



OFFICE OF THE SPECIAL INSPECTOR GENERAL

FOR THE TROUBLED ASSET RELIEF PROGRAM

1801 L STREET, NW, 4<sup>TH</sup> FLOOR

WASHINGTON, D.C. 20220

**System Review Report**

March 31, 2014

The Honorable Richard W. Moore  
Inspector General  
Office of the Inspector General  
Tennessee Valley Authority  
400 West Summit Hill Drive, ET 4C-K  
Knoxville, Tennessee 37902-1401

Dear Mr. Moore:

We have reviewed the system of quality control for the audit organization of the Tennessee Valley Authority Office of the Inspector General (“TVA OIG”) in effect for the year ended September 30, 2013. 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*. The TVA OIG is responsible for designing a system of quality control and complying with it to provide the 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 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 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 offices of the TVA OIG we visited and the engagements we reviewed. Your office's response to a draft of this report is included as Enclosure 2.

In our opinion, the system of quality control for the audit organization of the TVA OIG in effect for the year ended September 30, 2013, has been suitably designed and complied with to provide the 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*. The TVA OIG has received a peer review rating of *pass*.

As is customary, we have issued a letter dated March 31, 2014, 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 the TVA OIG 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 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 the TVA OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. Our objective was not to express an opinion, and accordingly, we do not express an opinion on TVA OIG monitoring of work performed by IPAs.

We made certain comments related to TVA OIG monitoring of engagements performed by IPAs that are included in the above-referenced letter dated March 31, 2014.

Sincerely,



Christy L. Romero  
Special Inspector General

Enclosures

## Scope and Methodology

We tested compliance with the TVA OIG audit organization’s system of quality control to the extent we considered appropriate. These tests included a review of 10 of 47 audit and attestation reports issued during the period October 1, 2012, through September 30, 2013 (for the semiannual reporting periods ending March 31, 2013, and September 30, 2013). The reports were selected judgmentally to ensure that we had reports from each of the four TVA OIG audit departments (Contract, Corporate Governance and Finance, Information Technology, and Operational), and at least one attestation report. We reviewed the internal quality control reviews performed by the TVA OIG. We also visited the Knoxville, Tennessee, offices of the TVA OIG and met with staff from their Knoxville and Chattanooga, Tennessee, offices.

The TVA OIG engagements we reviewed included one IPA monitoring engagement where the IPA served as the principal auditor during the period October 1, 2011, through September 30, 2012. For that period, TVA contracted for the audit of its fiscal year 2012 financial statements. The TVA OIG was the technical contract manager for that contract and provided oversight of the audit. However, the TVA OIG reported the results of this IPA monitoring engagement in a November 16, 2012, attestation report. Attestation reports are subject to the requirements of *Government Auditing Standards*. Accordingly, we also tested the engagement for conformity with professional standards and compliance with the TVA OIG system of quality control.

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

<b>Performance Audits</b>		
Report Number	Report Date	Report Title
2012-14596	December 20, 2012	River Forecast Center Cyber Security Audit
2012-14510	February 22, 2013	AREVA NP, Inc. – Review of Annual Rate Adjustments – Contract No. 004027
2012-14669	May 3, 2013	Audit of TVA’s Vehicle Allowance and Assigned Vehicle Programs
2013-14983	June 14, 2013	Protection of Personally Identifiable Information on TVA Desktop and Laptop Computers
2011-13846	June 28, 2013	Bellefonte Nuclear Plant Risk Program
2012-14745	August 28, 2013	Significant Equipment Failure Risk – Energy Delivery
2012-14561	September 12, 2013	AMEC Environment and Infrastructure, Inc. (Formerly MACTEC Engineering and Consulting, Inc.) – Contract No. 78265
2013-14993	September 18, 2013	TVA’s Valley Investment Initiative
<b>Attestation Engagements</b>		
Report Number	Report Date	Report Title
2012-14825	November 7, 2012	Independent Report on the Agreed-Upon Procedures for TVA Fiscal Year 2012 Performance Measures
2012-14839	November 16, 2012	Monitoring of Ernst & Young LLP’s Audit of the Tennessee Valley Authority Fiscal Year 2012 Financial Statements

## Tennessee Valley Authority Office of the Inspector General Comments



Office of the Inspector General  
Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401

Richard W. Moore  
Inspector General

March 26, 2014

The Honorable Christy L. Romero  
Special Inspector General for the  
Troubled Asset Relief Program  
1801 L Street, NW, 4<sup>th</sup> Floor  
Washington, DC 20220

Dear Ms. Romero:

We received your draft report on March 19, 2014, which summarized the results of your review of our audit organization's system of quality control for the fiscal year ended September 30, 2013. 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. 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,

A handwritten signature in cursive script that reads "Richard W. Moore".

Richard W. Moore