



DEPARTMENT OF VETERANS AFFAIRS

Office of Inspector General

REPORT OF THE AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS' FRANCHISE FUND CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2001 AND 2000



**Department of Veterans Affairs
Office of Inspector General
Washington DC 20420**

Memorandum to the Principal Deputy Assistant Secretary for Management (004)

**Report of Audit of the Department of Veterans Affairs' Franchise Fund Consolidated
Financial Statements for Fiscal Years 2001 and 2000**

1. Attached is the Office of Inspector General's (OIG) Report of Audit of the Department of Veterans Affairs' (VA) Franchise Fund Consolidated Financial Statements (CFS) for Fiscal Years (FY) 2001 and 2000. The Franchise Fund is one of the components included in the VA's CFS. The Franchise Fund management contracted with the independent public accounting firm Grant Thornton to perform the audit of VA's Franchise Fund FY 2001 CFS. The Franchise Fund management defined the requirements of the audit; and the OIG approved the audit plans, monitored the audit, and reviewed the draft reports. The independent auditors' report by Grant Thornton provides an unqualified opinion on VA's Franchise Fund FYs 2001 and 2000 CFS. We agree with the independent auditors' opinion, and the conclusions in the related reports on the Franchise Fund's internal control over financial reporting and compliance with laws and regulations.
2. The report on internal control identifies one material weakness in information technology security controls and one reportable condition on the application program and operating system change controls that affect one enterprise center. These findings and the related recommendations were included in the Department's FY 2001 CFS audit report. We discussed these findings with Franchise Fund management.
3. The report on compliance with laws and regulations disclosed no instances of noncompliance.
4. We will follow up on the findings during the audits of the Franchise Fund's FY 2002 CFS and the Department's FY 2002 CFS.

For the Assistant Inspector General

A handwritten signature in blue ink that reads "Marie A. Maguire".

MARIE A. MAGUIRE, Director
Financial Audit Division (52CF)

Attachment

**Consolidated Financial Statements and Report of
Independent Certified Public Accountants**

Department of Veterans Affairs

Franchise Fund

Grant Thornton 

September 30, 2001 and 2000

Department of Veterans Affairs Franchise Fund

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Accountants and Management Consultants

Report of Independent Certified Public Accountants

Steven D. Swanson
Director, VA Enterprise Fund Office

We have audited the accompanying Department of Veterans Affairs Franchise Fund's consolidated balance sheets, as of September 30, 2001 and 2000, and the related consolidated statements of net costs, changes in net position, budgetary resources and financing for the fiscal years then ended. These financial statements are the responsibility of the VA Franchise Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and U.S. Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the Department of Veterans Affairs Franchise Fund's financial statements referred to above present fairly, in all material respects, its assets, liabilities and net position as of September 30, 2001 and 2000, and its net costs, changes in net position, budgetary resources and reconciliations of net costs to budgetary obligations for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

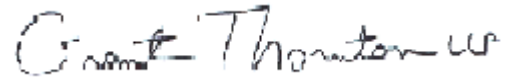
In accordance with *Government Auditing Standards*, we have issued our report dated January 18, 2002, on our consideration of the Department of Veterans Affairs Franchise Fund internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

The Management Discussion and Analysis (MD&A) is not a required part of the financial statements, but is required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the MD&A and express no opinion on it.

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This report is intended for the information and use of management of the Department, VA Enterprise Centers, the Franchise Fund Board of Directors, Office of Inspector General of the Department of Veterans Affairs, the OMB, and Congress and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Grant Thornton". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Vienna, VA
January 18, 2002

**Report of Independent Certified Public Accountants on
Internal Control over Financial Reporting and Compliance
Based Upon The Audit Performed in Accordance With
*Government Auditing Standards***

Steven D. Swanson
Director, VA Enterprise Fund Office

We have audited the consolidated financial statements of the Department of Veterans Affairs (VA) Franchise Fund, as of and for the fiscal years ended September 30, 2001 and 2000, and have issued our report thereon dated January 18, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements of the U.S. Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the VA Franchise Fund's internal control over financial reporting and safeguarding assets in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We evaluated management's assertion about the effectiveness of its internal controls designed to safeguard assets against loss from unauthorized acquisition, use, or disposition; assure the execution of transactions in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the financial statements; and properly record, process, and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

During the course of our audit it was brought to our attention by the VA Office of the Inspector General that other auditors noted certain matters involving the internal control over financial reporting that they considered to be deficiencies in the design or operations of the internal control over financial reporting that could affect the VA's (Department-wide Consolidated) ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The VA's financial statements include the component named Franchise Fund. The material weakness and reportable condition are directly related to one of the enterprise centers within the Franchise Fund. The material weakness and reportable condition are described in the following paragraphs.

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Material Weakness—Information Technology (IT)

Franchise Fund's financial data is at risk due to serious weaknesses related to control and oversight over access to its information system. These weaknesses placed financial data at risk of inadvertent or deliberate misuses, fraudulent use, or destruction, possibly occurring without detection. The VA Office of Inspector General first reported this condition in its fiscal year 1997 audit report and made recommendations for VA to implement a comprehensive security program that would improve these controls. VA first reported IT security controls as a material weakness in its Federal Managers' Financial Integrity Act (FMFIA) report for fiscal year 1998.

Recommendation

We concur with the recommendations in the VA's fiscal year 2001 consolidated financial audit report which recommends that appropriate resources and accountability mechanisms be applied in order that the planned actions will be accomplished within a acceptable timeframe and will remediate the deficiencies identified in the Government Information Security Reform Act Process.

Reportable Condition—Application Program and Operating System Change Controls

Weaknesses in application program change controls and operating system change controls existed at the data center. Weaknesses include: inappropriate access capabilities by application programmers and system support staff to production data; lack of application change procedures; inadequate procedures for testing, approving, and migrating system software changes; and inadequate application program change tracking procedures.

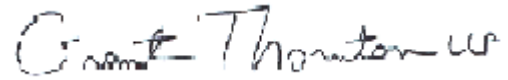
Recommendation

We concur with the recommendations in the VA's fiscal year 2001 consolidated financial audit report which recommends that improved controls over application program and operating system changes be instituted, communicated and enforced throughout the data center.

Compliance with Laws and Regulations

The VA Franchise Fund's management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the VA Franchise Fund's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts which could have a direct and material effect on the determination of financial statement amounts. The results of our tests disclosed no instances of noncompliance that are required to be reported under OMB Bulletin No. 01-02. Providing an opinion on compliance with laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

This report is intended for the information and use of management of the Department, VA Enterprise Centers, the Franchise Fund Board of Directors, Office of Inspector General of the Department of Veterans Affairs, the OMB, and Congress and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Grant Thornton" followed by a stylized flourish.

Vienna, VA
January 18, 2002

Department of Veterans Affairs Franchise Fund

Consolidated Balance Sheets

| <u>September 30,</u> | | |
|---|------------------|------------------|
| | 2001 | 2000 Restated |
| <i>(dollars in thousands)</i> | | |
| Assets | | |
| Intragovernmental | | |
| Fund Balance with Treasury (Note 2) | \$ 52,055 | \$ 44,996 |
| Accounts Receivable | 14,422 | 10,044 |
| Other Assets | 867 | 1,886 |
| Total Intragovernmental | 67,344 | 56,926 |
| Accounts Receivable | 57 | 3 |
| Property, Plant and Equipment, Net (Note 3) | 22,197 | 20,590 |
| Other Assets | 1 | 0 |
| Total Assets | \$ 89,599 | \$ 77,519 |
| Liabilities | | |
| Intragovernmental Liabilities | | |
| Accounts Payable | \$ 212 | \$ 162 |
| Other Liabilities (Note 4) | 1,670 | 9,161 |
| Total Intragovernmental | 1,882 | 9,323 |
| Accounts Payable | 3,861 | 2,094 |
| Other Liabilities (Note 4) | 22,265 | 18,946 |
| Total Liabilities | 28,008 | 30,363 |
| Net Position | | |
| Unexpended Apportionments (Note 5) | 42,354 | 33,969 |
| Cumulative Results of Operations | 19,237 | 13,187 |
| Total Net Position | 61,591 | 47,156 |
| Total Liabilities and Net Position | \$ 89,599 | \$ 77,519 |

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

Department of Veterans Affairs Franchise Fund

Consolidated Statements of Net Costs

| | | | | | | |
|--|--|--|--|--|--|--|
| | | | | | | |
|--|--|--|--|--|--|--|

For the fiscal years ended September 30,

| | 2001 | 2000 |
|-------------------------------|-------------|-------------|
| <i>(dollars in thousands)</i> | | |
| Program Costs | | |
| Intragovernmental | \$ 24,673 | \$ 3,516 |
| With the Public | 106,280 | 122,532 |
| | | |
| Total Program Costs | 130,953 | 126,048 |
| | | |
| Less Earned Revenues | (140,985) | (137,743) |
| | | |
| Net Program Costs | \$ (10,032) | \$ (11,695) |

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

Consolidated Statement of Changes in Net Position

For the fiscal years ended September 30,

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

Department of Veterans Affairs Franchise Fund

Consolidating Statements of Budgetary Resources

For the fiscal year ended September 30,

| | 2001 | 2000 |
|--|-------------------|--------------------|
| <i>(dollars in thousands)</i> | | |
| Budgetary Resources | | |
| Unobligated Balance at Beginning of Fiscal Year (Note 5) | \$ 5,926 | \$ 17,645 |
| Spending Authority from Offsetting Collections | <u>144,754</u> | <u>147,498</u> |
| Total Budgetary Resources | <u>150,680</u> | <u>165,143</u> |
| Status of Budgetary Resources | | |
| Obligations Incurred | 112,664 | 159,217 |
| Unobligated Balance Available (Note 5) | 36,221 | 5,926 |
| Unobligated Balance Not Yet Available (Note 5) | <u>1,795</u> | <u>0</u> |
| Total Status of Budgetary Resources | <u>150,680</u> | <u>165,143</u> |
| Outlays | | |
| Obligations Incurred | 112,664 | 159,217 |
| Less: Spending Authority from Offsetting Collections and Adjustments | <u>(144,754)</u> | <u>(147,498)</u> |
| Subtotal | (32,090) | 11,719 |
| Obligated Balance, Net-Beginning of Fiscal Year | 39,069 | 16,035 |
| Less: Obligated Balance, Net-End of Fiscal Year | <u>(14,039)</u> | <u>(39,069)</u> |
| Total Outlays | <u>\$ (7,060)</u> | <u>\$ (11,315)</u> |

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

Department of Veterans Affairs Franchise Fund

Consolidated Statements of Financing

For the fiscal years ended September 30,

| | 2001 | 2000 Restated |
|---|----------------|------------------|
| <i>(dollars in thousands)</i> | | |
| Obligations and Non-budgetary Resources | | |
| Obligations Incurred | \$ 112,664 | \$ 159,217 |
| Less: Spending Authority from Offsetting Collections and Adjustments | (144,754) | (147,498) |
| Financing Imputed for Cost Subsidies | 3,904 | 2,999 |
| Transfers-In (Out) | <u>9,341</u> | <u>204</u> |
| Total Obligations as Adjusted and Non-budgetary Resources | (18,845) | 14,922 |
| Resources That Do Not Fund Net Cost of Operations | | |
| Change in Amount of Goods Services and Benefits Ordered but Not Yet Provided (Net Increases) Net Decreases | 27,498 | (25,645) |
| Change in Unfilled Customer Orders | (5,432) | 2,496 |
| Costs Capitalized on the Balance Sheet (Increases) Decreases | | |
| General Property, Plant and Equipment | (13,768) | (15,362) |
| Adjustments to Costs Capitalized on the Balance Sheet | (54) | (3) |
| Other | <u>0</u> | <u>2,860</u> |
| Total Resources That Do Not Fund Net Costs of Operations | 8,244 | (35,654) |
| Components of Costs of Operations That Do Not Require or Generate Resources | | |
| Depreciation and Amortization | 4,987 | 2,893 |
| (Loss) Gain on Disposition of Assets | 742 | 153 |
| Other | <u>(5,160)</u> | <u>5,991</u> |
| Total Costs That Do Not Require Resources | <u>569</u> | <u>9,037</u> |
| Net Cost of Operations | \$ (10,032) | \$ (11,695) |

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

Department of Veterans Affairs Franchise Fund

Notes to Consolidated Financial Statements

September 30, 2001 and 2000

(dollars in thousands)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Created by Congress in 1996, as one of six Franchise Fund pilots operating within the Executive Branch of Government, VA's Franchise Fund (the Fund), supports VA's mission by supplying common administrative services at competitive prices. By law, the business lines within the Fund can only sell to Federal entities. The Fund accounted for its funds in six lines of business (VA Enterprise Centers) and in one administrative organization: Austin Automation Center, Debt Management Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center, VA Records Center and Vault and the Enterprise Fund Office.

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) standards and related concepts. The American Institute of Certified Public Accountants (AICPA) designated FASAB as the accounting standard-setting body for Federal governmental entities. As a result, accounting principles promulgated by FASAB are considered accounting principles generally accepted of the United States of America for Federal governmental entities.

Principles of Consolidation

The consolidated financial statements include the six individual activity centers of the Fund. All material intra-fund transactions have been eliminated.

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 for Permanent Changes of Station (PCS) travel or advances for Federal Employees Health Benefits (FEHB) 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.

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.

Department of Veterans Affairs Franchise Fund

Notes to Consolidated Financial Statements

September 30, 2001 and 2000

(dollars in thousands)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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. Exchange revenues are 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 not recognized as expenses until actually used. Financing sources for these expenses, which derive from both current and prior year appropriations and operations, are also recognized this way.

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.

Imputed Financing

The imputed financing of retirement benefit costs is borne by the Office of Personnel Management to support the retirement of our employees. This cost is not included within the billing rates charged to customers.

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:

| | 2001 | 2000 |
|----------------------------|-----------|-----------|
| Fund Balance with Treasury | \$ 52,055 | \$ 44,996 |

Department of Veterans Affairs Franchise Fund

Notes to Consolidated Financial Statements

September 30, 2001 and 2000

(dollars in thousands)

NOTE 3—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including transfers from other Federal agencies, are recorded at cost. Expenditures for major additions, replacements, and alterations are capitalized. Routine maintenance is expensed when incurred. Items costing over \$5,000 with a useful life of two years or more are capitalized. Equipment is depreciated using the straight-line method over the estimated useful life, usually three to five years.

The property, plant and equipment for the Franchise Fund as of September 30:

| | Cost | Accumulated Depreciation | 2001 Net Book Value | 2000 Net Book Value |
|--|-----------|-----------------------------|---------------------------|---------------------------|
| Furniture & Equipment | \$ 2,410 | \$ (915) | \$ 1,495 | \$ 1,564 |
| ADP Equipment | 12,826 | (5,556) | 7,270 | 7,799 |
| Software | 8,183 | (4,110) | 4,073 | 4,268 |
| Leasehold Improvements | 15,105 | (5,746) | 9,359 | 6,959 |
| Total Property, Plant and Equipment | \$ 38,524 | \$ (16,327) | \$ 22,197 | \$ 20,590 |

NOTE 4—OTHER LIABILITIES

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

| | 2001 | 2000 |
|-------------------------------------|----------|----------|
| Intragovernmental | | |
| Accrued Payables—Federal | \$ 1,480 | \$ 4,014 |
| Advances—Federal | 190 | 5,147 |
| Total Intragovernmental Liabilities | \$ 1,670 | \$ 9,161 |

Department of Veterans Affairs Franchise Fund

Notes to Consolidated Financial Statements

September 30, 2001 and 2000

(dollars in thousands)

NOTE 4—OTHER LIABILITIES—Continued

| | | | | |
|-----------------------------|----|--------|----|--------|
| Public | | | | |
| Accrued Payables | \$ | 17,621 | \$ | 13,798 |
| Accrued Salaries & Wages | | 1,708 | | 2,406 |
| Accrued Funded Annual Leave | | 2,936 | | 2,742 |
| | | | | <hr/> |
| Total Public Liabilities | \$ | 22,265 | \$ | 18,946 |
| | | | | <hr/> |

NOTE 5—UNEXPENDED APPORTIONMENT

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.

| | | 2001 | | 2000 |
|--------------------------------|----|--------|----|--------|
| Unobligated Apportionment | | | | |
| Available | \$ | 36,221 | \$ | 5,926 |
| Unavailable | | 1,795 | | 0 |
| Undelivered Orders | | | | |
| Unpaid | | 4,338 | | 28,043 |
| | | | | <hr/> |
| Total Unexpended Apportionment | \$ | 42,354 | \$ | 33,969 |
| | | | | <hr/> |

NOTE 6—CHANGE IN ACCOUNTING POLICY

Prior to 2001, the VA Franchise Fund’s capitalization threshold was \$300 for property, plant and equipment. In January 2001, the threshold was raised to \$5,000. This new threshold was applied to purchases made on or after October 1, 2000.

Department of Veterans Affairs Franchise Fund

Notes to Consolidated Financial Statements

September 30, 2001 and 2000

(dollars in thousands)

NOTE 7—RESTATEMENT OF FISCAL YEAR 2000

The accompanying 2000 consolidated financial statements have been restated to reflect the recording and classification of leasehold improvements that were excluded from the previously issued 2000 financial statements. The effect of the restatement was to increase property, plant and equipment and increase cumulative results of operations by \$4,455. The leasehold improvements had not been capitalized nor expensed in the previously issued financial statements.

| | 2000 | 2000 (Restated) | Variance |
|---|-----------|--------------------|----------|
| Balance Sheet | | | |
| Property, Plant & Equipment | \$ 16,135 | \$ 20,590 | \$ 4,455 |
| Total Assets | 73,064 | 77,519 | 4,455 |
| Total Net Position | 42,701 | 47,156 | 4,455 |
| Total Liabilities & Net Position | 73,064 | 77,519 | 4,455 |
| Net Costs | | | |
| No Change | | | |
| Changes in Net Position | | | |
| (Decrease) Increase in Unexpended Apportionment and Non-Operating Changes | (599) | 3,856 | 4,455 |
| Changes in Net Position | 14,299 | 18,754 | 4,455 |
| Net Position—End of Period | 42,701 | 47,156 | 4,455 |
| Budgetary Resources | | | |
| No Change | | | |
| Financing | | | |
| Costs Capitalized on the Balance Sheet (Increases) Decreases | | | |
| Property, Plant & Equipment | (10,907) | (15,362) | (4,455) |
| Total Resources That Do Not Fund Net Cost of Operations | (31,199) | (35,654) | (4,455) |
| Components of Costs of Operations That Do Not Require or Generate Resources | | | |
| Other | 1,536 | 5,991 | 4,455 |
| Total Costs That Do Not Require Resources | \$ 4,582 | \$ 9,037 | \$ 4,455 |

Supplemental Information



MANAGEMENT DISCUSSION AND ANALYSIS

Entrepreneurial Network At-A-Glance

We are one of the leading fee-for-service operations in government, employing over 700 people nationwide and performing hundreds of projects for our 84 federal customers of all sizes. Our entrepreneurial network includes six Enterprise Centers which are described below and one administrative organization (Enterprise Fund Office). The Enterprise Fund Office provides support to the Centers by directing, reviewing and analyzing budget formulations, managing overall financial and business planning aspects, and ensuring the Centers are kept informed of current trends, policies, and legislation impacting their operations.

| VA Enterprise Centers | Brief Description | Products/Services | Location |
|------------------------------------|--|--|-----------------|
| Austin Automation Center | Recognized award-winning data center, providing a full complement of cost-efficient information technology services and enterprise “best practices” to customers. In addition, it supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits, and supply functions. | <ul style="list-style-type: none"> Platform Hosting Application Management Total Information Assurance Customer Business Continuity Data Conversion and Data Interfacing Configuration Management | Austin, TX |
| Debt Management Center | Leader in the federal debt community that oversees the entire collection process: making initial cold calls to debtors, negotiating repayment plans and administering automated recovery programs. It employs every collection tool available to Federal agencies, including referrals to locator services, private collection agencies, and computer matching. | <ul style="list-style-type: none"> Account Maintenance Administrative Offset Administrative Services Predictive Dialer (Telephone Solicitation) | St. Paul, MN |
| Financial Services Center | Customer-focused federal financial solutions and service provider of a complete suite of financial management services. | <ul style="list-style-type: none"> Invoice and Payment Processing Payroll Services Financial Accounting/Reporting Audit Recovery Services Financial Consulting Services Credit Card Processing Travel Services Document Management Electronic Commerce/Electronic Data Interchange Training | Austin, TX |
| Law Enforcement Training Center | Sole provider of a unique federal law enforcement training program that provides an alternative approach emphasizing nonviolent techniques to ensure the safety of patients, customers, and staff and maintain order in federal institutions. Its program is geared toward how to resolve incidents in a humane, respectful manner and to utilize law enforcement as a last resort. | <ul style="list-style-type: none"> Basic Police Officer Training Baton Instructor Training Detective Training Semi-Automatic Pistol Training Administrative Investigations Training Supervisory Officer Training Self Protection Training Violence in the Workplace Training Armorer Training | Little Rock, AR |
| Security and Investigations Center | Performs background investigations/adjudications, fingerprint processing and identification badge and access card design and production. | <ul style="list-style-type: none"> Investigations/Adjudications Fingerprint Processing Identification Badge and Access Card Design and Production | Washington, DC |
| VA Records Center and Vault | Highly secure, climate-controlled certified storage facility that houses short- and long-term records and files. | <ul style="list-style-type: none"> Records Storage and Services | Midwest |

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Measures Summary Table

The VA Enterprise Centers are planting seeds for the future. Our performance measures reflect a cohesive, cross enterprise vision of what we hope to accomplish. Having a clear sense of where you are and where you want to be is a crucial element to any viable business. We monitor and assess our performance to continually enhance our competitive position.

| Performance Measure | 1999 | 2000 | 2001 | 2002 | 2003 | Strategic Target |
|---|------|------|------|------|------|------------------|
| Austin Automation Center | | | | | | |
| Customer satisfaction rating on a scale of 1-5 | N/A | 3.91 | 3.95 | 3.5 | 3.5 | 3.5 |
| Online systems availability rate | 99% | 99% | 99% | 99% | 99% | 99% |
| Output timeliness rate | 99% | 99% | 99% | 99% | 99% | 99% |
| Output accuracy rate | 99% | 99% | 99% | 99% | 99% | 99% |
| Percent of Help Desk First-Contact Resolution (Tier 1) rate | N/A | N/A | 58% | 66% | 68% | 70% |
| Debt Management Center | | | | | | |
| Percent of lost call rate on toll-free telephone system | 3% | 3% | 2.2% | ≤3% | ≤3% | ≤3% |
| Timeliness rate in response to debtor's written inquiries | N/A | N/A | 100% | 100% | 100% | 100% |
| Financial Services Center | | | | | | |
| Percentage of W-2 release dates met | 100% | 100% | 100% | 100% | 100% | 100% |
| Update accounting systems with credit card transactions daily | N/A | N/A | 100% | 100% | 100% | 100% |
| Payment processing accuracy rate | 93% | 95% | 95% | 96% | 95% | 95% |
| Travel payment processing accuracy rate | N/A | N/A | N/A | 95% | 95% | 95% |
| Overall customer satisfaction rating on a scale of 1-5 ¹ | N/A | 3.5 | N/A | TBD | TBD | TBD |
| VA Records Center and Vault | | | | | | |
| Timeliness rate of recall requests for individual records and multiple records | 100% | 99% | 98% | 97% | 97% | 97% |
| Timeliness rate of emergency/contingency test recall requests for individual records and multiple records | 100% | 98% | 100% | 97% | 97% | 97% |

¹ To Be Determined (TBD).

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Measures Summary Table

| Performance Measure | 1999 | 2000 | 2001 | 2002 | 2003 | Strategic Target |
|--|------|------|------|------|------|------------------|
| VA Records Center and Vault (continued) | | | | | | |
| Timeliness rate of rights and interests records that are available after a period of approximately 20 days in the event of a major national disaster | N/A | N/A | N/A | 97% | 97% | 97% |
| Enterprise Fund Office | | | | | | |
| Operating Reserves Target ² | N/A | N/A | 70% | 70% | 75% | 100% |
| Number of audit qualifications for the VA Enterprise Centers | 0 | 0 | 0 | 0 | 0 | 0 |

² Maintain a positive cash balance at all times by accumulating an operating reserve equivalent to 3 months of operating expense based on current fiscal year estimates.

MANAGEMENT DISCUSSION AND ANALYSIS

Limitations of the Financial Statements

The 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 the formats prescribed by the Office of Management and Budget, 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. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

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