



Federal Deposit Insurance Corporation

3501 Fairfax Drive, Arlington, VA 22226

Office of Inspector General

May 16, 2017

Honorable Richard W. Moore
Inspector General
Tennessee Valley Authority
400 West Summit Hill Drive, ET 4C-K
Knoxville, Tennessee 37902-1402

Subject: External Peer Review on the Tennessee Valley Authority Office of Inspector General Audit Organization

Dear Mr. Moore,

Attached is the final External Peer Review Report of the Tennessee Valley Authority Office of Inspector General audit organization. We conducted this peer review in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. The Letter of Comment provided in conjunction with the External Peer Review Report summarizes your response to the draft report, and your entire response is included as an attachment to that document.

We thank you and your staff for the assistance, cooperation, and courtesies extended to our staff during the review.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jay N. Lerner".

Jay N. Lerner
Inspector General

Attachments



System Review Report

May 16, 2017

Honorable Richard W. Moore
Inspector General
Tennessee Valley Authority
400 West Summit Hill Drive, ET 4C-K
Knoxville, Tennessee 37902-1402

Dear Mr. Moore,

The Federal Deposit Insurance Corporation Office of Inspector Review (OIG) reviewed the system of quality control for the audit organization of the Tennessee Valley Authority (TVA) OIG in effect for the year ended September 30, 2016. A system of quality control encompasses TVA OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards* (GAS). The TVA OIG is responsible for establishing and maintaining a system of quality control that is designed to provide TVA OIG with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements 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 the review.

Our review was conducted in accordance with GAS and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. During our review, we interviewed TVA OIG's personnel and obtained a sufficient understanding of the TVA OIG audit organization and the design of its system of quality control, to assess the risks implicit in its audit function. Based on our assessment, we selected audits and attestation engagements, collectively referred to as "audits", and administrative files to test for conformity with professional standards and compliance with TVA OIG's system of quality control. The audits selected provided a reasonable representation of the engagements performed by the TVA OIG's audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we 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's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of TVA OIG's policies and procedures on selected audits. Therefore, our review 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. 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 TVA OIG offices that we visited and the audits that we reviewed.

In our opinion, the system of quality control for the audit organization of TVA OIG in effect for the year ended September 30, 2016, 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. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. TVA OIG has received an External Peer Review rating of *pass*.

As is customary, we have issued a letter dated May 16, 2017, 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 GAS, we applied certain limited procedures in accordance with guidance established by CIGIE related to TVA OIG's monitoring of audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits performed by IPAs is not an audit and, therefore, is not subject to the requirements of GAS. The purpose of our limited procedures was to determine whether TVA OIG had controls to ensure 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,

A handwritten signature in blue ink, appearing to read "Jay N. Lerner".

Jay N. Lerner
Inspector General

Enclosures

SCOPE AND METHODOLOGY

The CIGIE *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, issued in September 2014, was used in the conduct of this review. We tested compliance with the TVA OIG audit organization's system of quality control to the extent we considered appropriate. These tests included reviewing 6 of 29 audit and attestation engagement reports issued during the period October 1, 2015 through September 30, 2016. In addition to the assignments listed below, we performed limited procedures to assess one non-GAS assignment and reviewed the internal quality assurance reviews performed by TVA OIG as part of our assessment of TVA OIG's adherence to general standards.

TVA OIG Audits and Attestation Engagements Selected for Review

Report No.	Report Date	Report Title
2014-15047	01/26/2016	<i>URS Energy and Construction, Inc.</i>
2016-15419	09/22/2016	<i>Stantec Consulting Services, Inc. - Proposal for Holistic Industrial Wastewater Treatment Program Services</i>
2015-15312	02/29/2016	<i>Audit of TVA Ethics Program</i>
2016-15395	05/31/2016	<i>Verification of TVA's Compliance with the Green Pricing Accreditation Program Requirements for CY 2015</i>
2015-15276	12/17/2015	<i>2015 Federal Information Security Management Act</i>
2015-15286	04/20/2016	<i>Gallatin Fossil Plant Cyber Security</i>

We also reviewed TVA OIG's monitoring of the IPA-performed audit of the agency's fiscal year 2015 financial statements.

Monitoring Files for an IPA Audit Selected for Review

OIG External Project No.	Report Date	Report Title
2015-15335	11/20/2015	<i>Monitoring of Ernst & Young LLP's Audit of the Tennessee Valley Authority Fiscal Year 2015 Financial Statements</i>

We visited TVA OIG offices located in Knoxville, Tennessee, to review documents and discuss results of the peer review.

TVA OIG COMMENTS ON THE DRAFT REPORT



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

Richard W. Moore
Inspector General

May 10, 2017

The Honorable Jay N. Lerner
Inspector General
Federal Deposit Insurance Corporation
3501 Fairfax Drive
Arlington, Virginia 22226

Dear Mr. Lerner:

Thank you for the opportunity to comment on the draft System Review Report, dated May 5, 2017, which summarized the results of your review of our audit organization's system of quality control for the fiscal year ended September 30, 2016. We were very pleased your independent review of our audit operations resulted in a rating of *pass* and concluded our system of quality control was suitably designed and complied with to provide reasonable assurance of conformity with professional standards in all material respects.

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 courteous manner. I look forward to receiving your final report and would welcome an opportunity to work with you and your personnel again.

Very truly yours,

A handwritten signature in black ink that reads "Richard W. Moore". The signature is written in a cursive, flowing style.

Richard W. Moore