

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 +

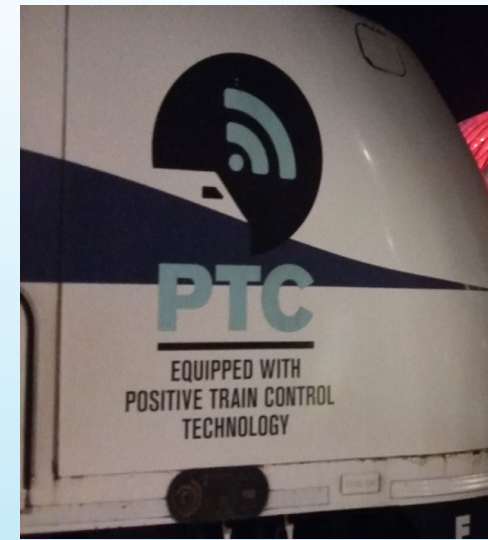
Controls In place =

Objective Achieved

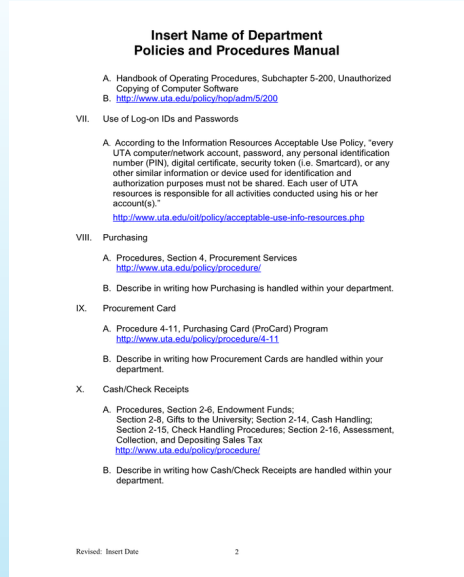
REAL WORLD EXAMPLES OF INTERNAL CONTROLS



A stop sign is a Control designed to help prevent auto accidents.



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



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



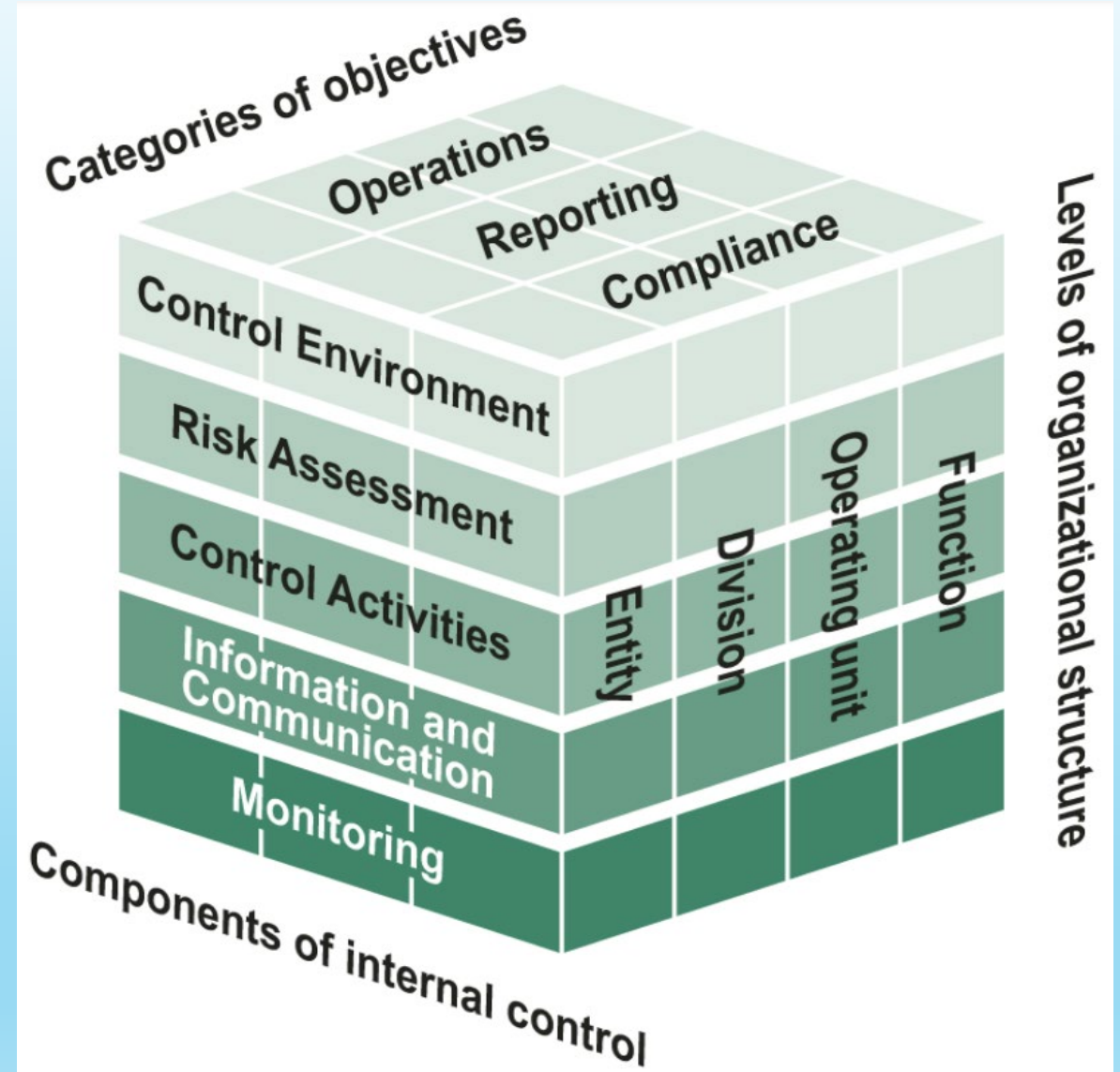
DOES THE
AGENCY REPORT
RELIABLE
INFORMATION
ABOUT
OPERATIONS



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



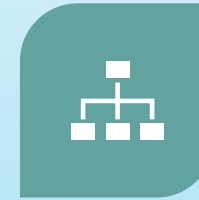
- TONE AT THE TOP



- STANDARDS OF CONDUCT



- ADHERENCE TO STANDARDS OF CONDUCT



- OVERSIGHT STRUCTURE

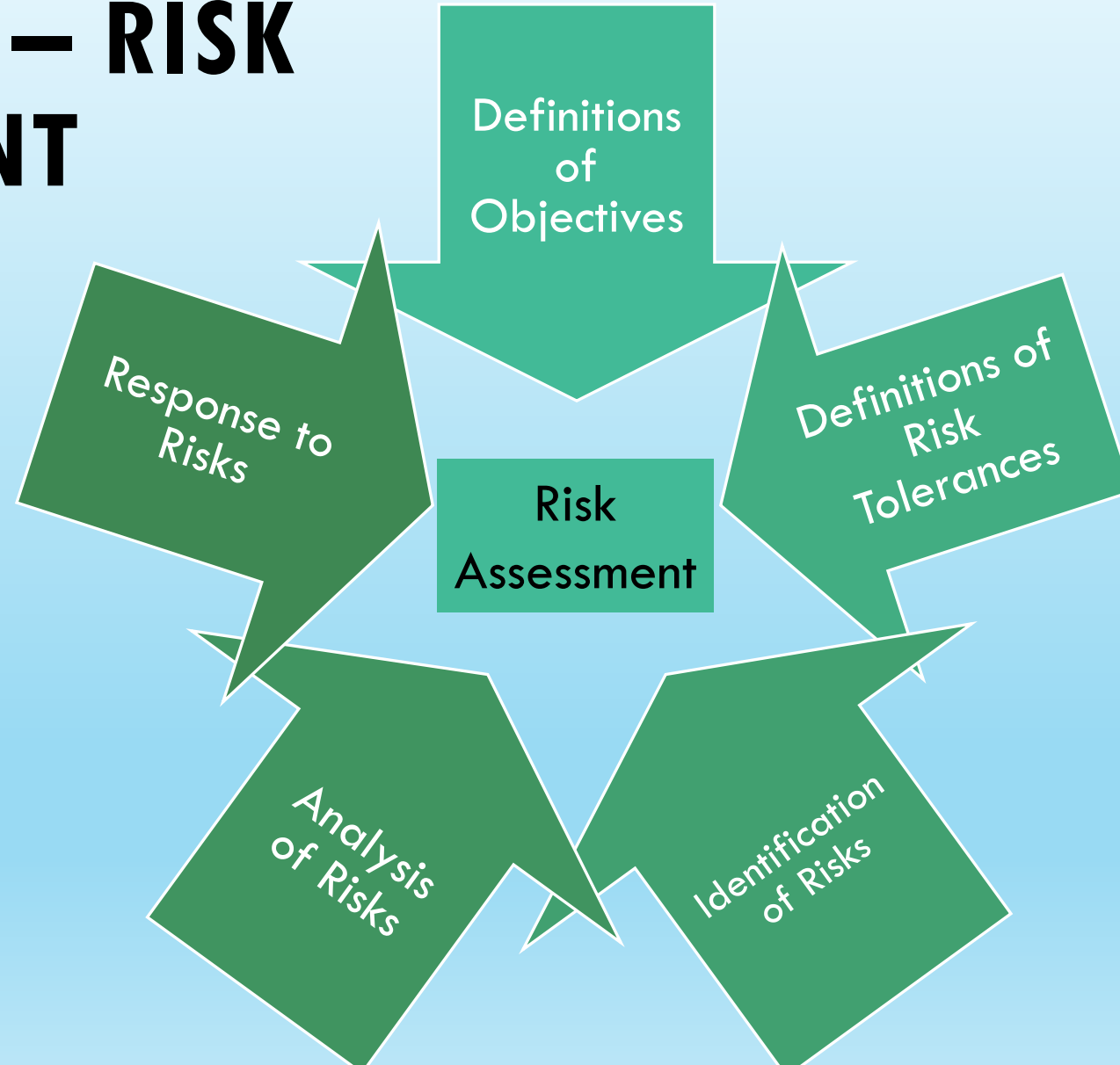


- OVERSIGHT FOR THE INTERNAL CONTROL SYSTEM



- INPUT FOR REMEDIATION OF DEFICIENCIES

EXAMPLES OF CONTROLS – RISK 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

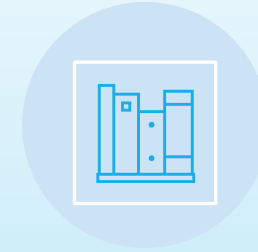
Sharing
quality
information
internally to
management,
staff, and
Board
members

Communicating
about internal
control matters
to external
stakeholders

EXAMPLES OF INTERNAL CONTROLS - MONITORING



- REPORTING
ISSUES



- EVALUATING
ISSUES

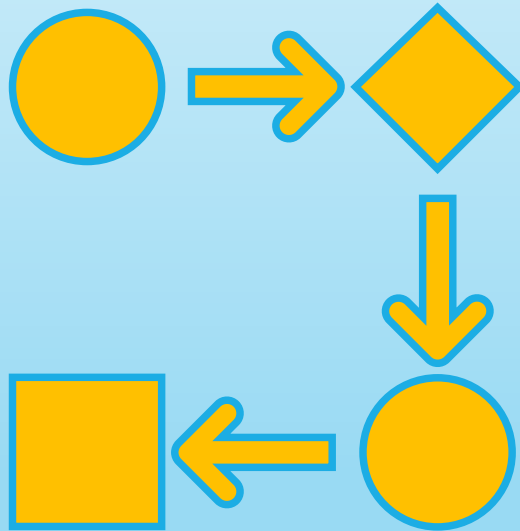


- CORRECTIVE
ACTIONS



- 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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