

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
201804

Resolution:
☐ Yes ☒ No

TITLE:

Board Audit Awareness Training

PRESENTATION SUMMARY:

The audit awareness training discusses the key concepts of internal control and the Board's oversight responsibilities for internal controls.

PURPOSE:

To provide new and existing Board Members with training on internal controls with a specific focus on Board oversight responsibilities. Training session will fulfill the audit awareness training requirements outlined in Article XII of the Bylaws of the Washington Metropolitan Area Transit Authority (WMATA) Board of Directors.

DESCRIPTION:

Key Highlights:

Training is designed to increase awareness of internal controls through a discussion of fundamental concepts and current regulatory requirements for internal controls applicable to WMATA. The session will center on a discussion of the Committee of Sponsoring Organizations (COSO's) Internal Control - Integrated Framework and its current application at WMATA, including specific examples of internal controls at the entity and process levels.

Background and History:

Audit Awareness Requirement:

Article XII Section C of the Bylaws of the Washington Metropolitan Area Transit Authority Board of Directors states in part that the Audits and Investigations Committee is responsible for providing oversight of the quality and integrity of the Authority's internal controls, compliance systems and accounting, auditing, financial reporting processes, and investigation processes. This section also states that the Audits and Investigations Committee is responsible for ensuring that each Board Member receives audit awareness training within one year of becoming a Member of the Board. Under the direction of the Audits and Investigations Committee, this training session is designed to meet the audit

awareness training for new Board Members, and serves as a refresher training for existing Members.

Discussion:

A strong internal control environment starts with the tone at the top of an organization, which comes from its Board of Directors and senior management. A clear understanding of internal controls and expectations for internal controls provides the Board with the tools needed to access its oversight responsibilities for internal controls, provide appropriate direction to management, and appropriately hold management accountable for the effectiveness of internal controls.

The training will discuss the key concepts of internal control and the Board's responsibilities for internal controls along with internal control examples.

FUNDING IMPACT:

No impact on funding.	
Project Manager:	Elizabeth Sullivan
Project Department/Office:	Office of Internal Assurance and Compliance

TIMELINE:

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Board Audit Awareness Training

Internal Controls & Oversight Responsibilities

Office of Internal Assurance and Compliance



Session Objectives

1. Increase awareness of Internal Controls
2. Discuss Committee of Sponsoring Organizations' (COSO's) Internal Control - Integrated Framework
3. Discuss Board of Directors oversight responsibilities



Awareness — Definition

Internal controls is a process, effected by an entity's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO)



Awareness — Key Concepts

- Geared to achievement of objectives
- A process
- Effected by people
- Provides reasonable assurance
- Adaptable to entity structure and flexible in application
- Involves plans, methods, policies and procedures

Awareness — Key Concepts



**Internal control is everyone's
responsibility**



Awareness — Value

The achievement of objectives relating to operations, reporting, and compliance:

Operations – Effectiveness and efficiency

Reporting – Internal & external financial & non-financial

Compliance – Adherence to laws and regulations





Awareness — Regulatory



- ❖ Section 200.303 Office of Management Budget's (OMB) – Uniform Guidance:
 - ❖ Establish and maintain effective internal controls over Federal awards in compliance with:
 - COSO - Internal Control Integrated Framework, *or*
 - Green Book - Standards for Internal Control in the Federal Government
- ❖ FTA Circular 5010 (FTA C 5010.1D Chapter VI §2) – Establish and maintain adequate Internal Controls



Awareness — WMATA's Requirements

GAO Recommended	Policy/Instruction (P/I) 5.12/0 - Financial Management Risk and Control Policy
Develop and implement a policy and related procedures for assessing WMATA's Financial Management-related risks and control	Defines financial management objectives
	Identifies COSO as WMATA's standard
	Requires annual assessment
Monitor the design and operating effectiveness of the five components of Internal Control related to Financial Management	Requires annual evaluation of controls, including an element of self-assessment
	Requires the Office of Internal Assurance and Compliance (IACO) to monitor



Awareness

MYTHS

Internal control starts with a strong set of policies and procedures.

Internal control: That's why we have internal reviewers and auditors!

Internal control is a finance thing.

Internal controls are essentially negative, like a list of "thou-shalt-nots."

Internal controls take time away from our core activities of making products, selling, and serving customers.



FACTS

Internal control starts with a strong control environment.

While internal reviewers and auditors play a key role in the system of control, management is the primary owner of internal control. Internal control is the responsibility of all employees.

Internal control is integral to every aspect of business.

Internal control makes the right things happen the first time.

Internal controls should be built "into," not "onto" business processes.



Responsibility



Oversight and policy governance



Establish, maintain and monitor



Design and operating effectiveness. Process & procedural development and record retention

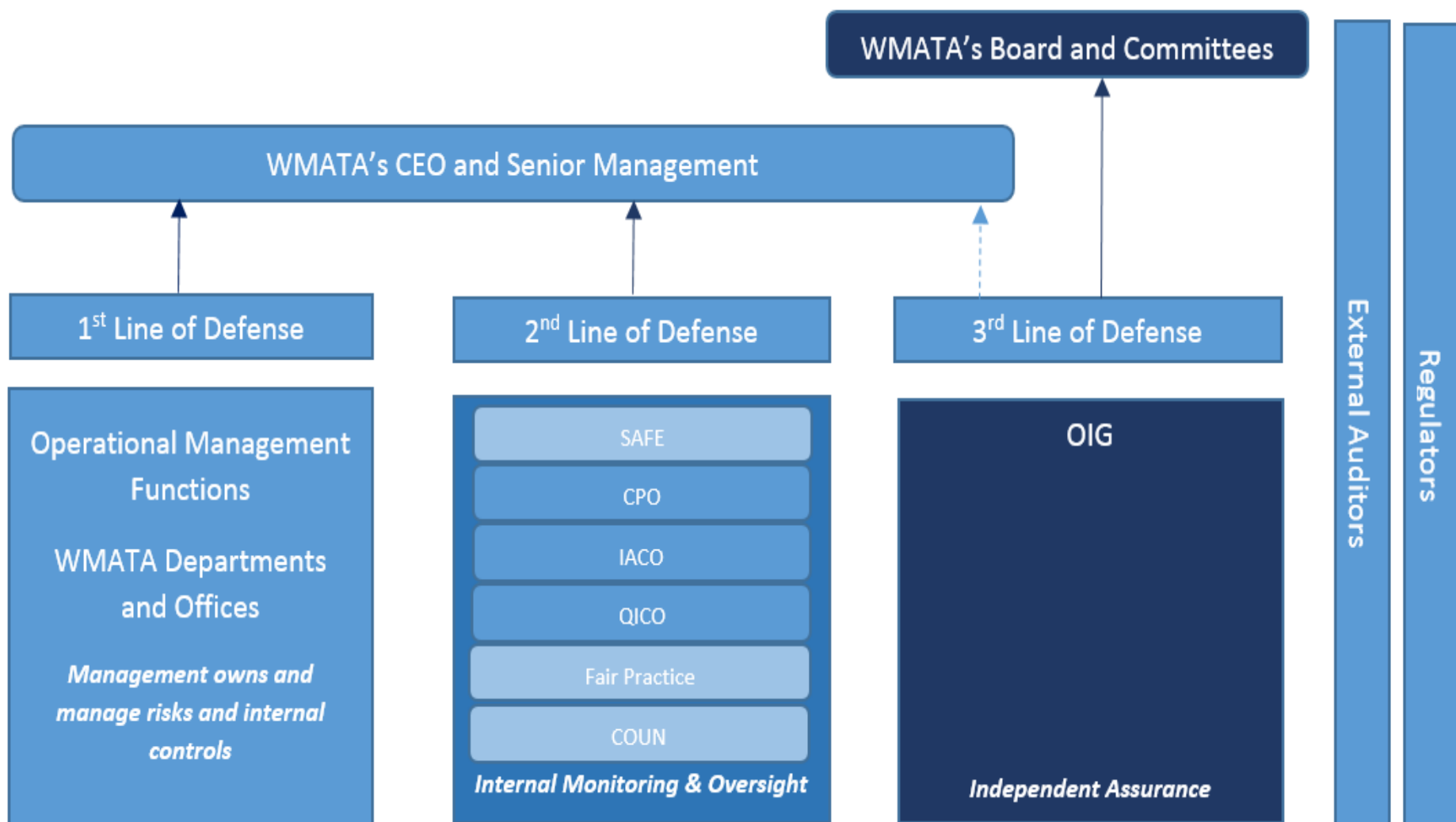


Implement and completely and accurately perform controls



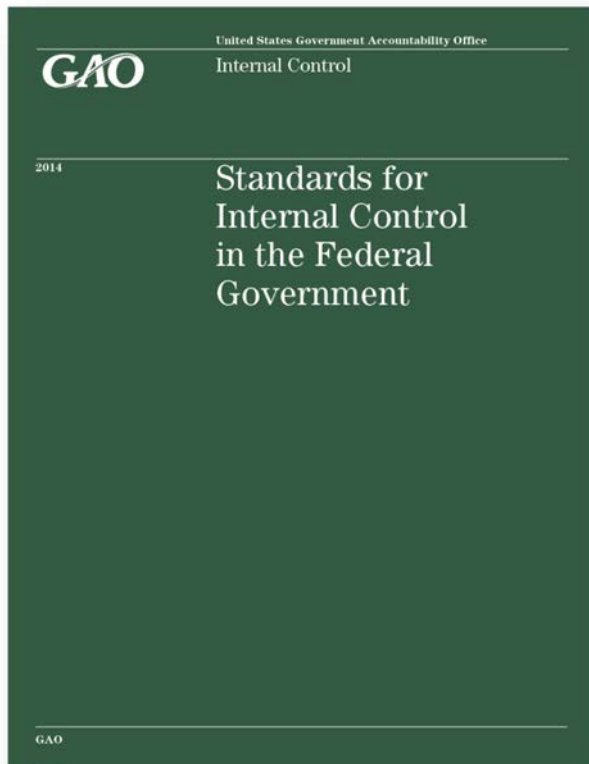
Responsibility – Illustrated

WMATA's Three Lines of Defense





COSO Standards and Framework



GAO's Green Book – Standards for Internal Control in the Federal Government

The COSO Internal Control Integrated Framework — accepted and recognized as the standard against which organizations measure Internal Control system



Framework

According to the COSO framework, to have an effective system of internal control:

- Each of the five components and 17 principles must be present and functioning
- The five components must operate together in an integrated manner

Note: The 17 COSO principles also include related points of focus.



COSO — Control Environment



The foundation for all other components of Internal Control

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability



Control Environment — Board Responsibility

- Establish oversight structure aligned with objectives of organization
- Establish integrity and ethical values
- Oversee the definition of and apply the standards of conduct of the organization
- Develop expectations of competence for organization members
- Maintain accountability to all members of the oversight body and key stakeholders
- Commission oversight effectiveness reviews and address opportunities for improvement



COSO — Risk Assessment



The identification and analysis of relevant risks to the achievement of objectives

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change



Risk Assessment – Board Responsibility

- Oversee management's assessment of risks to the achievement of objectives
- Evaluate the potential impact of significant changes, fraud, and management override of Internal Control
- Consider internal and external factors that pose significant risks to the achievement of objectives
- Determine how proactively the organization manages innovations and changes such as those triggered by new technology or budgetary and political shifts



COSO — Control Activities



The policies and procedures which help ensure that management directives are carried out

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures



Control Activities – Board Responsibility

- Provide oversight to management in the development and performance of control activities
- Make specific inquiries of management regarding the selection, development, and deployment of control activities in significant risk areas and remediation as necessary



COSO — Information and Communication

4 Information and Communication

The identification, capture and communication of data and pertinent business information in a form and timeframe that enables people to carry out their responsibilities

- 13. Uses relevant information
- 14. Communicates internally
- 15. Communicates externally



Information & Communication – Board Responsibility

- Communicate direction and tone at the top
- Obtain, analyze, and discuss information relating to the organization's achievement of objectives
- Review disclosures to external stakeholders for completeness, relevance, and accuracy
- Allow for and address upward communication of issues



COSO — Monitoring Activities



Monitoring Activities

Helps ensure that Internal Controls continue to operate effectively and involves assessment by appropriate personnel

- 16. Conducts ongoing and/or separate evaluations
- 17. Evaluates and communicates deficiencies



Monitoring – Board Responsibility

- Assess and oversee:
 - Nature and scope of monitoring activities
 - Management overrides of controls
 - Management's evaluation and remediation of deficiencies
- Evaluate the integrity and ethical values of senior management
- Engage with management, internal and external auditors, and others to:
 - Evaluate the level of awareness of the organization's strategies, objectives, risks, and controls
 - Understand the implications associated with evolving mission, infrastructure, regulations, and other factors



Oversight – Board Responsibility

**Are you asking the right
questions about**





Group Discussion – WMATA Examples

Consider the examples of WMATA controls provided and discuss the questions below:

1. What is the applicable control component and related control principle?
2. With knowledge of the Board's oversight responsibility, what questions should be asked of management?



Group Discussion – WMATA Examples

Example 1



Group Discussion – WMATA Examples

Example 1 - Possible Questions for Board Oversight:

- How does management ensure that the Code of Ethics is properly defined and communicated?
- Is the policy regularly updated and monitored for adherence?
- What happens when staff refuses to take the required ethics training and how are violators held accountable?
- What assurance do we have that our Code of Ethics transfers to WMATA's contractors and third party service providers?



Group Discussion – WMATA Examples

Example 2



Group Discussion – WMATA Examples

Example 2 - Possible Questions for Board Oversight:

- Has management developed expectations of competence for staff throughout the organization?
- How is competence evaluated for staff and in outsourced service providers?
- Are we taking proper steps to retain competent staff and how are shortcomings addressed?



Group Discussion – WMATA Examples

Example 3



Group Discussion – WMATA Examples

Example 3 - Possible Questions for Board Oversight:

- How does management assess risks to the achievement of its objectives?
- Are internal and external factors that pose significant risks to the achievement of objectives routinely considered by management and communicated formally to the Board?
- What happens when we have significant changes, fraud, or management override of internal control?



Group Discussion – WMATA Examples

Example 4



Group Discussion – WMATA Examples

Example 4 - Possible Questions for Board Oversight:

- Is there a monitory process and how is information on ongoing monitoring communicated to the Board?

Specific inquiries may be made of management regarding the selection, development, and deployment of control activities in significant risk areas and remediation as necessary.



Questions?
and/or
Feedback