BAY AREA RAPID TRANSIT DISTRICT

INTERNAL CONTROL

May 18, 2021





WHAT IS INTERNAL CONTROL?

Internal controls apply to all aspects of an organization and not just financial controls.

Internal control is a process used by management to help an entity achieve its objectives.

Objective identified +

Controls Designed +

Controls In place =

Objective Achieved



REAL WORLD **EXAMPLES** OF INTERNAL **CONTROLS**





PTC is a Control designed to prevent train-totrain collisions, and over-speed derailments.



Insert Name of Department Policies and Procedures Manual

- A. Handbook of Operating Procedures, Subchapter 5-200, Unauthorized Copying of Computer Software
 B. http://www.uta.edu/policy/hop/adm/5/200
- VII. Use of Log-on IDs and Passwords
- A According to the Information Resources Acceptable Use Policy, "every UTA computerinetwork account, password, any personal identification number (PRN, igidal certificate, security token (i.e. Smartcard), or any other similar information or device used for identification and authorization purposes must not be shared. Each user of UTA resources is responsible for all activities conducted using his or her account(s).
- - A. Procedures, Section 4, Procurement Services
- B. Describe in writing how Purchasing is handled within your department.
- IX. Procurement Card
- A. Procedure 4-11, Purchasing Card (ProCard) Program
- B. Describe in writing how Procurement Cards are handled within your
- Procedures, Section 2-6, Endowment Funds;
 Section 2-8, Gifts to the University; Section 2-14, Cash Handling;
 Section 2-15, Check Handling Procedures; Section 2-16, Assessment, Collection, and Depositing Sales Tax
- B. Describe in writing how Cash/Check Receipts are handled within your

A set of P&Ps is a Control that acts as protection against risks if suitably designed and implemented effectively.



THE ROLE OF THE AUDITOR AND INTERNAL CONTROLS

Assesses the Existence & Sufficiency of Internal Control Established and Implemented by Management



DO
OPERATIONS
RUN
EFFICIENTLY
AND
EFFECTIVELY



DOES THE
AGENCY REPORT
RELIABLE
INFORMATION
ABOUT
OPERATIONS

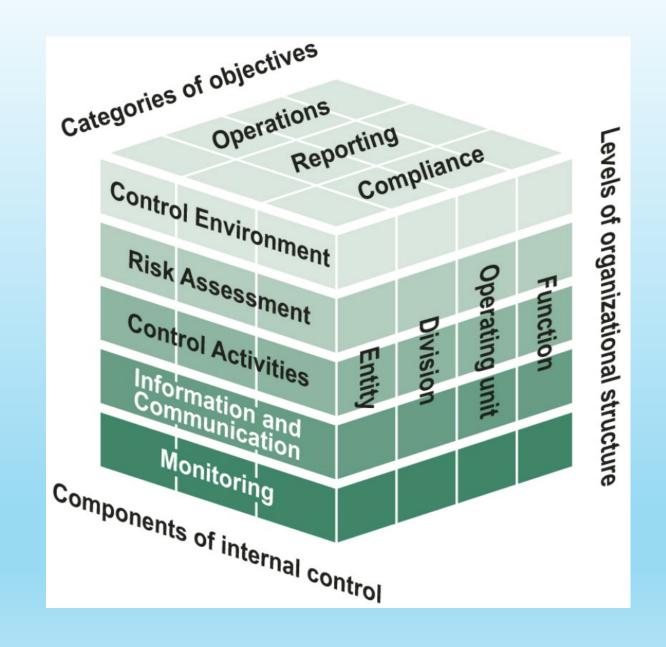


DOES THE
AGENCY
COMPLY WITH
APPLICABLE
LAWS AND
REGULATIONS



FIVE INTERNAL **CONTROL** COMPONENTS, **ALSO KNOWN AS** AN INTERNAL CONTROL **FRAMEWORK**

The five components apply to staff at all organizational levels and to all categories of objectives.





WHY IT IS IMPORTANT TO ESTABLISH AN INTERNAL CONTROL FRAMEWORK

- An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities.
- Without a robust framework, reputational, operational, service delivery, financial, project delivery, accountability risks, and others increase.



FIVE COMPONENTS OF INTERNAL CONTROL DEFINED

Control Environment

The foundation for an internal control system

It provides the discipline and structure to help an entity achieve its objectives

Risk Assessment

Assesses the risks facing the entity as it seeks to achieve its objectives

Control Activities

The actions management establishes to achieve objectives and respond to risks

Information and Communication

The quality information shared and used to support internal controls

Monitoring

Activities to assess the quality of performance and timely response to audit findings



EXAMPLES OF CONTROLS — CONTROL ENVIRONMENT



CONTROL ENVIRONMENT



• TONE AT THE TOP



• STANDARDS OF CONDUCT



• ADHERENCE TO STANDARDS OF CONDUCT



 OVERSIGHT STRUCTURE



 OVERSIGHT FOR THE INTERNAL CONTROL SYSTEM



• INPUT FOR REMEDIATION OF DEFICIENCIES



EXAMPLES OF CONTROLS — RISK **Definitions ASSESSMENT** of Objectives Definitions of Response to Risks Tolerances Risk Assessment



EXAMPLES OF CONTROLS — CONTROL ACTIVITIES

Top level review of performance

Human resources management

IT controls

Physical control over assets and inventory

Segregation of duties

Proper execution of transactions

Accurate and timely recording of transactions

Appropriate documentation of transactions



EXAMPLES OF INTERNAL CONTROL — COMMUNICATION AND INFORMATION SHARING

Collecting relevant data from reliable sources

Processing and preparing data into quality information

Sharing
quality
information
internally to
management,
staff, and
Board
members

Communicating about internal control matters to external stakeholders



EXAMPLES OF INTERNAL CONTROLS - MONITORING





• REPORTING ISSUES

• EVALUATING ISSUES



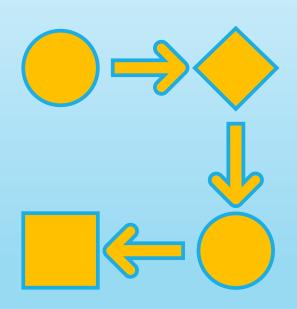


• CORRECTIVE ACTIONS

ESTABLISHES
 A BASELINE



CRITERIA FOR AN EFFECTIVE INTERNAL CONTROL SYSTEM



Effective internal control = internal control component(s) that is effectively designed, implemented, and operating, and operating together in an integrated manner.



SUGGESTED INTERNAL CONTROL FRAMEWORK — HOW TO **GUIDANCE**

Standards for Internal Control in the Federal Government, aka "the Green Book":

https://www.gao.gov/assets/gao-14-704g.pdf.

- It is widely used by public agencies, including local agencies, districts, and authorities.
- It is important to adopt and implement a framework for all operations.
- Management determines how to appropriately adapt the standards presented in the Green Book as a framework for the agency.



SEE HANDOUT — DETAILED DESCRIPTION AND COMPARISON **OF TWO** INTERNAL CONTROL **FRAMEWORKS**

- Committee of Sponsoring
 Organizations of the Treadway
 Commission (COSO) Internal Control
 - Integrated Framework
- GAO: Standards for Internal Control in the Federal Government



THANK YOU FOR YOUR TIME!

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