

EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE  
JANUARY 19, 2006

**SUBJECT: MANAGEMENT AUDIT SERVICES REVISED AUDIT CHARTER**

**ACTION: ADOPT AUDIT CHARTER**

**RECOMMENDATION**

Adopt the revised Audit Charter for Management Audit Services.

**ISSUE**

When the Board adopted the FY06 Financial Standards it designated the Executive Management and Audit Committee (EMAC) as the Audit Committee for the Los Angeles County Metropolitan Transportation Authority (LACMTA). The Audit Committee's responsibilities include involvement in audit related issues such as the Audit Charter. To clarify Management Audit Services' (MAS) responsibilities, authority and audit independence, the Audit Charter is being updated and presented to the EMAC for adoption.

**POLICY IMPLICATIONS**

The Audit Charter identifies the purpose, authority, independence and responsibility of MAS' auditors. In addition, it clarifies the responsibilities of management in relation to audits.

The major changes reflected in the revised Audit Charter include updating MAS' organizational reporting structure, which now complies with the current Generally Accepted Government Auditing Standards (GAGAS) requirements. In addition, to reflect the impact of recent changes within the auditing profession, the Standards MAS complies with to complete its work were expanded to include the Institute of Internal Auditor's (IIA) internal auditing standards and Information System's Audit and Control Association's standards. The scope and responsibilities section of the Audit Charter were updated to reflect the Board adopted FY06 Financial Standards and industry best practices.

**OPTIONS**

If the revised Audit Charter were not adopted, the earlier Audit Charter would remain in effect. This would fail to reflect our current responsibilities, organizational structure and current auditing standards.

## **FINANCIAL IMPACT**

Adoption of the MAS Audit Charter has minimal financial impact, and will be managed within the current fiscal year budget.

## **BACKGROUND**

The IIA's Standards require the Audit Charter be reviewed periodically to determine if regulatory changes, organizational restructuring, or changes in the audit profession or business environment have impacted the audit department. MAS' Audit Charter was implemented in 2000 and incorporated GAGAS as the standards the department would comply with. Since then GAGAS was revised in 2003. In addition, the reporting structure for MAS changed this year from reporting to the Chief Executive Officer (CEO) for audit issues and the Chief Financial Officer for administrative purposes, to reporting directly to the CEO. The adopted FY06 Financial Standards also changed some of MAS' responsibilities. Further, the auditing profession's standards have been updated in recent years to reflect changes in regulatory and business environments, including the passage of the Sarbanes-Oxley legislation.

MAS began reviewing and revising the Audit Charter several months ago. The latest changes in the auditing professions best practices were reviewed and, where appropriate, incorporated into the Audit Charter. In addition, the draft revised Audit Charter was sent out for peer comments to some CPA firms and their comments were included in the final draft of the revised Audit Charter.

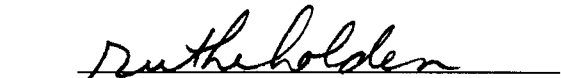
## **NEXT STEPS**

Update MAS' policies and procedures to reflect the Board adopted Audit Charter.

## **ATTACHMENT**

A. Management Audit Services Audit Charter.

Prepared by: Ruthe Holden, Managing Director, MAS



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Ruthe Holden  
Managing Director, Management Audit Services



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Roger Snoble  
Chief Executive Officer



## **I. INTRODUCTION**

Los Angeles County Metropolitan Transportation Authority (LACMTA) maintains an active audit function under the direction of Chief Executive Officer (CEO); with responsibility to report its activities to the Board. This charter defines the mission, scope, commitment to quality, authority and accountability, independence, and responsibility of LACMTA's audit department, Management Audit Services (MAS).

## **II. MISSION**

MAS provides highly reliable, independent, objective assurance and consulting services designed to add value and improve LACMTA's operations. MAS accomplishes this by bringing a systematic, disciplined approach to evaluating and recommending improvements to the effectiveness of risk management, controls and governance processes.

## **III. SCOPE**

The scope of work performed by MAS is to determine whether LACMTA's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning to ensure:

- Risks are appropriately identified and managed;
- Significant financial, managerial, and operating information is accurate, reliable and timely;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, projects and objectives are achieved;
- Quality and continuous improvement are fostered;
- Significant legislative or regulatory issues impacting LACMTA are recognized, addressed appropriately and interaction with governance groups occurs;
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations; and
- Opportunities for improving management control, streamlining processes, and improving public perception may be identified during audits. These will be communicated to the appropriate level of management.

## **IV. COMMITMENT TO QUALITY**

MAS commits to providing world-class service through timely, unbiased, value-added assurance and consulting services. We will work as a team with our clients to improve processes and meet strategic goals and objectives. We will enhance the services we provide by continuously improving our audit activities.



MAS adheres to the following professional standards and codes:

- Government Auditing Standards promulgated by the Comptroller General of the United States;
- Standards for Professional Practice of Internal Auditing and Code of Ethics promulgated by the Institute of Internal Auditors;
- Information Systems Auditing Standards promulgated by the Information Systems Audit and Control Association;
- LACMTA's Employee Code of Conduct and Administrative Code; and
- MAS' Audit Policy Manual and applicable procedures.

## **V. AUTHORITY AND ACCOUNTABILITY**

MAS audits all departments, programs, functions, systems, contracts and activities based on the approved audit plan or specific requests that have been approved by the CEO.

MAS is authorized to:

- Have full, free and unrestricted access to all information, functions, systems, property, personnel and other relevant materials necessary to accomplish its work. Access to contracted third parties will be handled in accordance with contractual terms. MAS staff signs Confidentiality Statements annually. Documents provided to MAS will be handled in the same prudent manner as by those employees normally accountable for them;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel in functions where audits are being performed, as well as other specialized services from external consultants.

MAS is not authorized to:

- Initiate or approve accounting transactions external to MAS; and
- Direct the activities of any employee not part of MAS, except to the extent such employees have been appropriately assigned to auditing teams.

MAS, in the discharge of duties, is accountable to the CEO to:

- Report significant issues related to the processes for controlling the activities, including potential improvements to those processes, and provide information concerning such issues through resolution; and
- Provide periodic information on the status and results of the annual audit plan and the adequacy of progress as it relates to management action plans.



## **VI. INDEPENDENCE**

MAS is independent of the activities it reviews. Specifically, MAS teams may not review areas where they were responsible for the design or operation of the area. MAS reports to the Chief Executive Officer. This structure permits the rendering of impartial and unbiased judgment essential to the proper conduct of audits. Auditors are responsible for maintaining their independence and integrity in all services they provide.

## **VII. RESPONSIBILITIES**

### **A. MAS is responsible for:**

- Developing and executing a flexible risk based audit plan including any risks or control concerns identified by management; and submitting that plan to the CEO and Board of Directors for review and approval;
- Preparing or updating the agency-wide risk assessment annually and incorporating the results into the annual audit plan;
- Implement the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by management ;
- Reporting significant audit findings to management and the Board of Directors;
- Providing management with adequate time to respond to audit findings and including management's response in the final report;
- Following up on audits to ensure agreed-upon corrective actions have been taken and provide periodic follow up reports;
- Presenting quarterly reports to the Board highlighting progress on the Audit Plan;
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter;
- Conducting objective and constructive assurance services;
- Consulting services can be provided as long as the services do not impair MAS' independence and fall within the scope outlined in the Charter;
- Exercising due professional care in all of our work products;
- Conducting ourselves at all times in a professional manner;
- Coordinating external audits of LACMTA;
- Considering external auditors and regulators' scopes of work, as appropriate, for the purpose of providing optimal audit coverage at a reasonable overall cost; and
- Referring suspected fraud, waste, or abuse promptly to the Inspector General.



**Metro**

**Management Audit Services  
Audit Charter**

**B. MANAGEMENT is responsible for:**

- Maintaining an effective system of internal controls, documenting policy and procedures, and ensuring information is accurate and reliable;
- Complying with policies and procedures;
- Cooperating fully with auditors during discharge of their duties including prompt reply to MAS requests and recommendations; and
- Providing a response to audit findings and recommendations. Assuring timely implementation of agreed upon corrective action(s) to audit recommendations.

The Audit Charter may be modified or terminated by a written document executed by all of the participating parties. This Audit Charter will be effective upon execution and will continue indefinitely until it is modified or terminated.

IN WITNESS WHEREOF, the parties hereto have caused this Audit Charter to be executed by their proper officers thereunto duly authorized, and their official seals to be affixed as of January \_\_\_\_, 2006.

Los Angeles County Metropolitan Transportation Authority

Board of Directors

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Roger Snoble  
Chief Executive Officer

By: \_\_\_\_\_  
Board Secretary

