

PROGRESS:



STATUS:



STRATEGIC HUMAN CAPITAL

Background

The PMA requires agencies to implement a comprehensive Human Capital Plan that is fully aligned with the agency's mission, strategy and goals. The Human Capital Plan should include metrics, succession planning, leadership accountability and plans for continuous improvement.

Progress

PERFORMANCE-BASED MANAGEMENT PLAN:

This Plan was developed and implemented in FY 2005. It flows directly from the AFRH campus Business Plans – which are linked to the AFRH Strategic Plan. The Performance Plan relates to the criteria for successful human capital management as defined by the PMA, the themes used by Office of Personnel Management as well as the criteria used by Office of Management and Budget. Following best practices, this Plan links corporate strategies, goals and objectives with each employee's performance standards. A pilot performance appraisal program was started for a period from January to July 2005 and the results are still being analyzed.

JOINT COMMISSION ACCREDITATION OF HEALTHCARE ORGANIZATIONS (JCAHO):

Part of the AFRH strategic plan includes the training of all staff to meet standards set by outside organizations such as JCAHO. During FY 2005, AFRH-Gulfport underwent a full review and received JCAHO's Gold Seal of Approval™ in March 2005 – signifying full compliance with all applicable standards. Unannounced on-the-spot surveys were also conducted in June and July at AFRH-Gulfport and AFRH-Washington. Both unannounced surveys verified our full compliance with the applicable standards.

Status

Since all of the PMA criteria have not been achieved via the AFRH Performance Plan, the progress and status scores for this initiative are both "Yellow."

Aftermath of Hurricane Katrina:

Our staff successfully protected the Gulfport residents and each other during this ferocious storm – and ensured their safe transport to DC. No loss of life occurred as a direct result of this storm. Operational decisions for the Gulfport campus will be made during FY 2006.

PROGRESS:



STATUS:



COMPETITIVE SOURCING

Background

The PMA cites the use of the A-76 Process as a way to improve agency performance. This entails inviting public/private competition for an agency's commercial activities or functions. So, the ARFH has actively engaged in competitive sourcing since FY 2004. Local contractor Management Analysis, Incorporated assisted the AFRH in conducting seven competitive sourcing studies (six in FY 2004 that were categorized as "Streamlined." And one in FY 2005 classified as "Standard"). These studies enabled AFRH to successfully focus on its own internal core competencies – and outsource various Support Services. To that point, no Healthcare Services were outsourced. According to our estimates, the competitive sourcing contracts now in place for FY 2005 will generate approximately \$18.7 Million in savings over five years. Those contracts include:

- *Grounds, Golf Course and Snow Removal*
- *Transportation and Refuse Removal*
- *Facilities Maintenance*
- *Food Services*
- *Security Services in Gulfport*
- *Security Services in Washington*
- *Campus Operations in Gulfport*

IMPROVED FINANCIAL PERFORMANCE

Background

To meet their fiduciary responsibilities, agencies must comply with a variety of applicable laws and regulations. For example, they must meet financial deadlines, comply with the Federal Financial Management Improvement Act, produce accurate financial information on demand and routinely assess the performance and financial data managers use to make daily decisions. Further, agencies must avoid chronic or significant Anti-Deficiency Act Violations, material internal control weaknesses as well as material non-compliance with laws or regulations in annual accountability reports.

Progress

FINANCIAL MANAGEMENT:

Progress will remain "Green" as we continue in compliance. The outsourcing of financial services to BPD has enabled the agency to manage and monitor all expenditures. Now, managers have online access to their accounts through a variety of online programs.

THE REAL ESTATE MASTER PLAN:

This Plan strives to provide sufficient revenue to support our goal of resident-focused care – while also replenishing the partially depleted Trust Fund. This Plan also seeks to attract

development at a fair market value that is compatible with the mission of the AFRH. So, an open participatory process with the residents and the neighboring community began in the summer of 2005.

Status

The AFRH Trust Fund balance is central to the financial vitality and survival of AFRH. So, the institution has aggressively made moves to improve its financial state. In FY 2004, AFRH outsourced the accounting and contracting functions to the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC). Currently, the Home is meeting its financial deadlines, working to comply with all relevant regulations and producing financial information on demand. Also, the first audit under the CFO Act was completed for Fiscal Year 2005 and AFRH received an unqualified audit opinion.

Aftermath of Hurricane Katrina:

Admissions to Gulfport are closed. Current revenue from that campus is about 60% of what it should be. The cost of renovations to the Gulfport campus is now being estimated. Meanwhile, renovations for the Pipes Building on the Washington campus will now be required and those costs are being developed as well.

PROGRESS: 

STATUS: 

Progress

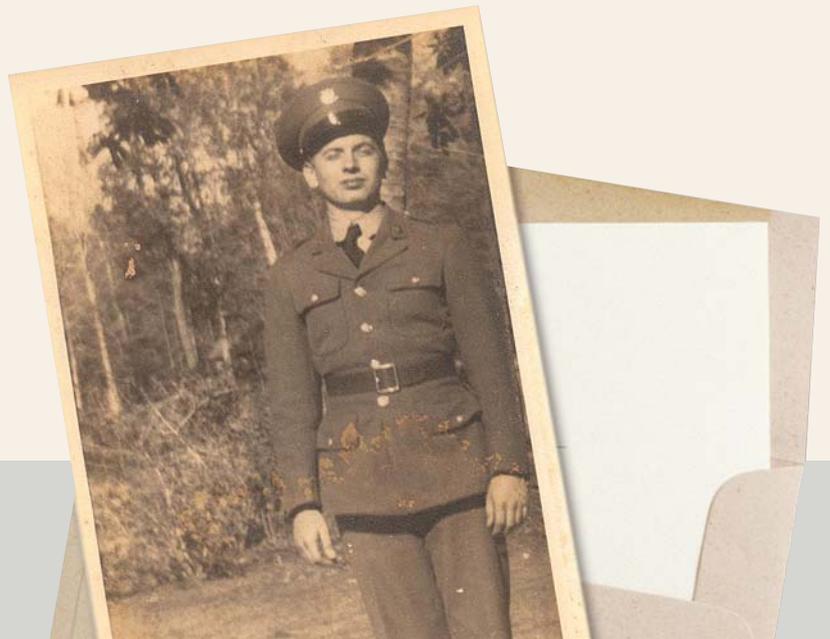
Progress on the AFRH competitive sourcing is also "Green". The competitive bid for Dining Services at the Washington campus was awarded in October 2004. In FY 2005, our managers monitored the performance results of awards made in 2004. As a result, several changes occurred in the status of the AFRH Competitive Sourcing data for FY 2005. Those changes occurred in Grounds, Golf Course and Snow Removal, Transportation and Refuse Removal, as well as Facilities Maintenance.

Status

AFRH has achieved "Green" in competitive sourcing.

Aftermath of Hurricane Katrina:

A change in the Transportation contract was required at the Washington campus due to the increased numbers of riders after Katrina. Most contracts at the Gulfport campus have been cancelled.



PROGRESS:



STATUS:



EXPANDED ELECTRONIC GOVERNMENT

Background

The PMA requires agencies to furnish a modernization blueprint for Expanded Electronic Government (E-Gov). The blueprint should focus on IT investments in key agency functions and define how those functions will be measurably improved. To achieve a "Green" in E-Gov, an agency's plan must address a variety of areas. They include security, success measures, program management, performance goals, risk management, as well as cost schedule for all major IT systems. Additional requirements for a "Green" rating in E-Gov stipulate that cost and schedule must be on target – and there must be no overruns or shortfalls greater than 10%. Agencies must contribute to and participate in three of the four categories of E-Gov initiatives (rather than create redundant or agency-unique IT projects.) To meet the mandates of the PMA, the Home conducted a thorough IT Assessment and Needs Analysis in the fall of 2003.

Progress

FY 2005 was the first full year for all the enhancements suggested and implemented in FY 2004. For residents, plans for Voice over Internet Protocol (VoIP) were underway, so they could make free long-distance calls on their computers. The current direction is to create an "AFRH Environment" which drastically improves financial outcomes. This Environment will provide better information to our community at lower cost – and with greater simplicity, accuracy and availability.

Our focus is a universal Resident Information System (RIS). This will provide enhanced caregiver productivity, business office efficiency and enterprise decision-making. The RIS will consist of a broad range of routine and specialized functions

currently performed by multiple organizations within the Home. These functions include Pre-Admissions, Admissions, Medical Assessments, Billing, Care Plans, Quality Indicators, Nursing Statistics and various associated reports to name a few. The AFRH signed an agreement in FY 2005 to adopt Monette as its off-the-shelf software. Yet, due to limited resources, those planned improvements will start in FY 2006.

During and immediately after Hurricane Katrina, the AFRH website served as a key portal of information to family, relatives and friends regarding the status of residents. Likewise, afrh.gov was critical in tracking items that were needed for donations and it served as a point of contact for many people.

Currently, progress in this area remains "Yellow."

Status

AFRH had made enormous strides in E-Gov initiatives in FY 2004. However, in FY 2005, the IG cited many areas for improvement because work in this area is not yet complete. Therefore, the status is "Yellow."

Aftermath of Hurricane Katrina:

The IT infrastructure at Gulfport was severely damaged. Estimates for repair will be reported in FY 2006. With the transfer of Gulfport residents to Washington, this VoIP planning is being revisited.



“Every year, we get together and watch the Super Bowl. I always watch for the long bomb.”

—Louie Aiello, DC resident
(retired Air Force)

INTEGRATED BUDGET AND PERFORMANCE

Background

This PMA initiative calls for quarterly examinations of reports that integrate agency financial and performance information for major responsibilities. This helps an agency make informed decisions regarding its program management. As always, Strategic Plans must contain outcome-oriented goals and objectives.

Progress

The AFRH has been working on several different fronts to integrate budget and performance. At the agency level, initiatives for the PMA have been achieving objectives as stated. At the campus level, the Business Plan for each campus has directly linked performance with strategy. Many of the objectives cited in the campus Business Plans have specific measures to be achieved by certain dates. Campus level activities are discussed in detail in later sections.

At present, our progress remains "Yellow."

Status

In FY 2005, the AFRH did not submit any actions for assessment in the PART. The performance link – from strategy to individual manager accomplishments – was tested this fiscal year through the new appraisal system executed in our Performance Management Plan.

Since results were not finalized, the status for budget and performance integration remains "Yellow."

"One Model" Operations

In FY 2005, additional progress was made in the One Model alignment. This includes creating and updating directives that apply to both Homes – such as obtaining a single Dining Services vendor for both campuses, centralizing the admissions process at corporate headquarters and developing a cohesive and targeted marketing campaign.

DC Campus Upgrades in 2005

Early in the year, planned renovations in Washington were completed for a new Dental Clinic, the new Optometry Clinic and a new Community Health unit. Meanwhile, the Pipes Building was mothballed in anticipation of being leased under the Master Plan.

Aftermath of Hurricane Katrina:

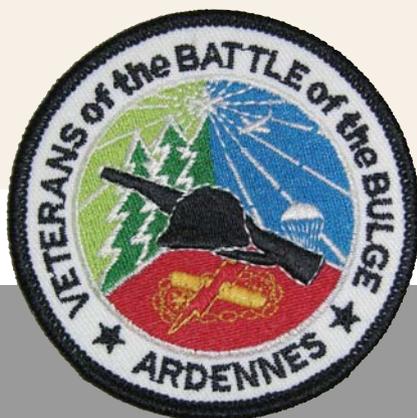
Then in-depth analysis of Katrina's impact to our Washington operations is underway. Presently, all contracts are being altered to accommodate the additional residents from Gulfport. Many staff members are being shifted around. Plus, the "One Model" is being put to the test. Specifically, the Pipes Building was reopened within 72 hours after the storm to house more than 100 Independent Living residents from Gulfport.

On the Gulfport campus, the Cabana, Wood Hobby Shop and water tower were all demolished. The living quarters near the entrance were lost. And major damage occurred on the first floors of the Resident Tower, the Administration Building and the Campus Operations Building. Further, all vehicles left on the grounds were completely lost. As of this writing, the Gulfport campus still has limited electrical power and no running water. Yet, we are hopeful that the Gulfport facility can be refurbished and that it may be reopened within a year.

PROGRESS:



STATUS:



The *Challenges* to manage

The Home faced a variety of challenges this year, coming from many fronts. In August, Hurricane Katrina left a wake of destruction in Gulfport. And in July, tornado-like winds toppled 300 some mature trees in Washington. Paying for the cleanup after these disasters strained our budget – and our funding would have been nearly wiped

out if it weren't for Congressional support.

Another challenge we faced was creating a new branding and marketing campaign to boost admissions. Nearly a year after the campaign was launched, the results fell far short of our expectations.

COUNTDOWN TO KATRINA:

OCTOBER 2004

- *Continued competitive sourcing in two innovative new ways:*
 - *Public-to-public contracting with BPD for financial services and contracting*
 - *Public-to-private contracting for all food services*

JANUARY 2005

- *Began the Performance Management pilot*

MARCH 2005

AFRH-Washington Achievements

- *Moved Memory Support & Assisted Living (from Pipes to LaGarde & Scott Buildings)*
- *Moved Dental and Optometry Clinic (from Barnes and Forwood to renovated space in Scott)*
- *Celebrated the completion of Lincoln Cottage exterior*

AFRH-Gulfport Advancements

- *Planned to expand Assisted Living quarters and clinics on 2nd floor*
- *Welcomed a new Healthcare Administrator*
- *Received JCAHO Gold Seal of Approval™ at AFRH-Gulfport*

Despite the chaos from the hurricane and the loss of some key records, we still adhered to federal guidelines, complied with regulations and hosted the auditors and inspectors. All the while, we still achieved our strategic objectives for 2005.

Yet, our greatest challenge today is to remain financially independent. We must

develop innovative ways to increase admissions in Washington – our sole campus for now – in order to fulfill our financial obligations. At present, the AFRH is working hard to rejuvenate its infrastructure and reenergize its resident programs. In FY 2006, we will refocus our efforts toward revitalizing the Home's financial situation ... so that we may continue to endure.

APRIL 2005

- *Conducted climate surveys on both campuses by Defense Equal Opportunity Management Institute (DEOMI)*

JUNE 2005

- *Mothballed Pipes, Barnes & Forwood buildings in Washington*
- *Hosted public hearing for the AFRH Real Estate Master Plan*
- *Received Auditors*
- *Welcomed new military personnel at both campuses*

JULY 2005

- *Sustained storm damage in Washington to 300+ trees*
- *Fulfilled inspection by USAF Inspector General team (for Triennial Review)*
- *Hosted JCAHO on-the-spot inspections on both campuses*
- *Welcomed several new doctors in Gulfport*

AUGUST 2005

- *Survived Hurricane Katrina in Gulfport:*
 - *Sustained major damage to campus*
 - *Safely evacuated all residents*
 - *Reopened closed buildings in DC to house displaced residents*

SEPTEMBER 2005

- *Minimized environmental damage to Gulfport campus*
- *United all AFRH residents in Washington*
- *Placed majority of Gulfport staff on Administrative Leave due to hurricane damage and temporary closure of campus*



“There was worse devastation than in any war - and more widespread damage than in Pearl Harbor. If I could go back to help, I would in a minute.”

—Bruce Frye, Gulfport resident

Gulfport: nowhere to hide

The Gulfport campus lies 21 feet above sea level. But, Hurricane Katrina still unleashed plenty of damage. Her wrath destroyed buildings. Decimated homes. Flooded buildings. Severed utilities. Totaled vehicles. And toppled a 100,000-gallon water tank. To add insult to injury, extreme summer temperatures magnified problems on the flooded first floor of the resident Tower. Since the average age of our residents is 78 – and several have unique health concerns – we had no

choice but to leave. In a mere 24 hours, we completed a full-scale evacuation of 414 Veterans on 12 buses. As we pulled out of Gulfport, we silently gazed at dozens of cars, stacked along the west boundary of the campus – tossed about by Katrina’s ferocious wind and tidal surge. That ugly sight was a dramatic, haunting illustration of her power. And to this day, that vision serves as a vivid reminder of how lucky we are to be alive.



The *Resiliency* to act

A well-prepared staff, combined with excellent contract and Seabee support, assured our Gulfport residents a safe passage out of harm's way. In fact, our evacuation plan was executed hours after a loss of power and surge of floodwater in the residents' home. Without such a high level of preparedness, our residents may have suffered the unfortunate fate of thousands of other victims in New Orleans and the surrounding areas.

A Smart Emergency Plan

It all began with our goal to be prepared for any natural disaster. Early in FY 2005, AFRH updated its directives for an emergency response (including Agency Directive 6-3, Emergency Preparedness and Response). In general, our plan classified the probability of a major hurricane, power outage and flooding at Gulfport as "High" – but the probability of water shortage as "Low." Therefore, we concluded our 11-story resident tower would be self-sufficient in a prolonged disaster – given our generator, stockpiles of food and supplies, plus direct access to an independent water tower on campus.

Our Plan also stated: "Due to the strength of the facility and available emergency utility systems, there is little chance that a mass evacuation of AFRH would be necessary." Nonetheless, routine drills were *still* incorporated into our emergency planning procedure. And for good reason. The experience and knowledge gained from those drills made our planned response a tremendous success.

A Swift Emergency Response

Given our sound Plan, 414 out of 556 total residents chose to stay in the Gulfport resident tower for the hurricane. (The other 142 residents were on leave, in a medical facility, or away visiting family or friends.)

Hours after Katrina hit, our Gulfport and Washington staff rapidly coordinated with BPD. Their swift efforts ensured the safety of our residents and they helped troubleshoot problems that came up. The result: in less than 24 hours, a full-scale evacuation of all residents was complete. The outstanding coordination and effort at BPD Contracting literally saved lives. BPD's Division of Procurement (DOP) worked with our staff at both campuses to contract vital goods and services.* In fact on August 30, the day after the hurricane, our staff made arrangements for a timely emergency food shipment from U.S. Foods, DOP's prime vendor.

*Under the authority of FAR 6.302-2, 41 USC 428a and the emergency procedure authorities authorized by Section 1443 of Services Acquisition Reform Act.

BPD Rapidly Arranged:

- Buses for resident evacuation
- Lodging arrangements in Atlanta
- Meals for residents during the trip
- Nursing services for pre- and post-transport to Atlanta
- Medical transport for residents requiring care

“The good news is we survived this natural disaster and all our residents and staff are safe. Now we can move on to next steps.”

—Tim Cox, COO
September 30, 2005



To accommodate the residents en route to Washington, we re-opened empty rooms in the Scott, Sheridan and LaGarde Buildings. Plus, we reopened the shuttered Pipes Building with help from BPD. Many goods and services were needed ASAP to make these rooms comfortable and many more would be needed in the coming weeks. Fortunately, hundreds of civilians and military personnel answered the call for volunteers – and helped us re-open closed buildings, clean the facilities and gather supplies for the coming residents.

The buses headed to Washington arrived after two days, including a layover in Atlanta. As the convoy pulled in the main gate, the residents were met with cheers and applause from some 200 volunteers. In the coming days, our Washington residents

gave a tremendous show of emotional support to their Gulfport counterparts. In fact, they helped organize and run a donation center to supply basic clothing and personal items for their new friends.

Meanwhile, BPD began terminating most of the Gulfport contracts. To help restore partial power there, BPD purchased one generator, leased a second and leased a chiller. These items were needed to help regulate the rising temperatures in the damaged resident tower. All through September, Gulfport would continue to have limited electrical power and no running water. In the end, the support of so many kind people helped us get through this crisis. And it gave us the strength to endure the remainder of 2005.

Evacuation Order:	Destination:	Outcome:
<i>Long Term Care residents (1 bus)</i>	<i>Mobile, AL Nursing Home</i>	<i>Living comfortably until further notice</i>
<i>Assisted Living residents (2 buses)</i>	<i>Montgomery, AL - Maxwell AFB, 908th Air Reserve Wing (assessed for air lift to DC)</i>	<i>3 residents unfit to fly; moved to Mobile nursing home via Montgomery VA Hospital</i>
<i>Independent Living residents (7 buses)</i>	<i>AFRH-Washington – via stay in Atlanta, GA</i>	<i>All residents alive and well</i>
<i>Independent Living residents that wouldn't leave MS (1 bus)</i>	<i>Seabee base - Gulfport, MS</i>	<i>Mission Accomplished</i>
<i>Emergency Reserve (1 bus)</i>	<i>~</i>	<i>~</i>



BPD Helped Us Acquire:

- Air conditioning units
- Linens & towels
- Bed frames & mattresses
- Additional nursing services
- Extra custodial services and
- Supplemental food services

BPD Helped Us Purchase / Contract:

- Pajamas
- Refrigerators
- Washers & dryers
- Pillows
- Picnic tables & umbrellas
- Convection ovens (moved from Scott to LaGarde)
- Added security services in DC
- Social workers (to assist with family contact / financial guidance)
- More on- and off-campus services
- An environmental safety study of the Pipes Building*
- A structural, mechanical, electrical & environmental study of AFRH-Gulfport*

Future Unfulfilled Needs (as of 9-30):

- Dental Services
- Nursing Home & Assisted Living arrangements
- Air transport for long-term care residents (from Mobile to DC)
- Lodging for various Gulfport staff in DC
- Heat & Phone service in Pipes Building
- Repairs for LaGarde kitchen (to serve additional residents)
- Wardrobes, credenzas, night stands & lamps
- Couches, recliners, high back chairs & TVs for day rooms

* Results of this work will be reviewed and funded in FY 2006.

“I am glad to be here in DC. They will take care of us. They always do.”

—William Thomas
Gulfport resident

ONORABLE DISCHARGE

1. LAST NAME - FIRST NAME - MIDDLE INITIAL
FUNK DANIEL C

2. ARMY SERIAL NO.
33 561 606

3. GRADE
PVT

4. ORGANIZATION
728TH ORDNANCE COMPANY

5. PERMANENT ADDRESS FOR MAILING PURPOSES
2329 E CHASE ST BALTIMORE MD

6. DATE OF SEPARATION
15 OCT 45

7. PLACE OF SEPARATION
SEP

8. ADDRESS FROM WHICH EMPLOYMENT WILL BE SOUGHT
SEE 9

9. DATE OF BIRTH
6 DEC 23

10. RACE
X WHITE

11. MARITAL STATUS
X SINGLE

12. U.S. CITIZEN
X YES

13. COLOR EYES
BROWN

14. COLOR OF HAIR
BROWN

15. CIVILIAN OCCUPATION AND ADDRESS
DRILL PRESS

16. DATE OF INDUCTION
4 MAR 43

17. DATE OF ENLISTMENT
11 MAR 43

18. SELECTIVE SERVICE DATA
X REGISTERED

19. LOCAL S.S. BOARD NO.
6

20. COUNTY AND STATE
BALTIMORE MD

21. PLACE OF ENTRY
BALTIMORE

22. MILITARY OCCUPATIONAL SPECIALTY AND NO.
ARTILLERY MECHANIC 913

23. BATTLES AND CAMPAIGNS
ARDENNES, RHINELAND, CENTRAL EUROPE, NORMANDY

24. MILITARY QUALIFICATION AND DATE (i.o., infant)
NONE

25. HOME ADDRESS AT
SEE 9

26. DECORATIONS AND CITATIONS
EAMETO ME

“Out of tragedy, comes so much goodness. When we left Gulfport, there were a lot of sad faces. But when we got off the bus in DC, there were many smiling faces – because so many people came here to welcome us.”

—Steve McManus, CFO

The *Responsibility* to protect

Assets, Liabilities and Cumulative Results of Operations

For FY 2005, our Consolidated Balance Sheet reflects total assets of \$213 million and liabilities of \$7.7 million. About 37 percent of the assets are property, plant and equipment (PP&E), with a book value of \$77.8 million. This PP&E is located on the Gulfport, MS campus and the Washington, DC campus.

Limitations of the Principal Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of AFRH, pursuant to the requirements of 31 U.S.C. 3515(b). Our financial statements were prepared following generally accepted accounting principles as defined by The Chief Financial Officer's Act of 1990 and by the Office of Management and Budget (OMB). These statements are in addition to financial reports prepared from the same books and records used to monitor and control budgetary resources.

We are pleased to report AFRH is in compliance with all relevant laws, statutes and legislation. We accept the responsibility of reporting performance and financial data accurately and reliably. So all data for this report was gathered and reported through systems of rigorous controls and quality checks. AFRH employs the Bureau of Public Debt (BPD) through its Administrative Resource Center (ARC) to perform its financial management. BPD's level of expertise is superb and provides outstanding reporting services to AFRH.

Financial and Performance Results Integration

The Home's funding always comes through a Congressional appropriation and is solely drawn from the AFRH Trust Fund. This Fund is fed monthly by active duty enlisted

payroll deductions, fines and forfeitures from all Branches of the Services, monthly resident fees, the sale or lease of under-utilized land and buildings, gifts and bequeaths, interest gained on the Trust Fund balance and certain one-time amounts in the form of situational gifts and appropriations from Congress.

Congress sent a clear message on their expectations for our purpose and performance by passing the National Defense Authorization Act of 2002. This legislation created the position of Chief Operating Officer (COO) to establish, measure and achieve performance goals for the Home. This person would guarantee that we uphold The Promise to care for our resident Veterans – as well as future generations of soldiers, Marines, sailors and airmen who are in harm's way at this very moment. Led by the vision and mission, our new COO is now ensuring that the Home's carefully crafted strategic plan is directing our staff to improve performance – as well as the bottom-line.

Trust Fund Balance

In 2003, we saw operating costs significantly increase over previous years, eventually outpacing our revenue stream. The Trust Fund balance declined from \$156 million in 1995 to \$94 million in 2003. Renewing the Trust Fund became a critical mandate to retain the Home's solvency. So, we concluded that our operating model had to change.

The approach we took followed the Federal Government's lead for an integrated strategy that links planning with budget and performance. From 2003 to 2005, AFRH aggressively pursued a disciplined strategic planning process that netted many improvements and gains. As a result, the new balance of the Trust Fund reached \$130 million and was still rising before Hurricane Katrina.

“Here, you don't have to worry about your decline eating up the money you've accumulated. I know I won't be a burden to my children.”

—John Smith, DC resident
(on the affordability)



Revenue

Likewise, revenue growth has been steadily increasing, along with the Trust Fund balance. In fact, a main source of our increased revenue in FY 2004 was the sale of real estate on both campuses. By FY 2005, the targeted source of income was adequately meeting resident capacity. Our strategy for future increases in revenue lies in the Real Estate Master Plan – discussed in detail in the Performance Section.

We will achieve this goal via reduced costs & requirements in:

- Capital and Infrastructure
- Utilities (Gas & Electric)
- Facility & Grounds maintenance
- Vehicles
- Phone Service
- Administrative Overhead
- Snow Removal and
- Refuge Removal

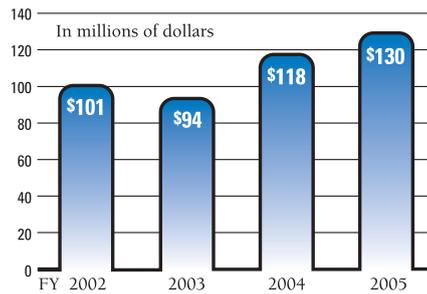
The measurement of savings will encompass:

- Resident Occupancy
- Square footage requirements
- Overtime
- Staff Nursing Ratio
- Nursing Agency Costs
- Food Service Subsistence Costs
- Post A-76 Requirements
- Utilities and
- Room turnover repair (timeframe & costs)

Streamlining the Staff

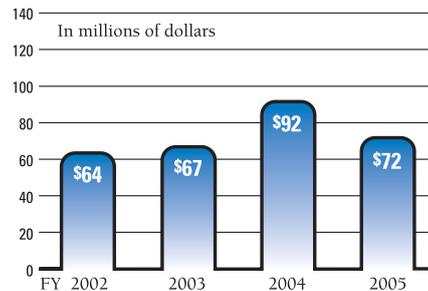
Another big goal in our Strategic Plan was to streamline staff in FY 2005. As a result of the Food Service competitive sourcing, staffing was reduced by 10 percent – from 548 Full-Time Equivalents (FTE) to 447.

AFRH Trust Fund Balance



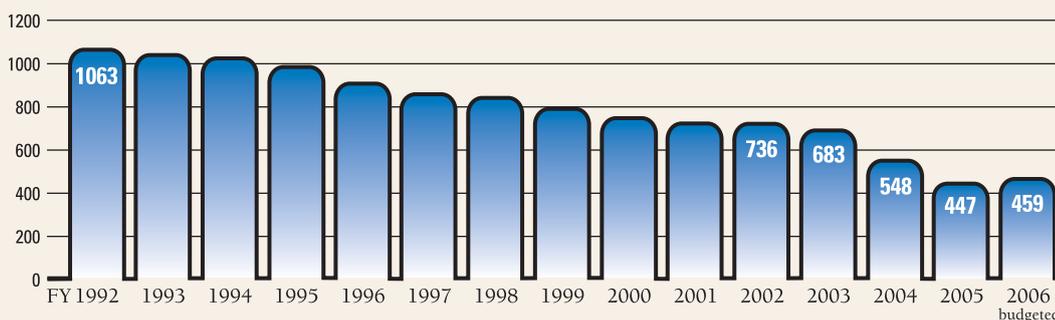
After a decline in FY 2003, the Trust Fund balance has been steadily increasing.

Revenue



FY 2005 Goal: a 20-30 % reduction in costs (from FY 2003).

AFRH Staffing



Total staff has been reduced more than 58% since 1992.



The *Wisdom* to ensure

This section contains the COO Letter of Assurance and a summary of:

- *Federal Managers' Financial Integrity Act (FMFIA – Management Controls)*
- *Federal Financial Management Improvement Act (FFMIA – Financial Systems)*
- *Financial Management Systems Framework*



Early in FY 2003, AFRH conducted a public-to-public transfer of the accounting function to the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC). The goal was to give managers online access to an integrated financial management system – including payroll, procurement actions, credit card purchases, travel, investments and a reporting tool. Although the transfer date was initially scheduled for October 1, 2003, ARC was unable to meet this date and AFRH was rescheduled for April 1, 2004. Prior to this transfer we were limited by a legacy financial system that had little integration with other systems and AFRH received a qualified opinion on our last audit.

FY 2005 marks the Home's first audit under the CFO act and the Agency's first full year of accounting support from the BPD. Although a contract was in place and a delivery order was awarded for a company to conduct an independent audit in FY 2004, the company notified us on October 8th that they misunderstood the requirements and would not be able to meet the contract timeline of November 15, 2004. This untimely contract termination resulted in our inability to secure another audit firm that could meet OMB's submission date – and is the primary reason AFRH was unable to satisfy the audit requirement.

The AFRH has evaluated its management controls and compliance with Federal financial systems standards for FY 2005. The results of an independent audit were considered as part of AFRH's evaluation process. As a result of our evaluations AFRH can provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) have been achieved. Without question, our public-to-public transfer of the accounting function to the BPD's experienced, well-qualified accountants – coupled with an integrated financial management system – marked a turning point in the Agency's Financial Performance.

Further, I am confident that AFRH's progress will continue in FY 2006.

Sincerely,

Timothy Cox
Chief Operating Officer, AFRH
November 15, 2005

“

This entire evacuation was nothing short of a miracle.”



THE FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT (FMFIA)

OBJECTIVES:

- *To make sure programs achieve their intended results*
- *To make resources consistent with our overall mission*
- *To keep programs & resources free of waste, fraud and mismanagement*
- *To see that our Laws and regulations are followed*
- *To help minimize improper or erroneous payments*
- *To ensure performance information is reliable*
- *To keep system security in compliance with all requirements*
- *To reduce risk to reasonable levels through major operations planning*
- *To ensure financial management complies with Federal standards*

2005 STATUS:

No "Material Weaknesses" Were Identified

Deficiencies that affect an agency's ability to meet the objectives are considered material weaknesses.

Yet, the Home's Triennial Inspector General's Review by the Department of Defense (DoD) did identify a few areas for improvement – which we are now actively pursuing. These DoD inspections serve as a litmus test to target areas for improvement and motivate management action. And we take these recommendations seriously. While the official report is still in draft form, the following positive quote comes from the Executive Summary:

"Overall, the inspection team found that AFRH provided quality care and a comfortable resident living environment; AFRH personnel managed the Home effectively and were committed to their core business—running the premiere retirement community for America's Veterans. Moreover, AFRH experienced a significant operations transformation in the services provided to the residents and in the working environment for the staff. The change was positive as AFRH evolved from inefficient management practices of the past to the 'one model' approach of the future."

*— Inspector General Review
excerpt from Executive Summary*





FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

This Act is a mandate for agencies to “implement and maintain financial management systems that comply with the Federal financial management systems requirements, applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level.” The FFMIA also requires that remediation plans be developed for any agency that is unable to report substantial compliance with these requirements.

2005 STATUS:

Substantial Compliance with FFMIA Requirements

As we serve our Veterans with advanced care, the Home still strives to be as efficient and economical as possible. We rely on the

BPD Oracle Federal Financials 11i – an advanced system of management controls. This system provides reasonable assurance that our financial obligations comply with applicable laws, our valued assets are protected and our business functions are properly accounted for. In FY 2006, we will add another integrated application of Oracle Financials 11i to our system: Oracle Assets.

This tool will automate asset management and give us greater visibility into all of our assets. Plus, it will simplify accounting tasks even further. Now, standard management tasks, such as asset transfers, disposals, reclassifications and financial adjustments, will be streamlined with automated business flows.

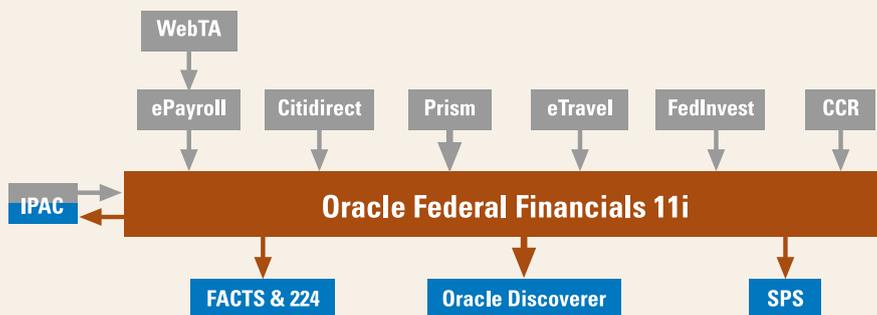
FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

In 2002, when the COO and CFO took the helm at AFRH, the financial management systems were outdated legacy and manual systems with little integration. Since that time, AFRH has transitioned to the current automated system operated by their partner BPD. Today, our new financial management systems reside within the BPD Oracle Federal Financials 11i – a commercial-off-the-shelf certified core financial system – which is compliant with the Joint Financial

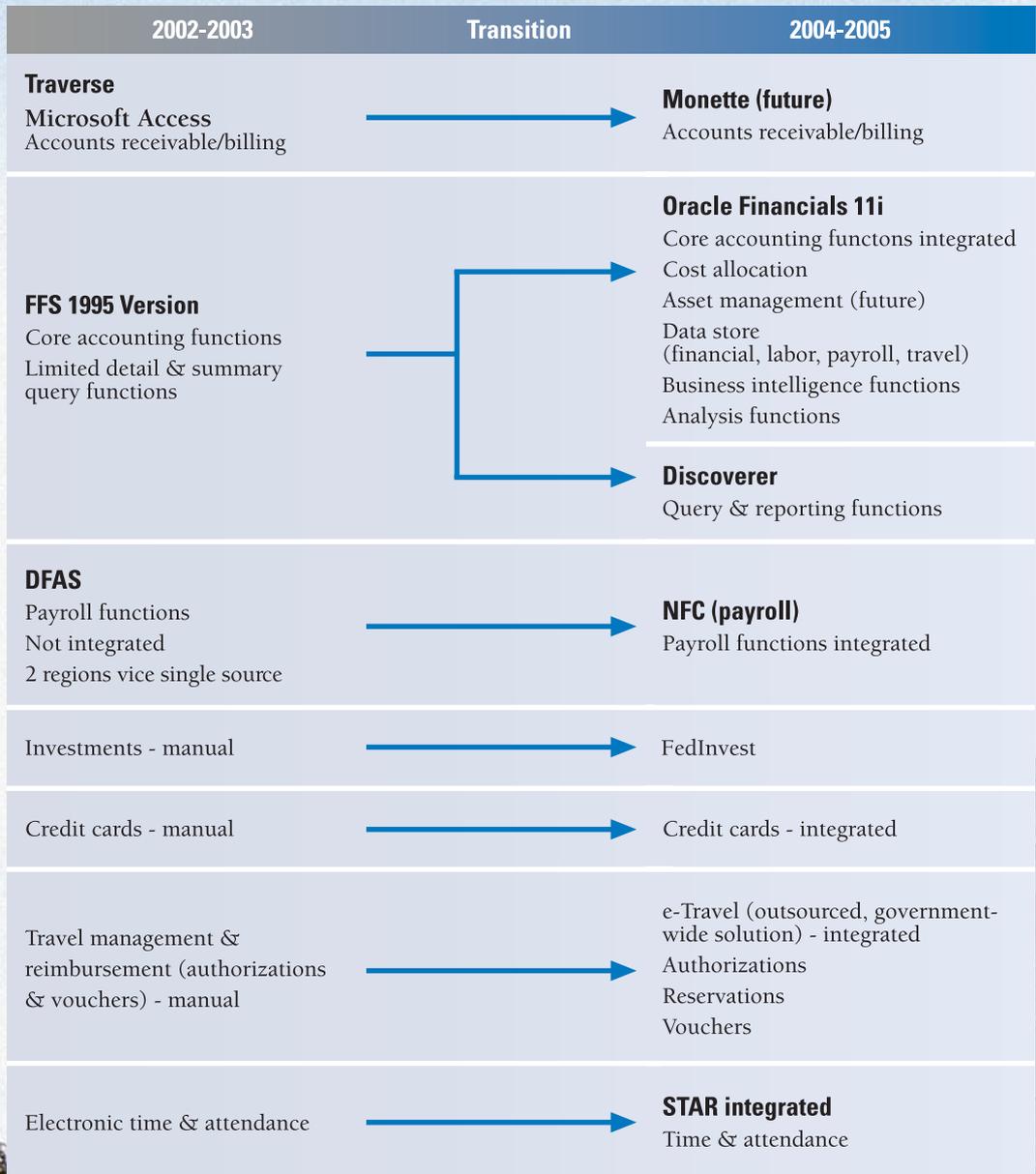
Management Improvement Act (JFMIP).

Oracle Federal Financials 11i include other financial applications that provide purchasing, accounts payable, accounts receivable, general ledger and budget execution. BPD personnel operate and maintain the system, ensuring top-notch support. Plus, they also developed and implemented several interfaces into Oracle Federal Financials to integrate key activities – such as e-payroll, procurement, purchase card,

e-travel, Federal investments and Intragovernmental Payment and Collection System (IPAC) transactions. Ultimately, BDP is responsible for the financial security and integrity of the system.



AFRH Financial Management Systems Framework



IMPROPER PAYMENTS INFORMATION ACT (IPIA)

Through our partnership with BPD, each AFRH business program was reviewed to estimate the amount of potential improper and erroneous payments. One such improper payment was found. BPD made 7 payments of \$500 to FitnessWorks, one of several entities affiliated with Gold's Gym. All of these

entities have the same TIN number and different DUNS numbers and apparently BPD selected an incorrect DUNS number. Currently, FitnessWorks has paid back \$500 to AFRH, leaving the balance due on this account receivable at \$3,000. Ongoing efforts to recoup this money are still underway.



ADDITIONAL PLANS FOR FY 2006

AFRH and BPD plan to expand efforts to uncover Improper Payments in FY 2006. We have targeted a more comprehensive asset management control system using Oracle Federal Financial 11i. Monette, an integrated resident-focused software package, along with the ULTRACare application, are set for installation in FY 2006 as part of the Resident Information System (RIS).

The new RIS will consist of a broad range of routine and specialized functions now performed by multiple organizations within

AFRH. These functions include but are not limited to Pre-Admissions, Admissions, Medical Assessments, A/R Billing, Care Plans, Quality Indicators, Nursing Statistics and various associated reports. Next year, additional modules will be added to our robust system to expand our capabilities even further. Should any systems require corrective action in FY 2006, the responsible official will develop a plan in accordance with Public Law 107-300.



The *Management* of risk

In the mid- to late-1990s, the balance of the Trust Fund shrank dramatically. This was mostly due to downsizing of the military at the end of the Cold War (which naturally decreased funding to the Home). Additional revenues were vital to continue a sustainable retirement home for our Veterans. So, Congress provided us with swift legislative support by enacting the National Defense Authorization Act for FY 2002. This allowed us to sell, lease or otherwise dispose under-utilized buildings and property.* This legislation was as bold and brave as the law that originally established and funded the Home back in 1851.

The Real Estate Master Plan

Now, the proceeds from any real estate transactions can help replenish the AFRH Trust Fund – and sustain the vitality of our Home. To implement this new authority, we have been developing a Real Estate Master Plan for AFRH-Washington. This Plan will guide the long-term use and development of the entire facility. The key objectives of this proactive Plan are cited below:

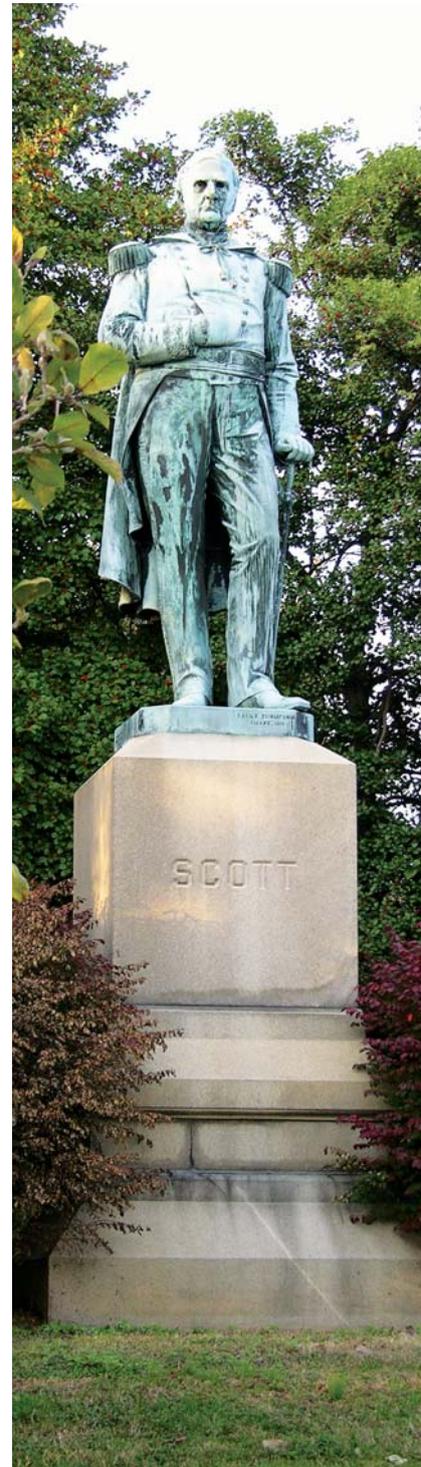
**Requires Secretary of Defense approval and 120 days notification.*

Objectives:

- *To preserve and improve the facility for residents and the community*
- *To provide a sufficient revenue stream to support our resident-focused care*
- *To replenish the depleted Trust Fund*
- *To grow the Trust Fund to meet the needs of current and future residents*
- *To attract development at fair market value that is compatible with our mission and*
- *To ensure an open participatory process with residents and the general community*

Aftermath of Hurricane Katrina

In September 2005, a Structural and Environmental Study was performed at AFRH-Gulfport to guide decisions on the cost of refurbishment, construction and loss. In the interim, various Gulfport staff will join the Washington staff to provide additional services – so we can care for all residents as one stronger, united team. All financial decisions are dependent on sustaining this new mix of Gulfport/DC residents and staff. Reworking the business plan accordingly is one of the first orders of business in FY 2006.



“

The evacuation was a long and arduous process. It would not have happened without the invaluable assistance of rescue workers and the cooperation of the residents.”

—Steve McManus, CFO