Treasury Franchise Fund

October 1, 2011 – September 30, 2012

The Treasury Franchise Fund is one of the government's leading shared services providers. We provide common administrative and information technology support services on a competitive, fully cost-reimbursable basis, enabling our customers to focus on meeting their missions.

Message from the Commissioner

I am pleased to present the annual report of the Treasury Franchise Fund (Fund) for fiscal year (FY) 2012. In doing so, I would like to thank Van Zeck, former Commissioner of the Public Debt, for his leadership and commitment to the Fund's shared services from 1998 until his retirement in September. During his tenure, the Fund earned a reputation of high quality and cost effective shared services solutions that resulted in steady growth and cost sharing opportunities for more than 70 organizations.

FY 2012 has been an exciting year and one in which the Department of the Treasury has demonstrated significant support of federal shared services, including those provided by the Fund. The Bureau of the Public Debt and the Financial Management Service are consolidating to create the Bureau of the Fiscal Service. The consolidation will provide an opportunity to continue our vision of providing federal shared services leadership that maximizes efficiency, performance, and customer service. In addition, the creation of a Treasury Shared Service Council further demonstrates the Department's commitment to the Fund and the high quality shared services that it can offer.

In the following pages, you will find summaries of our accomplishments, financial stability, and future vision. During FY 2012, we implemented a new release of our core accounting system, completed our Fiscal IT initiative, achieved sub-inflationary service rates, and positioned the Fund to be a viable and long term shared service option for federal agencies. We are committed to our role in helping the federal government earn the confidence of our stakeholders.

As always, I want to thank our customers for their trust and partnership and acknowledge the dedication and commitment of our staff in delivering the high-quality service you've come to expect. I speak for all management and staff in saying that we look forward to the challenges and future of shared services in the federal sector and to the Fund playing a significant role in that future.

Dave Lebryk
Commissioner of the Bureau of the Fiscal Service

Our Services

ARC provides the following support services:

- Financial Management
- Human Resources
- Procurement
- Travel
- Information Technology

ARC is a designated Federal Shared Service Provider in the Financial Management, Human Resources, Public Key Infrastructure, Information Systems Security, and Budget Formulation and Execution Lines of Business.

Inside this Report

Accomplishments

In FY 2012, we consistently met or exceeded our performance metrics, received an overall customer satisfaction result of 94.3 percent and achieved sub-inflationary service rates for the second straight year. Other significant accomplishments include:

System Upgrades/Enhancements

Financial System Re-implementation

An ARC project team worked collaboratively with customers to successfully complete the re-implementation and began deploying Oracle E-Business Suite, Release 12 (R-12). By the end of the calendar year, all 30 shared service customers were transitioned to R-12, enabling the decommission of the previous version. R-12 is now the foundation of the platform used by ARC to support financial management, procurement, travel and human resources services. Because of the close integration with subsidiary systems, the R-12 project scope included modifications to all shared subsidiary systems and the standard business processes that integrate with the core system. The project team's results are remarkable and the transition provides significant benefits to our customers. These include a more flexible and Common Government-wide Accounting Classification (CGAC) compliant account code structure, streamlined reimbursable agreement and billing functionality, project cost management, and risk mitigation and cost containment by remaining on a vendor supported release. Through the hard work of the ARC project team and the support of our customer staff, we are now better positioned to support future government-wide reporting requirements and meet the financial management needs of customer agencies.

PRISM

In March 2012, our web-based procurement system, PRISM, was upgraded to version 7.1. The upgrade was initiated to support the Oracle R-12 project and required training over 300 users. This has resulted in a more user friendly dashboard of workload statistics and a more efficient requisition process.

Implementation of Invoice Processing Platform

We continued Invoice Processing Platform (IPP) implementation by improving integration with Oracle, deploying the IPP business process to nearly all shared service customers and working collaboratively with procurement offices and the vendor community to maximize its use.

Customer Support Initiatives

Human Resources Assistance to FEMA

Our Human Resources service line demonstrated the responsiveness of shared service organizations by supporting the Federal Emergency Management Agency (FEMA). To enable FEMA to support a new presidential policy directive, we posted over 300 vacancies, evaluated nearly 37,000 applications, and issued over 1,100 certificates in a sixty (60) day period, thus ensuring FEMA resources were prepared for hurricane season.

Trusted Internet Connection (TIC) Expansion

Our Information Technology (IT) services were previously selected as a Treasury Trusted Internet Connection Access Provider (TICAP). Earlier this year, Treasury requested that we provide TIC services to all Treasury bureaus, except the IRS. By the end of FY 2012, we successfully migrated all bureaus to our TICAP infrastructure, reducing costs and ensuring compliance.

Government Wide Support

Fiscal IT Data Center Consolidation

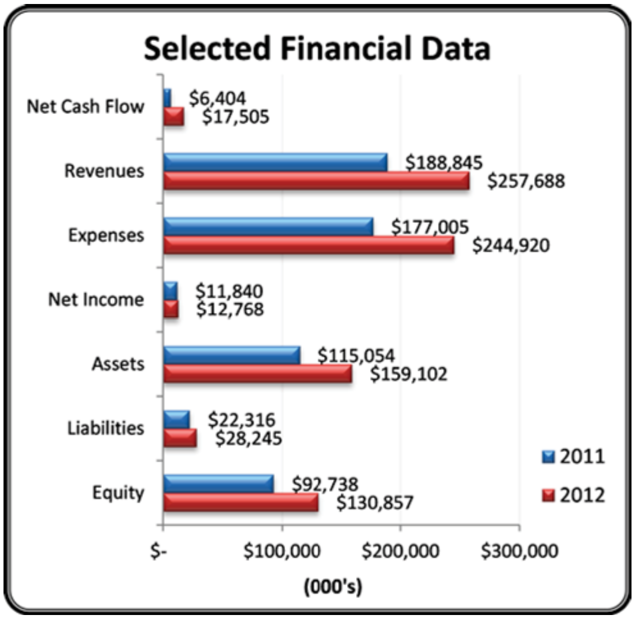
We completed the Fiscal IT data center consolidation project in FY 2012. The project was aligned to the Federal Data Center Consolidation Initiative (FDCCI) and resulted in closing three data centers, restructuring IT operations, and providing future opportunities for greater cost savings and enhanced operational support.

Do Not Pay Program

In FY 2012, we continued to implement controls in support of the Office of Management and Budget (OMB) memorandum M-12-11, Reducing Improper Payments through the "Do Not Pay List." During the year, new business processes were piloted that leveraged the Do Not Pay program's "continuous monitoring service" to identify and prevent improper payments. Through this service, vendor and employee records are compared with Do Not Pay data sources and matches are provided to designated ARC customers' points of contact for follow-up. In October 2012, the pilot was fully implemented throughout ARC and the controls were included as part of our annual SSAE16 review.

Finances

We prepare annual financial statements for the Fund in accordance with OMB Circular A-136, Financial Reporting Requirements. These statements are used to ensure financial accountability, assess performance, and determine overall financial position. We share our financial status annually with stakeholders and customers to provide evidence of stability as a federal shared services provider.



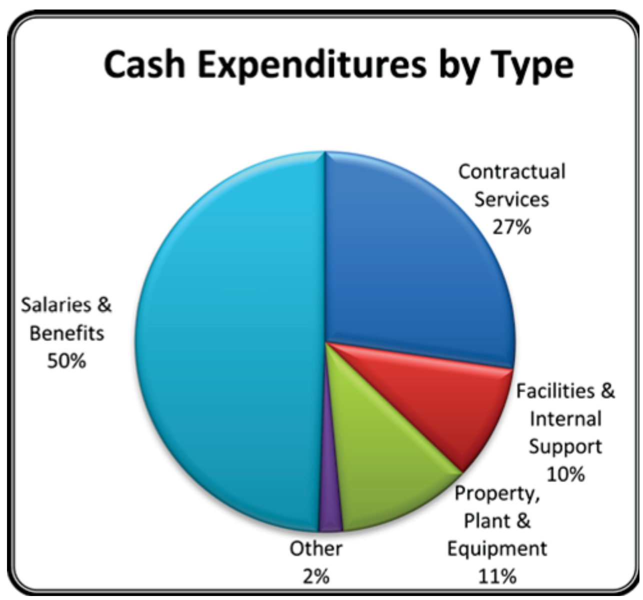
Cash flow is crucial to the financial health and continued viability of the Fund. In 2012, net cash flows were $17.5 million. The net cash inflow is principally the result of lower than anticipated IT operating costs of approximately $10.5 million and the collection of a $5.7 million receivable in FY 2012 that was earned in FY 2011.

In 2012, revenues and expenses increased 36 and 38 percent, respectively. Both increases are due to expanded IT hosting services provided to the Financial Management Service (FMS).

The $4.7 million difference between net income and net cash flow results from timing differences between cash and expenses.

The Fund's balance sheet continues to reflect financial strength that corresponds to our longstanding commitment to customers and staff. Assets are comprised primarily of the Fund Balance with Treasury of $112 million. Payroll and funded leave liabilities account for over 50 percent of total liabilities. The $38.1 million increase in equity is attributable to net income and a $25.4 million asset transfer from consolidating FMS data centers into the Fund.

We are proud of our commitment to financial data integrity, compliance with laws and regulations, and effective internal controls. In FY 2012, we contracted for a fund-wide financial statement audit and a Type 2 SSAE 16 review of internal controls in the Financial Management, Travel, Procurement and Human Resources service lines. These audits resulted in unqualified opinions for the 16th consecutive year on our financial statement audit and for the 10th consecutive year on the internal control review. In addition, no instances of non-compliance or material internal control weaknesses were identified.



Looking Forward

Financial Management Service and the Bureau of the Public Debt Consolidation

The President's FY 2013 Budget proposed the consolidation of the Bureau of the Public Debt (Public Debt) and Financial Management Service into a single organization called the Bureau of the Fiscal Service (Fiscal Service). Public Debt executives and staff have been working to prepare the foundation for our new bureau. Consolidating the two bureaus provides an opportunity to perform existing core functions more effectively, better positions the Fiscal Service to play a stronger leadership role in government-wide financial management, and strengthens the support for shared services provided by the Fund.

Treasury Franchise Fund Realignment

In July 2012, Treasury management approved the transfer of management and oversight of the Fund from the Fiscal Assistant Secretary (FAS) to the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO). The approval included a clear delineation of responsibilities for the ASM/CFO as manager of the Fund and the organizations with franchise business activities. Fiscal Services will maintain management of day to day operations. The realignment will provide the ASM/CFO with greater financial flexibilities within Treasury, including the ability to apply franchising authority to administrative and centralized functions throughout the Department, and will better position the Fund to promote and support departmental and government-wide shared services. In FY 2013, the ASM/CFO will begin planning the transfer activities and work with FAS to establish an effective date for the transfer.

Conversion to the next E-Gov Travel Services Solution

On June 4, 2012, the General Services Administration (GSA) awarded a contract for the next generation of E-Gov Travel service (ETS2) to Concur Technologies, Inc. ARC's Travel Division has initiated planning for the transition of current travel customers from GovTrip to Concur's ETS2 solution. Based on our participation in the GSA ETS2 evaluation, we anticipate that the new system will provide an efficient and effective travel management solution for our shared service customers.

Customer Expansion

In support of the Bureau of the Fiscal Service's mission and tactical plan for shared services, in FY 2013 we will continue to explore opportunities for managed growth and promote the use of shared services within the federal government to improve efficiency and performance.

Our Priorities

- Maintain outstanding operational service levels.
- Identify and implement operational efficiencies in service delivery.
- Promote and maximize shared services benefits in support of Treasury and government-wide initiatives and mandates.
- Assess and report our performance and provide timely feedback to customers.
- Enhance human capital strategies.