



**UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL**

**THE INSPECTOR GENERAL**

**System Review Report**

March 21, 2011

The Honorable Richard W. Moore  
Inspector General  
Tennessee Valley Authority  
400 West Summit Hill Drive  
Knoxville, TN 37902

Dear Mr. Moore:

We have reviewed the system of quality control for the audit organization of Tennessee Valley Authority, Office of Inspector General (TVA OIG) in effect for the year ended September 30, 2010. A system of quality control encompasses the TVA OIG organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. TVA OIG is responsible for designing a system of quality control and complying with it to provide TVA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and TVA OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed TVA OIG personnel and obtained an understanding of the nature of the TVA OIG audit organization and the design of the TVA OIG system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the TVA OIG system of quality control. The engagements selected represented a reasonable cross-section of the TVA OIG audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with TVA OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the TVA OIG's audit organization. In addition, we tested compliance with TVA OIG quality control policies and procedures to the extent we considered appropriate. These tests covered the application of TVA OIG policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control and, therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Enclosure 1 to this report identifies the office of the TVA OIG that we visited and the engagements that we reviewed. Your office's response to the draft report is included as Enclosure 2.

In our opinion, the system of quality control for the TVA OIG audit organization in effect for the year ended September 30, 2010, has been suitably designed and complied with to provide TVA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. TVA OIG has received a peer review rating of *pass*.

As is customary, we have issued a letter dated March 21, 2011, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to TVA OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and, therefore, is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether TVA OIG had controls to ensure that IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on TVA OIG's monitoring of work performed by IPAs.

Sincerely,

Kathleen S. Tighe /s/  
Inspector General

Enclosures

### SCOPE AND METHODOLOGY (Enclosure 1)

We tested compliance with the TVA OIG audit organization system of quality control to the extent we considered appropriate. These tests included a review of 10 of 67 audit and attestation reports issued during the semiannual reporting periods ending March 31, 2010, and September 30, 2010. The reports were selected judgmentally in order to ensure that we had at least two from each of the four TVA OIG audit departments (Contracts, Financial and Operational, Distributor, and Information Technology) and at least two attestation engagements.

In addition, we reviewed the TVA OIG's monitoring of the engagement performed by IPAs where the IPA served as the principal auditor during the period October 1, 2009, through September 30, 2010. During the period, TVA OIG contracted for the audit of its agency's Fiscal Year 2009 financial statements.

We surveyed 14 of 46 TVA OIG audit personnel to determine their understanding of TVA OIG policies and procedures and reviewed qualifications of new hires and training records to determine staff competence. We also reviewed the internal quality control review reports issued by TVA OIG during the 3-year period ended September 30, 2010.

We performed fieldwork at the Knoxville, Tennessee, office of TVA OIG during October and November 2010.

#### Reviewed Audits and Engagements Performed by TVA OIG

Report Date	Project Number	Title	Dept.	Type
12/17/2009	2009-12908	Sargent & Lundy, L.L.C. - Review of Cost Proposal for RFP GM-42109	Contracts	Attestation-Review
01/26/2010	2009-12907	Mesa - Proposal to Provide Engineering Design and Support Services	Contracts	Attestation-Review
06/10/2010	2009-12670	Terra Industries, Inc.-Contract No. 35666	Contracts	Performance Audit
08/10/2010	2009-12510	Distributor Review of Scottsboro Electric Power Board	Distributor	Performance Audit
01/19/2010	2008-12042	Distributor Review of Tullahoma Utilities Board	Distributor	Performance Audit
02/18/2010	2009-12296	Review of Green Power Marketing	Fin.& Oper.	Performance Audit
09/15/2010	2009-12728	Review of Recreational Land Transactions	Fin.& Oper.	Performance Audit
01/25/2010	2009-12697	Federal Information Security Management Act (FISMA) Evaluation	Info Tech	Performance Audit
08/24/2010	2010-13083	Protection of TVA Personally Identifiable Information Held by Third Parties	Info Tech	Performance Audit
05/19/2010	2009-12650	Use and Protection of Personally Identifiable Information	InfoTech	Performance Audit

#### Reviewed Monitoring Files of TVA OIG for Contracted Engagements

##### TVA 2009 Financial Statement Audit, Ernst & Young, LLP

- Financial Statements Audit Monitoring (Project No. 2009-12286)
- Information Technology Monitoring (Project No. 2009-12696)



Enclosure 2

**Office of the Inspector General**

Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401

Richard W. Moore  
Inspector General

March 8, 2011

The Honorable Kathleen S. Tighe  
Inspector General  
United States Department of Education  
400 Maryland Avenue, SW  
Washington, DC 20202-1500

Dear Ms. Tighe:

We received your March 4, 2011, draft report which summarized the results of your review of our audit organization's system of quality control for the fiscal year ended September 30, 2010. We were very pleased with the rating of *pass* we received and agree with the results.

I would like to thank you and your personnel for the work they did and the insightfulness and professionalism demonstrated throughout the review. The thoughtful and constructive comments provided will help us continue to improve our processes. I would like to particularly thank you for contributing your audit personnel to lead the peer review. Their work was completed in a very timely, efficient, and courteous manner. I look forward to receiving your final report and would welcome the opportunity to work with you again.

Very truly yours,

Richard W. Moore