


BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) Franchise Fund as of September 30, 2015 and 2014, and the related consolidated statements of net cost, changes in net position, and the combined budgetary resources, for the years then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted government auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes test of compliance with provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements. The purpose was not to provide an opinion on compliance with provisions of applicable laws, regulations, contracts and grant agreements and, therefore, we do not express such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VA Franchise Fund as of September 30, 2015 and 2014, and its consolidated net costs, changes in net position, and the combined budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis* (MD&A), and *Required Supplementary Information* (RSI) sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who 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 U.S. generally accepted government auditing standards, 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the VA Franchise Fund's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of providing an opinion on internal control. Accordingly, we do not express such an opinion.

A *deficiency in internal control* exists when the design or operation of a 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. During the audit of the financial statements no deficiencies in internal control were identified that were considered to be a material weakness. However, material weaknesses may exist that have not been identified.

The *Department of Veterans Affairs (VA) Independent Audit of VA's Financial Statements for Fiscal Years 2015 and 2014*, dated November 16, 2015, reported four material weaknesses: "Information Technology (IT) Security Controls" (Repeat Comment), "Procurement, Undelivered Orders and Reconciliations," "Purchased Care Processing and Reconciliations," and "Financial Reporting." The audit report also identified two significant deficiencies: accrued operating expenses and CFO organizational structure for



VHA and VA. The material weaknesses and significant deficiencies could have a direct effect on the VA Franchise Fund's internal control over financial reporting.

We also identified other deficiencies in VA Franchise Fund's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant in VA Franchise Fund management's attention. We have communicated these matters to in VA Franchise Fund management and, will report on them separately in a management letter.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the VA Franchise Fund's financial statements are free from material misstatement, we performed tests of its compliance with applicable provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the VA Franchise Fund. The objective was not to provide an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

The *Department of Veterans Affairs (VA) Independent Audit of VA's Financial Statements for Fiscal Years 2015 and 2014*, dated November 16, 2015, reported the following conditions with respect to noncompliance with laws and regulations:

- Instances of non-compliance with section 5315, title 38, United States Code, pertaining to the charging of interest and administrative costs, and
- Less than full compliance with IPERA for FY 2014 as reported by the Office of Inspector General.

These conditions could have a direct effect on the VA Franchise Fund's compliance with applicable provisions of laws and regulations.

Management's Responsibility for Internal Control and Compliance

VA Franchise Fund's management is responsible for (1) evaluating effectiveness of internal control over financial reporting based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with applicable provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin No. 15-02 requires testing, and (3) applying certain limited procedures with respect to the MD&A and other RSI.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing internal control over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of


compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to VA Franchise Fund. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin No. 15-02 that we deemed applicable to VA Franchise Fund's financial statements for the fiscal year ended September 30, 2015. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of VA Franchise Fund's internal control or on compliance. These reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering VA Franchise Fund's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

This report is intended solely for the information and use of the management of the VA 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, 2015