


**BROWN & COMPANY CPAs, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

The Director  
Department of Veterans Affairs Franchise and Trust Fund Oversight

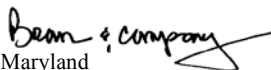
We have audited the accompanying consolidated balance sheet of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2009 and 2008, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended September 30, 2009 and 2008. 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; the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04, as amended, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements including the accompanying notes present fairly, in all material respects, in conformity with the U.S. generally accepted accounting principles, the VA Franchise Fund's assets, liabilities, and net position as of September 30, 2009 and 2008; net costs; changes in net position; and budgetary resources for the years then ended.

In accordance with *U.S. Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued a report dated November 16, 2009, on our consideration of the VA Franchise Fund's internal control and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion and Analysis" (MD&A) is presented for the purpose of additional analysis and is required by OMB Circular No A-136, revised *Financial Reporting Requirements*. The VA Franchise Fund's MD&A and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the VA Franchise Fund officials. Based on this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

  
Largo, Maryland  
November 16, 2009

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**

The Director  
Department of Veterans Affairs Franchise and Trust Fund Oversight

We have audited the financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2009, and have issued our report thereon dated November 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audits, we considered the VA Franchise Fund's internal control over financial reporting and compliance by obtaining an understanding of the VA Franchise Fund's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended, and to determine our procedures for auditing the financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, as amended, a significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses as defined above.

The Department of Veterans Affairs (VA) Office of Inspector General (OIG) engaged an independent public accounting firm to perform the audit of the VA's consolidated financial statements for the years ending 2009 and 2008. The VA's consolidated financial statements include the VA Franchise Fund. The accounting firm issued the FY 2009 *Independent Auditor's Report* and *Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance with Government Auditing Standards* dated November 16, 2009, and identified four (4) material weaknesses that include significant departures from certain requirements of OMB Circular A-127, Financial Management Systems; Circular A-123, Management's Responsibility for Internal Control; and Circular A-130, Management of Federal Information Resources: (1) Financial Management System Functionality – (Repeat Condition); (2) Information Technology (IT) Security Controls – (Repeat Condition); (3) Financial Management Oversight – (Repeat Condition) and (4) Compensation, Pension and Burial Liabilities.

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During the course of our audit we noted other matters involving internal control and its operation that we have reported to management of the VA Franchise Fund in a separate management letter dated November 16, 2009.

This report is intended solely for the information and use of the management of the Department of Veterans Affairs Franchise Fund, the management of, the VA OIG, OMB, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland  
November 16, 2009

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

The Director  
Department of Veterans Affairs Franchise and Trust Fund Oversight

We have audited the consolidated financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2009, and have issued our report thereon dated November 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, amended.

The management of the VA Franchise Fund is responsible for complying with laws and regulations applicable to the VA Franchise Fund. As part of obtaining reasonable assurance about whether the VA Franchise Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the VA Franchise Fund.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *U.S. Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

Under FFMIA, we are required to report whether the VA Franchise Fund's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements. Except as discussed below, the results of our tests disclosed no instances of noncompliance which are required to be reported herein under *U.S. Government Auditing Standards*.

The Department of Veterans Affairs (VA) Office of Inspector General (OIG) engaged an independent public accounting firm to perform the audit of the VA's consolidated financial statements for the years ending 2009 and 2008. The VA's consolidated financial statements include the VA Franchise Fund. The accounting firm issued the FY 2009 *Independent Auditor's Report and Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance with Government Auditing Standards* dated November 16, 2009. These material weaknesses in internal control over financial reporting discussed in the auditor's report and identified as "Financial Management System Functionality," and "Information Technology (IT) Security Controls" indicate that VA's financial management systems did not substantially comply with the Federal financial management systems requirements as required by FFMIA section 803(a).

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Department of Veterans Affairs Franchise Fund, the management of VA, the VA OIG, OMB, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland  
November 16, 2009

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