



**BROWN & COMPANY CPAs, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Director of  
Department of Veterans Affairs Franchise Fund Oversight Office

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2012 and 2011, 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, 2012 and 2011. 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, 2012 and 2011; 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 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, as revised, that considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Largo, Maryland  
November 30, 2012

1101 MERCANTILE LANE, SUITE 122 □ LARGO, MD 20774  
PHONE: (240) 770-4900 □ FAX: (301) 773-2090 □ [mail@brownco-cpas.com](mailto:mail@brownco-cpas.com) □ [www.brownco-cpas.com](http://www.brownco-cpas.com)



**BROWN & COMPANY CPAs, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Director of  
Department of Veterans Affairs Franchise Fund Oversight Office

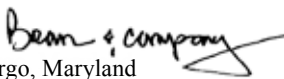
We have audited the financial statements of the Department of Veterans Affairs (VA) Franchise Fund as of and for the year ended September 30, 2012, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United 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 by obtaining an understanding of the effectiveness of internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VA Franchise Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of VA Franchise Fund's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph, and would not necessarily disclose all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, as amended, a deficiency in internal control exist when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. We noted no deficiencies in the effectiveness of VA Franchise Fund's internal control over financial reporting that we considered to be significant deficiencies or material weaknesses, excepted as noted below in the Department of Veterans Affairs agency-wide independent auditor's reports.

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 2012 and 2011. The VA's consolidated financial statements include the VA Franchise Fund. The VA's FY 2012 *Independent Auditor's Report* and *Independent Auditor's Report on Internal Control over Financial Reporting*, dated November 8, 2012, identified a material weakness over the VA's "Information Technology (IT) Security Controls". In addition, the independent auditor's reports identified significant deficiencies over VA's internal control over "Undelivered Orders".

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

  
Largo, Maryland  
November 30, 2012

1101 MERCANTILE LANE, SUITE 122 □ LARGO, MD 20774  
PHONE: (240) 770-4900 □ FAX: (301) 773-2090 □ [mail@brownco-cpas.com](mailto:mail@brownco-cpas.com) □ [www.brownco-cpas.com](http://www.brownco-cpas.com)



**BROWN & COMPANY CPAs, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

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

To the Director of  
Department of Veterans Affairs Franchise Fund Oversight Office

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, 2012, and have issued our report thereon dated November 30, 2012. 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. The results of our tests disclosed no instances of noncompliance which are required to be reported herein under *U.S. Government Auditing Standards*, excepted as noted below in the Department of Veterans Affairs agency-wide independent auditor's reports.

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 2012 and 2011. The VA's consolidated financial statements include the VA Franchise Fund. The VA's FY 2012 *Independent Auditor's Report* and *Independent Auditor's Report on Internal Control over Financial Reporting*, dated November 8, 2012, identified a material weakness over the VA's "Information Technology (IT) Security Controls" and a significant deficiency over VA's "Undelivered Orders." The conditions cited in these control deficiencies 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 and VA, the VA Office of Inspector General, 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 30, 2012

1101 MERCANTILE LANE, SUITE 122 □ LARGO, MD 20774  
PHONE: (240) 770-4900 □ FAX: (301) 773-2090 □ [mail@brownco-cpas.com](mailto:mail@brownco-cpas.com) □ [www.brownco-cpas.com](http://www.brownco-cpas.com)