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VA REVOLVING FUNDS: ARE VETERANS BEING SHORTCHANGED?

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Good afternoon, Chairwoman Kiggans, Ranking Member Mrvan, and Members of the Subcommittee. Thank you for the opportunity to testify today on the Department of Veterans Affairs' (VA) Revolving Funds and how these funds support VA's mission to care for Veterans, their families, caregivers, and survivors. I am accompanied by Leroy Larkins, Executive Director for Revolving Funds and Phillip Christy, Deputy Executive Director for Acquisition, Logistics, and Construction.

VA Revolving Funds, consisting of the Supply Fund and Franchise Fund, provide high-quality, cost-effective support services by streamlining processes and optimizing the value of common administrative services to VA's Administrations and Staff Offices and other government agencies. Shared service offerings allow VA Revolving Funds customers to focus on performing their mission-critical functions of providing high-quality care, benefits, and services to Veterans and eligible family members. Better support to VA employees for common administrative services means better services for Veterans, their families, caregivers, and survivors. VA is proud to serve as a Federal shared service provider.

VA Revolving Funds History

VA's Supply Fund is authorized by 38 U.S.C. § 8121. In July 1953, President Dwight D. Eisenhower signed legislation authorizing a revolving supply fund to maintain and operate a supply system for VA, including procurement of goods and services, equipment, personal services, and the repair and reclamation of used, spent, or excess personal property. The Supply Fund is authorized to provide services on a reimbursable basis to VA and the Department of Defense. Additionally, the Supply Fund uses authorities under the Economy Act and Government Employees Training Act with other government agencies.

VA's Franchise Fund was established under the authority of the Government Management Reform Act of 1994 (P.L. 103-356), 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. VA's Franchise Fund began providing common administrative support services to VA and other government agencies in 1997. In 2006, the Military Quality of Life and Veterans Affairs Appropriations Act, P.L. 109-114, made VA's Franchise Fund permanent.

Operations and Management of VA Revolving Funds

VA Supply Fund

The Supply Fund is a self-sustaining, revolving fund that supports the operation of a supply system at VA. As such, no Congressional appropriation is required. Revenue is realized from fees on acquisitions of goods and services from both VA and other government agency customers as approved by VA's Revolving Fund Board of Directors.

The Supply Fund comprises the Office of Acquisition and Logistics and the Office of Procurement, Acquisition, and Logistics, which are organizational elements within the Office of Acquisition, Logistics, and Construction. The Supply Fund is also the funding source for the Office of Small and Disadvantaged Business Utilization.

The Supply Fund provides a broad spectrum of acquisition services, category management oversight, and logistics support operations to VA customers and other government agencies (6% of total revenue in fiscal year (FY) 2023). Service offerings include awarding and administering cost-effective multiple award and national contracts to meet the health care-related information technology (IT), supply, and equipment needed to operate the largest integrated health care system in the Nation.

VA Franchise Fund

The Franchise Fund is a self-sustaining revolving fund providing common administrative services which are funded on a fee-for-service basis rather than through appropriations. This means organizations, internal to VA and external agencies, provide reimbursement to the fund for services received. As such, no Congressional appropriation is required.

The Franchise Fund is comprised of an administrative office and eight self-supporting enterprise centers. VA's enterprise centers provide administrative services in the areas of IT, financial management, personnel security and law enforcement, and human resources. The complete list of the Franchise Fund enterprise centers includes Information Technology Infrastructure Operations, Debt Management Center, Financial Services Center, Internal Controls Support Center, Law Enforcement Training Center, Personnel Security Adjudication Center, Human Capital Services Center, and the Center for Enterprise Human Resources Information Services. Each focuses on adopting efficient, standardized business processes resulting in high customer satisfaction. VA's enterprise centers are accountable to the Revolving Funds Board of Directors and adhere to guidance on quality, cost, and customer service.

The Franchise Fund enterprise centers also support the OMB Cross-Agency Priority Goal of Sharing Quality Services, “The Government strives to identify opportunities to improve stewardship of taxpayer dollars, to create high performing, centralized capabilities for mission-support functions and to make more resources available for agency mission-specific work.”

The Franchise Fund enables VA to leverage commercial solutions and innovative practices to provide high-quality cost-effective solutions to VA and other government agencies. The enterprise centers are required to recover all their expenses through revenue collection, i.e., their operations are totally dependent upon revenues realized from internal and external customers’ purchases of services. In addition, they also market their services as appropriate to other government agencies (15% of total revenue in FY 2023), including the Department of Homeland Security, Department of Health and Human Services, and Department of the Air Force. Providing services to other government agencies spreads the Franchise Fund’s fixed costs over a larger unit base, which leads to lower costs for all customers, including customers internal to VA. This economy of scale leads to more effective use of taxpayer dollars.

VA Revolving Funds Oversight and Best Practices

Oversight for VA’s Revolving Funds is conducted through the Revolving Funds Board of Directors which functions as the principal governance body overseeing the Supply Fund and Franchise Fund’s strategic priorities, goals, and objectives. It also provides strategic leadership for the Supply and Franchise Funds’ operations, execution, and management of overall risks and challenges. The Revolving Funds Board of Directors is co-chaired by the Deputy Chief Financial Officer and Deputy Chief Acquisition Officer of the Department with board members consisting of six other VA senior leaders from the Veterans Health Administration, Veterans Benefits Administration, National Cemetery Administration, Office of Human Resources and Administration/Operations, Security, and Preparedness, and Office of Information and Technology. VA’s Administrations and Staff Offices’ participation on the Revolving Funds Board of Directors ensures Revolving Funds resources strategically serve VA’s mission.

To emphasize transparency and accountability for a $2.2 billion budget, each Franchise Fund Enterprise Center and Supply Fund Acquisition Center is required to complete a 2-year Business Plan on an annual basis. The Revolving Funds Board of Directors reviews and approves each Business Plan which details specific revenue and expense projections, full-time equivalent staffing levels, and contract support requirements prior to funds execution. Information from the approved Business Plans is used to develop Budget Summary data and is included in Part 5 of the VA President’s Budget Submission.

The Revolving Funds Board of Directors also ensures that each entity complies with their respective Business Plan through monthly budget execution reviews. Explanations are provided for variances above or below 10% from estimates and briefed to the Revolving Funds Board of Directors during quarterly meetings. In addition, the enterprise and acquisition centers establish key performance indicators each year. These key performance indicators help the Revolving Funds Board of Directors gauge progress towards achieving customer service goals and progress is briefed during quarterly meetings.

Finally, VA Revolving Funds financial statements are audited by a private sector public accounting firm each year to provide an independent assessment of each Revolving Fund's financial stewardship. As a result of sound financial management business practices, the Franchise Fund received 26 and the Supply Fund received 16 consecutive unmodified "clean" opinions.

In closing, VA's Revolving Funds provide shared services to meet customer service demands effectively and efficiently, providing significant benefit to VA's Administrations and Staff Offices, as well as other government agencies. As the Government Accountability Office (GAO) noted in a recent report, "Commerce Working Capital Fund: Policy and Performance Measure Enhancements Could Help Strengthen Management" (GAO-23-104624), on a similar function in another agency, "Given the fiscal pressures facing the federal government, consolidating and sharing services - such as payroll or information technology services - within and among agencies is one-way agencies can operate more efficiently. Shared services may also allow agencies to benefit from economies of scale and take advantage of specialized expertise." VA's Revolving Funds adhere to this principle and are consistent with GAO's recommendation.

Madam Chairwoman and Members of the Subcommittee, thank you again for the opportunity to discuss VA's Revolving Funds. This concludes my testimony. My colleagues and I are happy to respond to any questions you may have.