



Department of Veterans Affairs Office of Inspector General

REPORT OF THE AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS SPECIAL PURPOSE FINANCIAL STATEMENTS FOR FISCAL YEARS 2005 AND 2004

Report No. 05-01096-29

VA Office of Inspector General
Washington, DC 20420

November 18, 2005

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DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

MEMORANDUM FOR ROBERT J. HENKE
CHIEF FINANCIAL OFFICER
DEPARTMENT OF VETERANS AFFAIRS

FROM: Michael L. Staley
Assistant Inspector General For Auditing
Department of Veterans Affairs

SUBJECT: Independent Auditors' Report on Special-Purpose Financial
Statements for Fiscal Years 2005 and 2004

Please find attached the Department of Veterans Affairs (VA) Office of Inspector General's report on Special-Purpose Financial Statements for Fiscal Years 2005 and 2004.

We contracted with the independent public accounting firm, Deloitte and Touche, LLP, to review and opine on the Closing Package data, entered by the VA Chief Financial Officer's office into the Governmentwide Financial Report System, as to its consistency with the comparative, audited consolidated VA financial statements.

The report concluded that the special-purpose financial statements and accompanying notes presented fairly, in all material respects, the respective financial position of the VA as of September 30, 2005, and 2004. Three material weaknesses over financial reporting were identified in the 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*. These material weaknesses also pertain to matters involving the internal control over the financial reporting process for the special-purpose financial statements. Tests of compliance with the Treasury Financial Manual Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported.

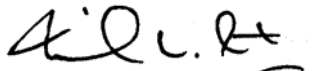
This report is intended solely for the use of the VA Chief Financial Officer, the Office of Management and Budget, the Department of Treasury, Financial Management Services, and the Government Accountability Office, and should not be used by those who have not agreed to, and taken responsibility for, the sufficiency of the procedures for their purposes.

Page 2.

Robert J. Henke
Department of Veterans Affairs

If you have any questions, please contact Ms. Marie Maguire, Director, Financial Audit Division, or me at (202) 565-7013.

Sincerely,



MICHAEL L. STALEY
Assistant Inspector General for Auditing

Attachment

INDEPENDENT AUDITORS' REPORT ON SPECIAL-PURPOSE FINANCIAL STATEMENTS

We have audited the accompanying reclassified balance sheets as of September 30, 2005 and 2004, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of the Department of Veterans Affairs (VA). These special-purpose financial statements are the responsibility of VA's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of VA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the Financial Report of the U.S. Government, and are not intended to be a complete presentation of VA's financial statements.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the respective financial position of VA as of September 30, 2005 and 2004, and its net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. This supplementary information is the responsibility of VA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in VA's financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 01-02, we have also issued our independent auditors' reports on internal control over financial reporting and compliance and other matters based upon the audit performed in accordance with *Government Auditing Standards*, dated November 14, 2005, on our consideration of VA's internal control over financial reporting and its compliance with laws, regulations, and contracts. In that report we identified three material weaknesses over financial reporting. This report is an integral part of an audit of general purpose financial statement reporting performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 01-02, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audits of the special-purpose financial statements, we also considered VA's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be reportable conditions. Under standards issued by American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect VA's ability to record, process, summarize, and report financial data consistent with the assertions made by management in the special-purpose financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the special-purpose financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

As discussed in the third preceding paragraph of this report, we identified three material weaknesses over financial reporting with respect to the general purpose financial statement reporting that we believe also pertain to matters involving the internal control over the financial reporting process for the special-purpose financial statements. Our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audits of the special-purpose financial statements, and accordingly, we do not express such opinions. We also noted other matters involving the internal control over financial reporting that we have reported to the management of VA in a separate letter dated November 14, 2005.

This report is intended solely for the information and use of VA, the U.S. Department of the Treasury, the Office of Management and Budget, and the U.S. Government Accountability Office in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

November 17, 2005

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