,
Director, Financial
Services Center



Thomas Muir,
Principal Executive
Director, Office of
Enterprise Support
Services and
Interim Director,
Record Center and
Vault



James Ward, Director
Law Enforcement
Training Center



Reginald Vance,
Interim Director,
Human Resource
Enterprise Center



Joshua Blockburger,
Director, Security and
Investigations Center

Information Technology

IT Infrastructure Operations

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

Financial Management

Debt Management Center

(DMC). Located in St. Paul, Minnesota, on the historic grounds of Ft. Snelling, the DMC is a leader in the Federal debt management community. The DMC provides general debt collection services for VA, overseeing the entire collection process for VBA and over the last several years, increasing debt collection services for the VHA.

Financial Services Center

(FSC). Located in Austin, TX, Waco, TX and Washington, DC, the FSC provides a full range of financial and accounting services. These services include financial reports and accounting, invoice payments, credit card payments, data analytics, medical claims adjudication and payment processing, vendor file maintenance, discount subsistence purchases, payroll processing, and VA conference tracking and reporting.

The FSC also provides electronic commerce/ electronic data interchange, enterprise content management solutions, permanent change of station and temporary duty travel pay processing, local fiscal services, accounting training, consulting and customer support help desks for payroll, travel and payment processing.

Personnel Security and Law Enforcement

Law Enforcement Training Center (LETC).

The LETC, located in Little Rock, AR, provides special training for police officers working in a health care or service-oriented environment. Emphasizing training in health care or limited jurisdiction environments, the LETC is available to approximately 3,500 law enforcement personnel working at VA health care facilities and to law enforcement professionals at other Federal agencies.

Security and Investigations Center (SIC).

Located in North Little Rock, AR, the SIC provides quality background investigations and timely adjudications for VA employees in national security and public trust positions and all risk levels for VA contractors nationwide. Additionally, the SIC provides security checks for appointees, high-level award recipients centralized to the Secretary of VA, and supports the Personal Identification Verification (PIV) process for employees, contractors, and affiliates of the Department.

Enterprise Support Services

Office of Enterprise Support Services (OESS).

Located in Washington, DC, ESS provides services to the VA in the areas of Financial Management, Human Resources, Records Management, Information Technology, and Personnel Security and Law Enforcement. ESS' diverse workforce possesses a number of unique skill sets and works not just to complete the transactions at hand, but to provide exceptional mission support that enables the VA to pursue its vision and accomplish its goals.

Human Resource Enterprise Center (HREC).

The HREC, located in Washington, D.C. was established in January 2017 to deliver Department-wide support services, improve support services capability and performance and optimize existing support service delivery processes. HREC supports continuing and emerging VA customer requirements while delivering best-in-class human resource (HR services and capabilities to VA's Administrations and Staff Offices, allowing them to

focus on delivering world-class benefits and services to Veterans and eligible beneficiaries. HREC provides products and services to nearly 600,000 VA employees, contractors, volunteers and academic affiliates.

Records Center and Vault (RCV).

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

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 Support Services Governance Board.

LETTER TO STAKEHOLDERS



Thomas Muir

*Principal Executive
Director, Office of Enterprise
Support Services*

On behalf of the Franchise Fund, I invite you to examine our FY 2017 Annual Report, outlining the VA Enterprise Centers' accomplishments and plans for next year, and the Franchise Fund's audited financial statements. This report documents the Franchise Fund's progress in the delivery of exceptional support services to VA and other government agencies (OGA). We ended FY 2017 with total revenue of \$864 million, which is a significant increase from FY 2016 revenue of \$764 million.

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

- Attaining an unqualified audit opinion of our financial statements for the 20th consecutive year.
- Reducing FY 2017 projected expenses by \$71 million. An internal budget review identified potential cuts that would not negatively impact veterans. The requirements and reviews for new budget requests were also modified to be more thorough and strict. (ITIO)
- Collecting over \$1.6 billion with expenses of \$27.6 million; 1.7 percent of collections. Increased collections are the result of referrals to Treasury Cross-Servicing for Veterans Health Administration (VHA) in excess of \$19.6 million. (DMC)
- Consolidating four FSC customer help-desks, exceeding performance metrics for first call resolution of 93 percent and average customer wait time of 2 minutes 57 seconds. (FSC)
- Fully deploying "Acadis", a registration and training management Web-based software package during FY 2017. This system allows LETC customers to track training events, enroll and cancel courses, be placed on a priority wait list for fully booked courses and receive system-hosted monthly sustainment training. (LETC)
- Processing 28,060 requests for background investigation case files for National Background Investigations Bureau (NBIB) during FY 2017 which represents a 13 percent increase from the 24,841 background investigation processed during FY 2016.(SIC)
- Continuing to serve RCV's customers with their long-term storage needs, and adjusting FY 2017 customer metrics based on customer feedback. System enhancements and continuous improvement with respect to customer service initiatives have ensured a high degree of customer satisfaction now and well into the future. (RCV)
- Developing a plan to support retiring the Training Management System (TMS) legacy application and hosting environment in August 2018. VA is transitioning to the upgraded SAP Learning Management platform solution in July 2018. The upgrade project will offer system improvements and ensure VA compliance. (HREC)
- These successful endeavors are examples of the Franchise Fund delivering remarkable value and exceptional services to its Federal customers. The success of the Franchise Fund would not have been possible without the support of its customers. We thank all of our customers for their continuing support.

I am pleased to submit the VA Franchise Fund FY 2017 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.

Thomas Muir

Our Stakeholders

Our ultimate stakeholders are Veterans and their families who directly benefit from the services VA provides, and those who carefully monitor the delivery of these services, including OMB, Congressional authorization and appropriations committees and subcommittees, and Veterans Service Organizations. Other stakeholders include VA and other government agencies (OGA).

As knowledgeable government professionals, we provide our stakeholders with creative, cost-effective, and practical solutions to help them accomplish their primary mission. Although Federal agencies have unique missions, our collective experience enables us to give expert advice from an insider's point of view, as we understand unique requirements and financial constraints. We realize that we must compete for business every day to retain our customers' trust and confidence.

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

External Stakeholders

- Veterans and their families
- Congressional authorization and appropriations committees and subcommittees
- Department of Agriculture Environmental
- Department of Army
- Department of Defense (DOD)
- Department of Health and Human Services (HHS)
- Department of Homeland Security (DHS)
- Department of Interior (Interior)
- Government Accountability Office (GAO)
- National Gallery of Art
- Private Sector Vendors
- Surface Transportation Board
- Veterans Service Organizations (VSO)

Internal Stakeholders

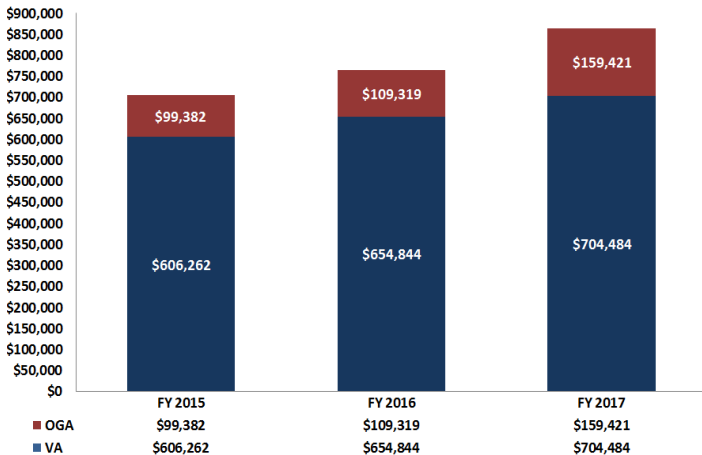
- Veterans Health Administration (VHA)
- Veterans Benefits Administration (VBA)
- National Cemetery Administration (NCA)
- VA Staff Offices
- Board of Veterans' Appeals
- Office of Construction and Facilities Management
- Franchise Fund Enterprise Centers
- Internal Control Service
- Office of Acquisition and Logistics
- Office of Business Oversight – Management Assurance Service
- Office of Financial Systems and Operations – Fiscal Applications
- Office of Information & Technology
- Office of the Inspector General

Comparison of Customer Revenue from FY 2016–2017

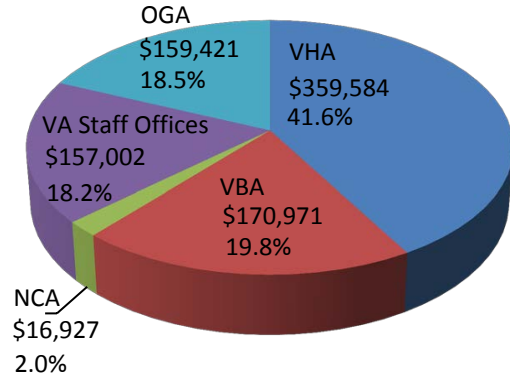
Approximately 80 percent of Franchise Fund revenue comes from VA customers. Within VA, VHA programs provide the most revenue to the Enterprise Centers. The remaining 20 percent comes from several different OGA customers. During FY 2017, revenue from VHA customers increased by \$57 million while revenue from VBA customers increased by \$24 million.

Revenue from OGA customers increased notably between FY 2016 and FY 2017. The Franchise Fund ended FY 2017 with \$159 million in revenue, an increase from FY 2016 levels of \$109 million. This \$50 million revenue increase was due to increased business from OGA customers which received services from FSC. The FSC's primary OGA revenue increase was received from the Department of Health and Human Services' Office of Indian Health Services which saw an increase of revenue by \$43 million. FSC supports this OGA with Credit Card Systems Disbursements services which was significantly expanded during FY 2017.

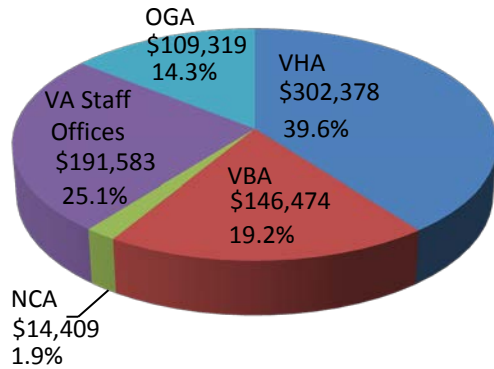
VA Franchise Fund Revenue Sources - VA vs. OGA (Dollars in Thousands)



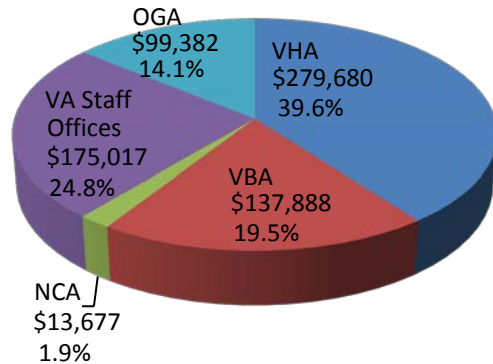
VA Franchise Fund Revenue by Customer As of September 30, 2017 (Dollars in Thousands)



VA Franchise Fund Revenue by Customer As of September 30, 2016 (Dollars in Thousands)



VA Franchise Fund Revenue by Customer As of September 30, 2015 (Dollars in Thousands)



Meeting VA Franchise Fund Objectives

Information Technology Segment – ITIO

Business Process Improvements

ITIO is committed to continued improvement and ensures that customer requests are resolved according to severity. Team and individual performance is closely monitored and areas in need of improvement are addressed fully. Cross-training is utilized to ensure that adequate support is always available. ITIO maintains alignment and open channels of communication with all customers through planning activities such as budget lockdown sessions and high-level meetings. ITIO will continue to strive for improved customer service in the years to come. Examples include continuing process improvement efforts focused on end-to-end service delivery, incident resolution, and system availability.

Data Storage Optimization

During FY 2017, ITIO coordinated the closure of 23 VA data centers. These closures are in support of OMB's Data Center Optimization Initiative (DCOI), which includes metrics for data center closures. The reasons for consolidation or closure include the following:

- Maximize the availability and security of IT systems across the VA based on their business impact; while minimizing operational costs for the required space, utilities and support.
- Gain economies of scale by consolidating infrastructure support for VA IT systems at the most appropriate physical, cloud-based, or Interagency Shared Services Provider (ISSP) location.
- Minimize the need for unplanned funding of IT systems migrations due to uncontrolled expiration of commercial facility leases.
- Conserve internal IT service resources for the highest value customer-focused tasks, while outsourcing appropriate services to cloud providers.

Additionally, two of the data centers closed during FY 2017 were SUNGARD facilities. This is a notable accomplishment because expiration of the SUNGARD lease forced a re-compete. The new contract was awarded to a different vendor and subsequently, the relocation costs were partially offset by reducing the square footage of the new lease by consolidating some of the systems into another existing data centers.



Network Infrastructure Upgrade

During FY 2017, ITIO upgraded the National Cemetery Administration (NCA) Local Area Network (LAN) Wide Area Network (WAN) by performing a technical refresh. ITIO deployed and is currently installing over 100 Cisco 4351 routers and upgraded the top 42 national cemeteries Multi-Protocol Label Switching (MPLS) data circuits from T1 (1.54Mb) to Metro-E (10Mb). In addition, ITIO has performed technical refreshes for all switches which support the Kiosks at NCA locations. ITIO also performed a LAN refresh of the Austin Information Technology Center (AITC) and Hines Information Technology Center (HITC) campus. ITIO identified and replaced legacy campus LAN infrastructure to support Universal Power Over Ethernet (uPOE) and voice video infrastructure.



Vista Migration

In FY 2017, ITIO completely executed the migration of 70 Vista systems serving Regions 02 and 03, from their respective medical centers to fully tiered VA Core Data centers; and migrated them from a legacy operating system to a more modern Linux operating system.

Financial Management Segment – FSC

Payroll Service Delivery

FSC implemented a new payroll service delivery model to further improve the customer experience. The new service delivery model includes a new customer service portal and new self-service portal, which will increase the customers' ability to check and receive status updates on their payroll help desk tickets. These customer portals were deployed to VACO customers in September 2017, and will be deployed to all FSC local payroll customers in FY 2018.

Choice Claims Processing

In February 2017, FSC successfully automated the processing of Choice claims by leveraging its existing claims adjudication software. The result was significant savings passed on to VHA's Office of Community Care and expedited payments to Choice care providers. Following automation, FSC processed 2.9 million Choice claims in FY 2017, with 99 percent of claims being processed within 30 days of receipt. FSC estimates the automation of claims yielded a savings of \$6.9 million in FY 2017, which is approximately \$2.40 per claim processed.



Financial Business Management Transformation (FMBT)

In support of the Financial Business Management Transformation (FMBT) initiative, FSC successfully piloted the integration of the new Invoice Payment Processing System (IPPS) with the new Integrated Financial and Acquisition Management System (iFAMS). This effort marked the first successful integration of a VA system with iFAMS. In total, FSC completed and deployed three efforts related to iFAMS to IPPS integration in FY 2017.

VATAS Deployment

FSC successfully deployed the new VA Time and Attendance System (VATAS) to an additional 102,000 employees assigned to 60 stations in VISNs 1, 6, 10, 19 and 21. There are now over 253,000 active VATAS users, and deployment to all remaining VA users is projected for FY 2018.



Financial Management Segment – DMC

VHA VISTA Enhancements

During FY 2017, DMC partnered with VHA to enhance debt collection functionality, subsequently allowing the referral of delinquent VHA first party medical debts to the Treasury's Cross-Servicing (CS) Program. DMC launched the nationwide VHA Veterans Integrated System and Technology Architecture (VISTA) enhancement allowing first-party medical debts to be referred to cross-servicing; increasing referral rates from 16 percent to 27 percent in FY 2017 and increasing VHA Canteen Services collection rates three fold to 36 percent in one year.

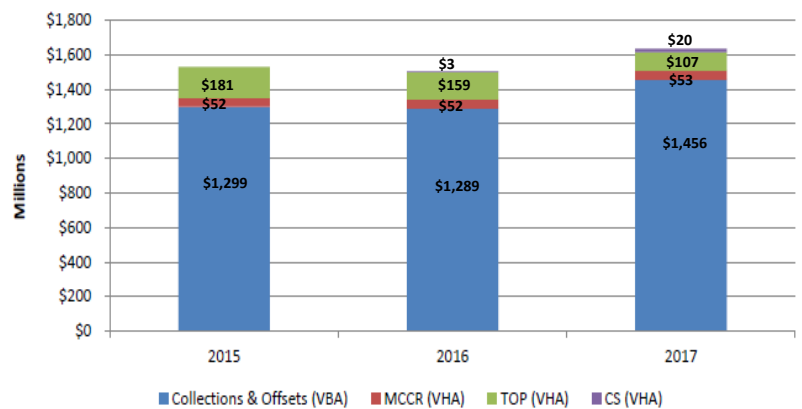


VA Modernization

DMC launched two VA modernization projects and leveraged shared services to transform DMC from paper dependency (850,000 documents annually) to a digital work flow management system. Digital transformation increases availability of Veteran documents needed to provide enhanced customer service. DMC's second project focuses on centrally managing VA's non-healthcare accounts receivable portfolio. Goals for consolidation are increased collections, better compliance and improved reporting. DMC's internal goal in FY 2017 focused on enhancing quality, timeliness, and productivity. Unprecedented results were realized through the effective implementation of telework, desk sharing, and employee development. These efforts effectively aligned staffing to Veteran demand, and streamlined the electronic work flow of documents processed between the DMC departments.

Repayment Plan Deployment

In FY 2017, DMC implemented an automated twelve-month repayment plan for Veterans' compensation and pension debts, replacing the prior practice of taking Veterans' entire benefit. This more compassionate practice mitigates the impact on Veterans and results in fewer hardship refunds. Additionally, DMC provided extended repayment plans up to five years for Veterans whose debts resulted from VBA prioritization of non-rating debts - these two initiatives positively impact over one million Veterans.



Personnel Security and Law Enforcement Segment – SIC

Credentialing and Privileging (C&P)

During FY 2017, SIC researched a franchise pilot for the credentialing and privileging of clinicians in the VA. In SIC's analysis, this is a significant opportunity for shared services within the department that would reduce onboarding times for most VA doctors and nurses.

Cost-effective Business Practice

During FYs 2015 to 2018, the SIC portion of fees have seen an overall average increase of 3.2 percent which covers salaries, benefits, leases, and services required to serve SIC customers. During the same period, Office of Personnel Management (OPM) prices have increased 20.7 percent on average. Having a minimal price increase of 3.2 percent over three years is an outstanding benchmark in business practice efficiencies.

Transportation Security Administration (TSA)

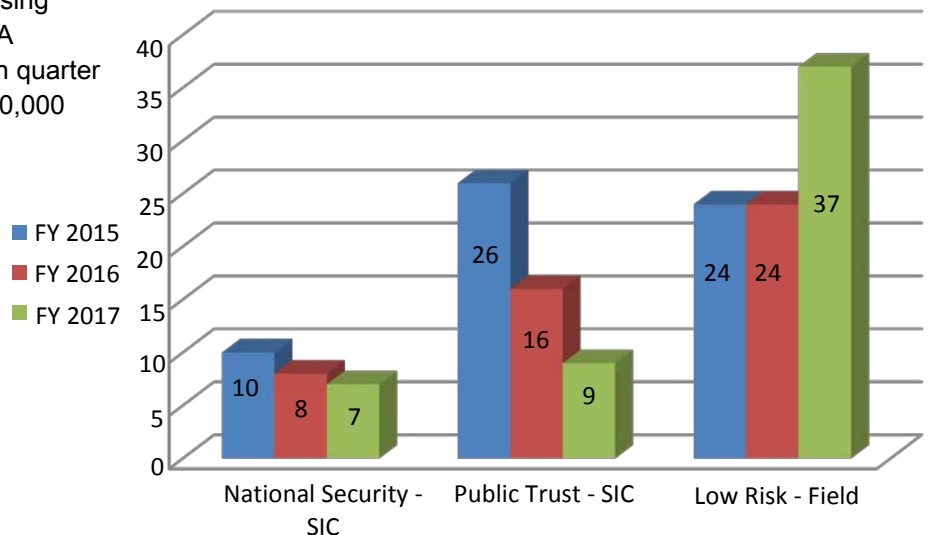
During FY 2017, SIC continued to support the Transportation Security Administration (TSA) with the known traveler applications by processing background check evaluations. When TSA approached the Franchise Fund the fourth quarter of FY 2016 they had a backlog of over 100,000 applications; today there is no backlog.



Reduced Adjudication Timeline

During FY 2017, SIC continued to make sufficient progress in reducing the number of days to adjudicate closed case files received from OPM in the areas of National Security and Public Trust background investigations. This reduction in adjudication time has been consistent over the past three years. However, Low-Risk Field adjudications, which are all adjudications performed by VA sites other than SIC, have experienced an increase in their adjudication time line. SIC is not involved with field adjudications and therefore not privy to the cause of the increased time line. The following chart reflects OPM roll up numbers reported for the VA over the past three years.

Adjudication Timeline in Days



Personnel Security and Law Enforcement Segment—LETC

Verbal Defense Training

During FY 2017, LETC provided Verbal Defense in Healthcare (VDH) training to 793 non-law enforcement personnel such as VA hospital personnel. VDH is an 8-hour program that provides a multi-disciplinary approach to educating participants in verbal de-escalation techniques. Late in FY 2017, an agreement was signed with VHA for LETC to provide 21 weeks of VDH training to VA Healthcare Systems hospital personnel during FYs 2017 and 2018. This agreement will allow LETC to provide VDH training in FY 2018 to approximately 2,000 hospital personnel.



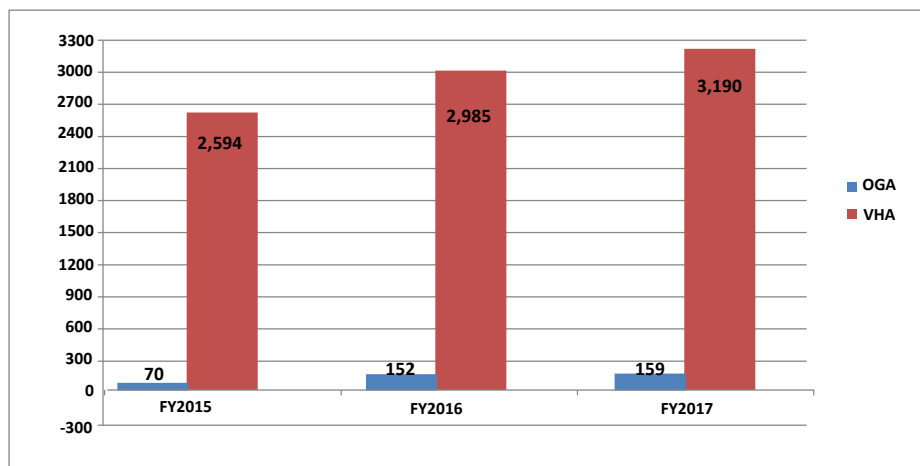
New LETC Courses

During FY 2017, LETC significantly expanded its course offerings which allowed for an increase in over two hundred additional VA police officers trained compared to the prior fiscal year. These courses include Administrative Investigation Board; Active Threat Recertification; Active Threat Operator Course; Investigator I; Investigator II; Investigator III; K-9 Recalibration; K-9 Supervisor; and Long Gun.

VA Police Officer Training

During FY 2017, the number of VA police officers trained rose to 3,190 due to VA hiring surge of police officers. This represents a 7 percent increase from FY 2016, VA students, (2,985). Other government agencies (OGA) student numbers have increased by 5 percent and LETC expect them to stabilize and continue at the level of 160 in FY 2018 and FY 2019.

Number of Police Officers Trained



Support Services Excellence Segment - RCV

Records Retrieval Process Improvement

During FY 2017, RCV pulled the inventories for customers with the greatest number of inaccurate recall requests, and provided copies to those customers. This benefits Veterans with quicker records retrieval and reduced labor costs required for Veteran record recalls. Additionally, RCV adjusted the metrics report provided to customers based on their feedback. RCV reviewed the data collected within its Records Retrieval System application, and were able to determine how many Veterans have been impacted by records not found due to the lack of accurate inventory records.



Exceptional Records Retrieval Services

During FY 2017, RCV received 144 requests for Veteran records without complete inventory information. As the RCV storage facility currently holds more than 1.8 million cubic feet of records, it can be almost impossible to locate a record without accurate inventory location information. RCV's current policy is to have any customers storing records at RCV's facility submit an inventory listing, showing which files are in which box. Many older accessions no longer contain this information. RCV staff investigated to narrow the search, and successfully located 115 of these records. RCV staff went above and beyond service level requirements and contacted customers for additional information about the Veteran record. Additionally, RCV staff reviewed and compared information about dates and content of accessions shipped by that station, then searched likely boxes for the missing records. This is not a standard recall service, but RCV believes it is the right thing to do for our Veterans.



Support Services Excellence Segment - HREC

Watch Officer Duties

During FY 2017, HREC employees performed Human Resource Administration (HRA) watch officer duties during Hurricanes Harvey, Irma and Maria. HREC provided daily alerts and accountability messages to 36,162 VA employees and contractors in the affected areas. HREC provided daily updates to SECVA and senior leadership on employee status. HREC coordinated with administrations and staff offices to compile reports to leadership of VA employees that evacuated their homes and experienced any damage or loss of property as a result of the hurricanes. In addition, HREC coordinated and facilitated the information flow between OPM and the Assistant Secretary for HRA on employee benefits such as excused absences, administrative leave and pay waivers for overtime.

Lean Six Sigma

During FY 2017, HREC employees led numerous Lean Six Sigma projects that produced streamlined process as well as cost and time savings. HREC led the Office of Enterprise Support Services (OESS) Contracts Review Lean Six Sigma Black Belt project that resulted in 36 percent cost reductions totaling nearly \$32 Million.

VA Modernization

During FY 2017, HREC team members served on the VA Modernization team that delivered the VA high-level Plan for Reorganizing Federal Government and Reducing the Federal Civilian Workforce in response to OMB's M-17-22. HREC also served on the VA HR Future State Working group that delivered two potential HR operating models, including an enterprise-wide shared services approach.



National Diversity Internship Program

During FY 2017, HREC managed the Department of Veterans Affairs (VA) National Diversity Internship Program (NDIP) to provide internship opportunities and invaluable work experience in various career fields. These internships were available to undergraduate and graduate students enrolled full-time or part-time, in degree-seeking programs at accredited post-secondary institutions. These institutions include Minority Serving Institutions such as Historically Black Colleges and Universities, Hispanic Serving Institutions, Asian American Colleges, Pacific Islander Serving Institutions, and Tribal Colleges and Universities. In FY 2017, VA hosted 86 students throughout various VA staff offices and Administrations. NDIP utilizes the services of diverse organizations such as The Washington Center, Minority Access Inc., and the Hispanic Association of Colleges and Universities to recruit students for VA internships.

OESS Contract Review

During FY 2017, HREC examined the problem of the lack of a consistent standardized method for determining when contract options should be exercised and for what amount. HREC found that there was no integrated coordination between the government stakeholders. Therefore, HREC implemented a comprehensive contract review process that reduced redundancies and costs. After implementing the OESS Contracts Review process improvement, OESS is on a trajectory to spend just over \$17 million in FY 2017. This represents \$32 million in cost savings and avoidance compared to the pre-process improvement cost trajectory of \$49 million.

The performance information presented below accurately represents the Enterprise Centers' performance during fiscal years 2015 – 2017. We are committed to ensuring that reported performance information is accurate and based on reliable information, and we continually seek to improve our data collection and monitoring techniques.

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

Performance Summary Table

Performance Measure	Actuals			Plan	Were 2017 Goals Achieved or Exceeded?	
	2015	2016	2017	2017	Yes	No
Percent of Veterans and/or beneficiaries who contacted the DMC without receiving a busy signal (DMC)	99.9%	100.0%	100.0%	100.0%	✓	
Payment processing accuracy rate (FSC)**	99.6%	99.6%	99.7%	99%	✓	
Class graduation rate (LETC)	97.9%	95.3%	96.1%	95.0%	✓	
Percent of adjudications that are completed within the established time frames (SIC)	99%	99%	99.0%	99.0%	✓	
Percent of recalled records that are shipped securely and accurately to requesting facilities within established timeframes (RCV)	99.9%	99.9%	99.9%	99.9%	✓	
Number of audit qualifications for the VA Enterprise Centers (FF)	0	0	0	0	✓	
Claim processing time (percent paid within 30 days)* (FSC) *	N A	N A	99%	98%	✓	
Invoices paid in accordance with Prompt Payment Act* (FSC)*	N A	N A	99.4%	95%	✓	
First call resolution* (FSC)*	N A	N A	93.1%	90%	✓	
Average wait time until caller speak to a live person (minutes:seconds)* (FSC)*	N A	N A	2 minutes 57 seconds	3 minutes	✓	

*New performance measures established during FY 2017

**Performance goal will be replaced by invoice paid in accordance with the Prompt Payment Act goal in FY 2018

Performance Highlights During FY 2017

- During FY 2017, ITIO reduced FY 2017 expense protections by \$71 million. An internal budget review identified potential cuts that would not negatively impact Veterans. The requirements and reviews for new budget requests were also modified to be more thorough and strict. Additionally, the ITIO hosting request process was further streamlined to ensure a smooth system transition as systems are worked through the Veteran-focused integration process request (VIPR) and ITOPS integrated work request committee (IWRC). This work began in FY 2016 and was completed in FY 2017. (ITIO)



- The RCV Operations group is surveying existing inventory and records requests to determine the approximate number of Veterans impacted by a lack of accurate customer inventory lists. During FY 2017, RCV identified accessions that lack an inventory listing, either within the boxes or in the customers' possession. RCV have provided this information to the customers and currently developing cost-effective and timely solutions. (RCV)
- During FY 2017, FSC's Customer Support Division exceeded its goals for both 1st call resolution and average wait time. These achievements were reaffirmed in FSC's Payment Help Desk and Vendor Help Desk customer satisfaction surveys, in which overall customer satisfaction was rated ninety one percent. (FSC)



- OPM requires the adjudication of National Security background investigations within 20 days of the OPM closing date of the investigation at least 90 percent of the time as illustrated in the Performance Summary table. However, the adjudication of suitability background investigations are not required by OPM to be adjudicated within the same 20 day time period as National Security cases. The SIC's goal is to adjudicate all suitability background investigations within 30 days of the OPM's closing date 90 percent of the time. OPM reported that the SIC average suitability adjudication time line was 9 days in FY 2017, exceeding the self-imposed goal of 30 days. (SIC)
- During FY 2017, LETC's commercial off-the-shelf Web-based student management system was fully deployed. Acadis is a registration and training management system which allows LETC customers to track training events, enroll and cancel courses, be placed on a priority wait list for fully booked courses and receive system-hosted monthly sustainment training. (LETC)

Performance Highlights During FY 2017

- During FY 2017, DMC leveraged lean six sigma to streamline business processes and restructure call routing. DMC also utilized industry best practices which resulted in 44 percent more Veteran calls handled over prior year and realized a 28 percent decrease in Veteran wait time. These best practices include upgraded phone systems which provides enhanced features such as virtual hold, enhanced data analytics, customer surveys, call monitoring with whisper and barge in capability, and call recording to ensure quality service to Veterans. (DMC)
- 8i f]b[: M&\$%+, h.Y: G7]XYbh]ZYX'UbX'Z' ~mfYVtj YfYX'' % \$'h.ci gUbX'cZ]a dfcdYf'dUna Ybtg'Z:f'h.Y: fUbVW]gY' : i bX.
- For the 20th consecutive year, the audited financial statements of the VA Franchise Fund received an unqualified “clean” opinion.

Financial Statement Analysis

The consolidated financial statements present the Franchise Fund's financial position, cumulative results of operations, changes in net position, and information on budgetary resources for FY 2017 and FY 2016. Highlights of the information contained in the consolidated financial statements are summarized in this section.

Overview of Financial Position

Assets

The Consolidated Balance Sheets reflect the Fund's asset balances of \$424 million as of September 30, 2017. This is an increase of \$50 million, or 14.4 percent, over the previous year's total assets of \$374 million. An increase to fund balance with Treasury is attributed to FSC collections from VHA resulting from an increase in the volume of services provided, the establishment of the new HR Enterprise Center, and the Office of Enterprise Support Services. IT Infrastructure Operations investment in ADP equipment and leasehold improvements to support new requirements also contributed to the increase of property, plant and equipment and total assets.

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

(Dollars in Thousands)		
	2017	2016
Fund Balance with Treasury	\$ 269,498	\$ 228,407
Property, Plant and Equipment, Net	65,230	54,455
Accounts Receivable, Net	88,881	84,194
Other Assets		6,478
Total Assets	\$ 423,609	\$ 373,534

Limitation Statement

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

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

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

Audit Opinion

For the 20th consecutive year (1998 - 2017), the VA Franchise Fund has received an unmodified "clean" audit opinion.

Liabilities

The Fund had total liabilities of \$130 million as of September 30, 2017. This represents an increase of \$26 million, or 24 percent, over the previous year's total liabilities of \$104 million. The increase in liabilities is primarily due to ITIO's accrual increase for service contracts for system security, support of OI&T's Internal Use Software project requests and FSC's external customer advances with Department of Homeland Security Immigration and Customs Enforcement Health Services Corps (IHSC) for a larger volume of medical payment services provided.

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

(Dollars in Thousands)		
	2017	2016
Accounts Payable	\$ 90,225	\$ 70,814
Other Liabilities	39,316	33,609
Total Liabilities	\$ 129,541	\$ 104,423

Net Position

The Fund's net position increased by \$25 million in FY 2017 on the Consolidated Balance Sheets and the Consolidated Statement of Changes in Net Position. The net position for the Fund was \$294 million; a nine percent increase over the prior year's ending net position of \$269 million. Net position is the sum of unexpended funds and cumulative results of operations.

Net Cost

The Fund's net cost of operations incurred a net gain of \$11 million in FY 2017, as reflected in the Consolidated Statement of Net Cost.

Budgetary Resources

The Combined Statement of Budgetary Resources presents budgetary resources made available to the Fund during the year and the resulting status of budgetary resources at year-end. The Fund does not receive an annual appropriation from Congress. The Fund is fully self-sustained by recovering all costs through reimbursements for services provided. The Fund has total budgetary resources of \$1.06 billion, an \$88 million increase from the FY 2016 level of \$977 million.

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

(Dollars in Thousands)		
	2017	2016
Beginning Unobligated Balance	\$ 156,116	\$ 137,422
Unpaid Obligations	40,945	95,030
Other Changes in Unobligated Balance	38	74
Spending Authority from Offsetting Collection	867,699	744,239
Total Budgetary Resources	\$ 1,064,798	976,765

Management Assurances

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

The Department of Veterans Affairs management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, (3) ensuring VA's financial management systems are in substantial compliance with FFMIA requirements, and (4) complying with other applicable laws, regulations, contracts, and grant agreements. With respect to internal control, CliftonLarsonAllen LLP identified six material weaknesses. (1) Compensation, pension, burial and education actuarial estimates; (2) Community care obligations, reconciliations, and accrued expenses; (3) Financial reporting; (4) Loan guarantee liability; (5) Chief Financial Officer organizational structure; (6) Information technology security controls.

In addition, CliftonLarsonAllen LLP identified one significant deficiency: procurement, undelivered orders, accrued expenses, and reconciliations.

CliftonLarsonAllen LLP identified (1) Substantial noncompliance with Federal financial management systems requirements and the United States Standard General Ledger at the transaction level under the Federal Financial Management Improvement Act (FFMIA) of 1996; (2) Improvements needed in complying with the Federal Managers' Financial Integrity Act; (3) Instances of noncompliance with Title 38 United States Code §5315 pertaining to the charging of interest and administrative costs, (4) Noncompliance with Title 38 United States Code §3733 pertaining to the vendee loan program (5) One violation of the Antideficiency Act, as reported to CliftonLarsonAllen LLP by VA, which has been reported to Congress and 6 (Noncompliance with the Improper Payments Elimination and Recovery Act for FY 2016.

<http://www.va.gov/finance/docs/afr/2017VAafrFullWeb.pdf>



CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Director of
Department of Veterans Affairs Franchise Fund Oversight Office

Report on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2017, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources, for the years then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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 audit. We did not audit the financial statements of the VA Franchise Fund for fiscal year ended September 30, 2016. Those statements were audited by other auditors whose report thereon has been furnished to us and our opinion insofar as it relates to the amounts included the fiscal year ended September 30, 2016 financial statements is based solely on the on the report of the other auditors. We conducted our audit in accordance with U.S. generally accepted government auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit 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 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 includes test of compliance with provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements. The purpose was not to provide an opinion on compliance with provisions of applicable laws, regulations, contracts and grant agreements and, therefore, we do not express such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the VA Franchise Fund as of September 30, 2017, and its consolidated net costs, changes in net position, and the combined budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis* (MD&A), and *Required Supplementary Information* (RSI) sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Year Financial Statements

The financial statements as of and for the year ended September 30, 2016 were audited by other auditors whose report, dated November 30, 2016, expressed an unmodified opinion on those statements.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we and other auditors considered VA Franchise Fund's internal control over financial reporting (internal control) to determine the 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 internal control. Accordingly, we do not express such an opinion.

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 VA Franchise Fund'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. During the audit of the financial statements, no deficiencies in internal control were identified that were considered to be a material weakness. 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 2017 and 2016*, dated November 15, 2017 reported six material weaknesses: "Information Technology (IT) Security Controls" (Repeat Condition); "Compensation, Pension, Burial and Education Actuarial Estimates" (Repeat Condition); "Community Care Obligation, Reconciliations, and Accrued Expenses" (Repeat Condition); "Financial Reporting" (Repeat Condition); "Loan Guarantee Liability" (Repeat Condition) and "CFO Organizational Structure for VA and VHA" (Repeat Condition). The audit report also identified one significant deficiency: "Procurement, Undelivered Orders, Accrued Expenses, and Reconciliations" (Repeat Condition); These material weaknesses and significant deficiency could have a direct effect on the VA Franchise Fund's internal control over financial reporting.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the VA Franchise Fund's financial statements are free from material misstatement, we and other auditors performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We and other auditors limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the VA Franchise Fund. The objective was not to provide an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our test, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

The *Department of Veterans Affairs (VA) Independent Audit of VA's Financial Statements for Fiscal Years 2017 and 2016*, dated November 15, 2017, reported the following conditions with respect to noncompliance with laws and regulations:

- VA's financial management system did not substantially comply with the Federal financial management systems (Repeat Condition).
- VA's financial management system did not substantively comply with the USSGL at the transaction level (Repeat Condition).

These conditions could have a direct effect on the VA Franchise Fund's compliance with applicable provisions of laws and regulations.

Management's Responsibility for Internal Control and Compliance

VA Franchise Fund's management is responsible for (1) evaluating effectiveness of internal control over financial reporting based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of

internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with applicable provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin No. 17-03 requires testing, and (3) applying certain limited procedures with respect to the MD&A and other RSI.

We and other auditors did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We and other auditors limited our internal control testing to testing internal control over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We and other auditors did not test compliance with all laws and regulations applicable to VA Franchise Fund. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin No. 17-03 that we deemed applicable to VA Franchise Fund's financial statements for the fiscal year ended September 30, 2017. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of VA Franchise Fund's internal control or on compliance. These reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering VA Franchise Fund's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.



Louisville, KY
January 31, 2018

DEPARTMENT OF VETERANS AFFAIRS FRANCHISE FUND
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2017 and 2016
(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 269,498	\$ 228,407
Accounts Receivable (Note 3)	88,818	84,135
Other Assets (Note 5)	0	6,475
Total Intragovernmental Assets	<u>358,316</u>	<u>319,017</u>
Public:		
Accounts Receivable (Note 3)	63	59
General Property, Plant and Equipment, Net (Note 4)	65,230	54,455
Other Assets (Note 5)	0	3
Total Public Assets	<u>65,293</u>	<u>54,517</u>
Total Assets	<u>\$ 423,609</u>	<u>\$ 373,534</u>
LIABILITIES		
Intragovernmental:		
Accounts Payable	16,286	19,565
Other Liabilities (Note 7)	25,450	21,096
	<u>41,736</u>	<u>40,661</u>
Public:		
Accounts Payable	73,939	51,249
Other Liabilities (Note 7)	13,866	12,513
Total Public Liabilities	<u>87,805</u>	<u>63,762</u>
Total Liabilities	<u>\$ 129,541</u>	<u>\$ 104,423</u>
NET POSITION	<u>\$ 294,068</u>	<u>\$ 269,111</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 423,609</u>	<u>\$ 373,534</u>

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, 2017 and 2016
(Dollars in Thousands)**

	<u>2017</u>	<u>2016</u>
PROGRAM COSTS:		
Gross Costs Intragovernmental (Note 10)	\$ 845,327	\$ 322,208
Less: Earned Revenue-Intragovernmental	<u>(863,903)</u>	<u>(764,163)</u>
Net Program Costs - Intragovernmental	(18,576)	\$ (441,955)
Gross Costs Indirect Administrative	7,133	465,728
NET COST OF OPERATIONS	<u><u>\$ (11,443)</u></u>	<u><u>\$ 23,773</u></u>

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, 2017 and 2016
(Dollars in Thousands)**

	<u>2017</u>	<u>2016</u>
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	\$ 269,111	\$ 277,702
BUDGETARY FINANCING SOURCES:		
Transfers In/Out Without Reimbursement	0	0
OTHER FINANCING SOURCES (NON-EXCHANGE):		
Transfers In/ Out Without Reimbursement	6,335	6,467
Imputed Financing (Note 6)	7,179	8,715
	13,514	15,182
Total Financing Sources		
Net Cost of Operations (Note 10)	(11,443)	23,773
Net Change	24,957	(8,591)
NET POSITION	\$ 294,068	\$ 269,111

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, 2017 and 2016
(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
BUDGETARY RESOURCES:		
Unobligated Balance Brought Forward, October 1	\$ 156,116	\$ 137,422
Recoveries of Prior Year Unpaid Obligations	40,945	95,030
Other Changes in Unobligated Balance	38	74
Unobligated Balance from Prior Year Budget Authority, Net	197,099	232,526
Spending Authority from Offsetting Collections	867,699	744,239
Total Budgetary Resources	<u>1,064,798</u>	<u>976,765</u>
 STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (total)	949,796	820,649
Unobligated Balance, End of Year	115,002	156,116
Total Budgetary Resources	<u>1,064,798</u>	<u>976,765</u>
 CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1 (Gross)	288,774	313,547
New Obligations and Upward Adjustments	949,796	820,649
Outlays (Gross)	(835,192)	(750,393)
Recoveries of Prior Year Unpaid Obligations	(40,945)	(95,029)
Unpaid Obligations, End of Year	<u>362,433</u>	<u>288,774</u>
 Uncollected Payments:		
Uncollected Payments from Fed Sources, Brought Forward, October 1	(216,483)	(209,851)
Change in Uncollected Payments, Fed Sources	8,546	(6,632)
Uncollected Payments, Fed Sources, End of Year	<u>(207,937)</u>	<u>(216,483)</u>
 Memorandum (Non-Add) Entries:		
Obligated Balance, Start of Year	72,291	103,697
Obligated Balance, End of year	154,496	72,291
 BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	867,699	744,239
Actual Offsetting Collections	(876,283)	(737,681)
Change in Uncollected Payments from Federal Sources	8,546	(6,632)
Recoveries Prior Year Paid Obligations	38	74
Budget Authority, net	<u>0</u>	<u>0</u>
 Outlays, Gross		
Outlays, Gross	835,192	750,393
Actual Offsetting Collections	(876,283)	(737,681)
Net Outlays	<u>\$ (41,091)</u>	<u>\$ 12,712</u>

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, 2017 and 2016
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Presentation

The VA Franchise Fund consolidated financial statements report all activities of VA Enterprise Centers. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that the VA Franchise Fund is a component unit of the U.S. Government, a sovereign entity. VA Franchise Fund interacts with, and is dependent upon, the financial activities of the Federal Government as a whole. Therefore, the results of all financial decisions reflected in these consolidated financial statements are not the sole decisions of VA or the VA Franchise Fund as a stand-alone entity. VA Franchise Fund's fiscal year end is September 30.

C. Basis of Accounting

The Franchise Fund's fiscal year (FY) 2017 and 2016 financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements, as revised. The Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards Issued by the Financial Accounting Standards Board*, establishes a hierarchy of GAAP for Federal financial statements. The Franchise Fund's financial statements have been prepared to report the balance sheet, net cost of operations, changes in net position, and budgetary resources. The 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 represents the right of the VA Franchise Fund to draw on the Treasury for allowable expenditures.

E. Accounts Receivable

Intragovernmental accounts receivable are from other Federal entities and are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary.

Public accounts receivable are incurred when the Fund makes payments on behalf of their employees. Examples of this would be advances for Permanent Change of Station travel or advances for Federal Employees Health Benefits when employees are on leave without pay and their health benefits are paid to the health carriers. These receivables are considered fully collectible; therefore, no allowance for uncollectible accounts is necessary.

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 two 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. Software is also subject to the \$1,000,000 threshold for capital assets. The costs subject to capitalization are incurred during the software development phase, and include the design of the chosen path, programming development, installation of hardware and testing, and are accumulated in Software in Development until a project is successfully tested and placed in service. 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, which generally ranges from 2 to 4 years. Preliminary design phase costs and post implementation costs are expensed as incurred. There are no restrictions on the use or convertibility of general PP&E.

Construction project costs are recorded in Construction Work-in-Process (WIP) accounts. The assets are transferred to either capitalized or non-capitalized PP&E, as appropriate, when placed in service. Construction projects completed in multiple phases are recorded as construction WIP until the project phase is placed in service. Personal property and equipment not meeting the capitalization criteria is 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.

G. Other Assets

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

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

The third type of advance occurs when the purchase card payments are scheduled. Charges are then IPACed to the applicable agency to offset the advances.

H. Accounts Payable

Accounts payable are classified as either intragovernmental or public. Intragovernmental accounts payable consists of amounts owed to other Federal Government agencies. Public accounts payable are amounts owed by the Fund for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other entities. Accounts payable do not include liabilities related to on-going continuous expenses such as employee's salaries, benefits, annuities for insurance programs, interest payables which are covered by other liabilities. When the Fund accepts title to goods, whether the goods are delivered or in transit, or incurs costs for services received, the Fund recognizes a liability for the unpaid amount of the goods and services. 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. 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 when earned and the accrual is reduced when leave is used. At least once a year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned but not taken. Sick and other types of leave are expensed as taken.

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.

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 includes 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 particular 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. 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 Accounting Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from the estimated amounts.

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.

Q. Subsequent Events

Subsequent to the year ended September 30, 2017, an administrative proceeding arising from a pending \$7.3M legal case was voluntarily dismissed without prejudice, by the plaintiff on November 13, 2017. This legal case was previously disclosed in the fiscal year 2016 financial statements.

Note 2. Fund Balance with Treasury

The undisbursed account balance for the Fund is a revolving fund comprised of only entity assets. The funds available as of September 30,

	<u>2017</u>	<u>2016</u>
Fund Balance with Treasury	\$ 269,498	\$ 228,407

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

Status of Fund Balance with Treasury

	<u>2017</u>	<u>2016</u>
Unobligated Apportionment		
Available	\$ 115,002	\$ 156,115
Obligated balance not yet Disbursed	<u>\$ 154,496</u>	<u>\$ 72,291</u>
Total Unexpended Apportionment	<u>\$ 269,498</u>	<u>\$ 228,407</u>

Note 3. Accounts Receivable

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

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

Accounts Receivable as of September 30,

	<u>2017</u>	<u>2016</u>
Intragovernmental		
Accounts Receivable	\$ 88,818	\$ 84,135
Public		
Accounts Receivable	<u>63</u>	<u>59</u>
Total Accounts Receivable	<u>\$ 88,881</u>	<u>\$ 84,194</u>

Note 4. General Property, Plant and Equipment

General PP&E as of September 30, 2017:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	\$ 18,273	\$ (15,189)	\$ 3,084
Work-In-Process	3,957		3,957
Structure	581	(198)	383
Furniture & Equipment	14,936	(5,455)	9,481
ADP Equipment	86,771	(62,262)	24,509
Capital Lease Equipment	2,119	(2,119)	0
Software	27,475	(24,553)	2,922
Software in Development	6,249	0	6,249
Leasehold Improvements	<u>36,405</u>	<u>(21,760)</u>	<u>14,645</u>
Total PP&E	<u>\$ 196,766</u>	<u>\$ (131,536)</u>	<u>\$ 65,230</u>

General PP&E as of September 30, 2016:

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Building	\$ 18,273	\$ (14,634)	\$ 3,639
Work-In-Process	1,773		1,773
Structure	581	(169)	412
Furniture & Equipment	15,498	(5,935)	9,563
ADP Equipment	80,170	(60,947)	19,223
Capital Lease Equipment	2,119	(1,884)	235
Software	25,594	(22,804)	2,790
Software in Development	4,925	0	4,925
Leasehold Improvements	<u>32,300</u>	<u>(20,405)</u>	<u>11,895</u>
Total PP&E	<u>\$ 181,233</u>	<u>\$ (126,778)</u>	<u>\$ 54,455</u>

Note 5. Other Assets

Other Assets as of September 30,

	<u>2017</u>	<u>2016</u>
Intragovernmental		
Advance Payment – Federal	\$ 0	\$ 6,475
Total Intragovernmental	<u>\$ 0</u>	<u>\$ 6,475</u>
Public		
Advances to Employees	\$ 0	\$ 3
Total Public	<u>\$ 0</u>	<u>\$ 3</u>
Total Other Assets	<u>\$ 0</u>	<u>\$ 6,478</u>

Note 6. Federal Employee Benefits

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

	<u>2017</u>	<u>2016</u>
Civil Service Retirement System	\$ 1,265	\$ 1,576
Federal Employees Retirement System	221	615
Federal Employee Health Benefits	5,672	6,504
Federal Employee Group Life Insurance	21	20
Total Imputed Expenses - Employee Benefits	<u>\$ 7,179</u>	<u>\$ 8,715</u>

Note 7. Other Liabilities

Budgetary resources fund all other liabilities, both intragovernmental and public. All liabilities are current.

Other Liabilities as of September 30,

	<u>2017</u>	<u>2016</u>
Intragovernmental		
Accrued Expenses – Federal	\$ 20	\$ 68
Accrued VA Contributions for Benefits	1,344	1,252
Advances – Federal	<u>24,085</u>	<u>19,776</u>
Total Other Intragovernmental Liabilities	<u>\$ 25,450</u>	<u>\$ 21,096</u>
Public		
Accrued Salaries & Benefits	\$ 4,899	\$ 4,558
Accrued Funded Annual Leave	8,965	7,804
Capital Lease Liability	<u>3</u>	<u>151</u>
Total Other Public Liabilities	<u>\$ 13,866</u>	<u>\$ 12,513</u>

Note 8. Leases

The Franchise Fund has capital leases of \$2,119. The Franchise Fund's FY 2017 operating lease costs were \$10,590 for real property rentals and \$426 for equipment rentals. The Franchise Fund's FY 2016 operating lease costs were \$13,845 for real property rentals and \$2,572 for equipment rentals. The following chart represents the Franchise Fund's estimate for operating lease costs for the next 5 years, assuming a range of 3.0 to 3.3 percent annual increases in cost.

OPERATING LEASES

<u>Fiscal Year</u>	<u>Percentage Increase</u>	<u>Real Property</u>	<u>Equipment</u>
2018	3.0	\$ 10,908	\$ 439
2019	3.1	11,246	452
2020	3.2	11,606	467
2021	3.3	11,989	482
2022	3.2	12,373	497

Note 9. Intragovernmental Costs and Exchange Revenue

Cost and Exchange Revenue as of
September 30,

	<u>2017</u>	<u>2016</u>
Intragovernmental costs	\$ 845,327	\$ 322,208
Less: Earned Revenue - Intragovernmental	<u>(863,903)</u>	<u>(764,163)</u>
Net Intragovernmental Cost	(18,576)	(441,955)
Indirect Administrative Cost	<u>7,133</u>	<u>465,728</u>
Total Net Cost of Operations	<u>\$ (11,443)</u>	<u>\$ 23,773</u>

Earned Revenue: Revenue earned by VA Franchise Fund (VAFF) for fees charged for services for the period ended September 30, 2017 was \$863,903. Revenue earned by VAFF for fees charged for services for the period ended September 30, 2016 was \$764,163.

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

Note 10. Disclosures Related to the Statements of Budgetary Resources

- **Apportionment Categories of Obligations Incurred Direct vs. Reimbursable Obligations**

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

Reimbursable Obligations as of September 30,

	<u>2017</u>	<u>2016</u>
Category B, Reimbursable Obligations	\$ 949,796	\$ 820,649

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

The amount of budgetary resources obligated for undelivered orders for fiscal years ended September 30, 2017 and 2016 was \$257,220 and \$204,517 respectively.

Note 11. Adjustments to Budgetary Resources and Prior Year Recoveries

The Franchise Fund reported approximately \$41M and \$95M recoveries of prior year unpaid and paid obligations (recoveries) for fiscal years ended September 30, 2017 and 2016, respectively.

Note 12. Reconciliation of Net Cost of Operations to Budget

Statement of Federal Financial Accounting Standard 7 "requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The standard states that "OMB will provide guidance regarding details of the display for the Statement of Financing, including whether it shall be presented as a basic financial statement or as a schedule in the notes to the basic financial statements."

Statement of Federal Financial Accounting Concept 2, Entity and Display, provides Concepts for Reconciling Budgetary and Financial Accounting by adding a category of financial information to further satisfy users' needs to understand "how information on the use of budgetary resources relates to information on the cost of program operations ..." The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and non-budgetary resources available to the reporting entity with its net cost of operations.

FY 2017 Reconciliation of Net Cost of Operations to Budget

	<u>2017</u>	<u>2016</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 949,796	\$ 820,649
Less: Spending Authority from Offsetting Collections and Adjustments	(908,682)	(839,342)
Net Obligations	<u>41,114</u>	<u>(18,693)</u>
Other Resources		
Transfers in/out	6,335	6,467
Imputed Financing from Costs Subsidies	7,179	8,715
Net Other Resources Used to Finance Activities	<u>13,514</u>	<u>15,182</u>
Total Resources Used to Finance Activities	<u>54,628</u>	<u>(3,511)</u>
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, but not yet Provided	(55,143)	10,426
Resources that Finance the Acquisition of Assets	(27,343)	(19,476)
Resources that Fund Expenses Recognized in Prior Periods	(4)	(24)
Total Resources Used to Finance Items not Part of the Net Costs of Operations	<u>(82,490)</u>	<u>(9,074)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>(27,863)</u>	<u>(12,585)</u>
Components Not Requiring or Generating Resources		
Depreciation and Amortization	14,653	19,440
Bad Debts	0	0
Loss on Disposition of Assets	1,916	17,726
Other	(148)	(808)
Total Components that Will Not Require or Generate Resources	<u>16,420</u>	<u>36,358</u>
Total Components that Will Not Require or Generate Resources in the Current Period	<u>16,420</u>	<u>36,358</u>
Net Cost of Operations	<u><u>\$ (11,443)</u></u>	<u><u>\$ 23,773</u></u>

Franchise Fund ANNUAL REPORT



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

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Franchise Fund Oversight
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Debt Management Center

P.O.Box 11930 St.
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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: james.ward4@va.gov
Internet: http://www.osp.va.gov/Law_Enforcement_Training_Center_LETC.asp

Records Center and Vault

1615 Woodward Street
Austin, TX 78772

Phone: 512-326-6576
Fax: 512-326-7442

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Internet: www.rcv.va.gov

Security and Investigations Center

2200 Fort Roots Drive, Building 192
North Little Rock, AR 72114

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Internet: http://www.osp.va.gov/Security_and_Investigations_Center_FF.asp

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