

**Metro**

# **Management Audit Services Audit Charter**

## **I. INTRODUCTION**

Los Angeles County Metropolitan Transportation Authority (LACMTA) maintains an active audit function within the administration of LACMTA's Office of the Chief Executive Officer (OCEO), reporting the results of its audit work to LACMTA's Board of Directors. This Audit Charter defines the mission, scope, commitment to quality, authority and accountability, independence, responsibility of LACMTA's Management Audit Services, the OCEO, the Board, as well as LACMTA management.

Management Audit Services assists LACMTA to accomplish its objectives by understanding LACMTA's strategies and by bringing a systematic, disciplined, and risk-based approach to evaluating and recommending improvements to the effectiveness of risk management, internal controls, and governance processes. Management Audit Services also provides support to ensure that third parties receiving funding from LACMTA through contractual arrangements have properly accounted for the use of funds and complied with all applicable requirements.

## **II. MISSION**

Management Audit Services provides independent, objective audit, attestation, and consulting services designed to add value and improve LACMTA's operations.

## **III. SCOPE**

The scope of work performed by Management Audit Services includes the examination and evaluation of the adequacy and effectiveness of LACMTA's network of risk management, internal controls, and governance. This includes audits of internal LACMTA operations as well as audits of third parties in a contractual arrangement with LACMTA. The work performed by Management Audit Services is intended to provide support to ensure:

- Risks are appropriately identified and managed;
- Financial, managerial, and operating information is evaluated, accurate, reliable and timely;
- Resources are acquired economically, used efficiently, and adequately protected;
- Program results are consistent with established objectives and goals, and operations or programs are being carried out as planned;
- Evaluation of legislative or regulatory issues impacting LACMTA are recognized, addressed appropriately and interaction with governance groups occurs;



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- Employee actions comply with policies, standards, procedures and applicable laws and regulations;
- Consulting services related to governance, risk management and control are appropriate for the organization;
- Opportunities for improving internal controls, streamlining processes, and improving public perception identified during audits are communicated to the appropriate level of management; and
- Interactions and arrangements with third parties, including contractors and recipients of grant funds comply with policies, standards, procedures and applicable laws and regulations.

### **IV. COMMITMENT TO QUALITY**

Management Audit Services will maintain quality control procedures and a quality assurance and improvement program that covers all aspects of Management Audit Services activity. Management Audit Services will deliver upon the commitment to quality through focused activities such as: ensuring a quality assurance improvement program, facilitating annual internal assessments, and ensuring external assessments are conducted at least every three years. The Chief Audit Executive will provide consistent and timely communications to the CEO, and/or the CEO's Executive Designees, the Board, and LACMTA management.

Management Audit Services adheres to the following professional standards and codes:

- Government Auditing Standards promulgated by the Comptroller General of the United States;
- International Standards for the Professional Practice of Internal Auditing (Standards), Code of Ethics, Core Principles, and Definition of Internal Auditing issued by the Institute of Internal Auditors;
- Information Systems Auditing Standards promulgated by the Information Systems Audit and Control Association;
- Standards promulgated by the American Institute of Certified Public Accountants and their Code of Professional Conduct;
- LACMTA's Employee Code of Conduct and Administrative Code, and
- Management Audit Services' Audit Policy Manual and applicable procedures.

### **V. AUTHORITY AND ACCOUNTABILITY**

Management Audit Services performs audit engagements and non-audit services for departments, programs, functions, systems, contracts, grant recipients, and



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other activities based on the approved annual audit plan, or specific requests that are received from the CEO, and/or the CEO's Executive Designee, the Board, management; or as identified by the Chief Audit Executive.

Management Audit Services, with strict accountability for confidentiality and safeguarding of records and information, has staff sign Confidentiality Statements annually. Documents provided to Management Audit Services will be handled in the same prudent manner as by those employees normally accountable for them. Management Audit Services is authorized to:

- Maintain full, free and unrestricted access to any and all information, functions, operations, systems, properties, personnel and other relevant materials necessary to accomplish its work. All employees are requested to assist fully in making available material or information requested by Management Audit Services or any external auditors contracted to perform on behalf of Management Audit Services.
- Access to contracted third parties will be handled in accordance with contractual terms;
- Maintain full and free access and reporting responsibilities through LACMTA's Finance, Budget and Audit Committee;
- 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 audit engagements, services or activities are being performed, as well as other specialized services from external consultants.

Management Audit Services in the discharge of duties is accountable to LACMTA's CEO and Board to:

- Provide adequate audit coverage to the areas set forth under the mission and scope of work sections of this Audit Charter;
- Report significant issues related to the processes for managing risk and governance practices of the organization, including potential improvements to those processes, and provide information concerning such issues through resolution;
- Provide periodic information on:
  - the status and results of the annual audit plan;
  - the sufficiency of department resources, including proper reporting;
  - notification to the CEO, and/or CEO's Executive Designee, and the Board when resource constraints prevent the coverage of a risk as identified through the annual agency-wide risk assessment and included in the annual audit plan, or related to a special request;
  - ensuring resources are sufficient and competent through actions such as staff augmentation and outsourcing; and



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- Establish a follow-up process to track and monitor the effective implementation of management actions related to findings, recommendations, and/or issues.

### **VI. INDEPENDENCE**

Management Audit Services is independent of LACMTA's operations and activities. Specifically, Management Audit Services staff may not review areas in which staff was responsible for the design or operation of the area. Auditors are responsible for maintaining independence and integrity in all services provided.

All Management Audit Services activities shall remain free from interference relative to matters of audit selection, scope, procedures, frequency, timing, or report content to maintain independence and objectivity. The Chief Audit Executive shall report any impairment to independence; or restriction or limitation to audit selection, scope, procedures, frequency, timing; or report content promptly to the OCEO and the Board.

As a means of ensuring independence, the Chief Audit Executive will report administratively to the OCEO and maintain a functional reporting relationship to the Board. This structure permits the rendering of impartial and unbiased judgment essential to the proper conduct of audits.

Management Audit Services is not authorized to perform any operational duties for LACMTA, which shall include:

- Implementing internal controls;
- Developing policies or procedures on behalf of management;
- Installing systems;
- Preparing records that are the responsibility of management; and
- Engaging in any other activity that may impair internal auditor's objectivity and/or independence of judgment.

### **VII. RESPONSIBILITIES**

#### **A. Management Audit Services is responsible for:**

- Developing and executing a flexible risk-based annual audit plan which considers LACMTA's objectives and strategies, including any risks or internal control concerns identified by management; and submitting that plan to the OCEO and the Board for review and approval;
- Preparing or updating the agency-wide risk assessment annually and incorporating the results into the annual audit plan;



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- Implementing the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by the CEO, and/or CEO's Executive Designee, the Board, and management;
- Reporting significant audit findings to the CEO, and/or CEO's Executive Designee, the Board, including management;
- Providing management with adequate time to respond to audit findings and including management's response in the final reports;
- Presenting quarterly reports to the OCEO and the Board that summarize the results of audit activities, highlight Audit Plan progress, describe any adjustments made to the Audit Plan, and recommended changes to the Audit Plan based on new information or special requests;
- Keeping the OCEO and LACMTA's Finance, Budget and Audit Committee informed of emerging risks and issues and recommending audits to provide relevant, timely information about these areas to support oversight and decision making;
- Maintaining a professional audit staff with sufficient knowledge, competencies, skills, experience, and professional certifications to meet the requirements of this Audit Charter;
- Conducting objective and constructive audits, attestations, and consulting services;
- Consulting services, which are advisory in nature, can be provided as long as the services do not impair Management Audit Services' independence and fall within the scope outlined in the Audit Charter;
- Exercising due professional care in all of our work products;
- Acting in a professional manner at all times;
- 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;
- Referring suspected fraud, waste, or abuse promptly to the Office of the Inspector General; and
- Establish a quality control and assurance improvement program.

### **B. Management is responsible for:**

- Maintaining an effective system of internal controls, documenting policies and procedures, and ensuring information is accurate and reliable;
- Complying with policies and procedures;
- Cooperating fully with auditors during the discharge of their duties including replying promptly to Management Audit Services requests and recommendations; making themselves available for meetings and discussions related to audit matters; and



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- Providing a response to audit findings and recommendations and assuring timely implementation of agreed upon corrective action(s) to audit recommendations.

### **C. The OCEO is responsible for:**

- Overseeing the daily administrative work:
  - Timekeeping and time approval;
  - Leave requests of the CAE – reviewing, approving;
  - Training requests;
  - Internal budget management and processing;
  - Internal office procedures (office space, furnishings, overhead issues like utilities, building management, information technology, employee on-boarding);
  - Personnel issues;
  - Any other office issues not related to the content or distribution of an audit report.
  - Approving the Audit Charter;
  - Approving a risk-based audit plan;
  - Approving the Management Audit Services budget and resource plan;
  - Receiving timely communications from the Chief Audit Executive summarizing results of audit activities; and
  - Making appropriate inquiries of management and the Chief Audit Executive to determine if there are any inappropriate scope or resource limitations.

### **D. The Board is responsible for:**

- Establishing, maintaining, and assuring that Management Audit Services has sufficient authority to fulfill its duties by
  - Approving the Audit Charter;
  - Approving a risk-based audit plan;
  - Approving the Management Audit Services budget and resource plan;
  - Receiving timely communications from the Chief Audit Executive summarizing results of audit activities; and
  - Making appropriate inquiries of management and the Chief Audit Executive to determine if there are any inappropriate scope or resource limitations.



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The Audit Charter may be modified 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.



## Management Audit Services Audit Charter

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 May \_\_, 2022.

Los Angeles County Metropolitan Transportation Authority

Board of Directors

By:

\_\_\_\_\_  
Stephanie N. Wiggins  
Chief Executive Officer

By:

\_\_\_\_\_  
Board Clerk





# Management Audit Services Audit Charter

## I. INTRODUCTION

Los Angeles County Metropolitan Transportation Authority (LACMTA) maintains an active audit function under the ~~administration~~direction of LACMTA's Office of the Chief Executive Officer (OCEO). ~~reporting the results of its audit work to LACMTA's Board of Directors, with responsibility to report its activities to the Chief Executive Officer (CEO), and/or the CEO's Executive Designee; and LACMTA's Board of Directors (Board).~~ This Audit Charter defines the mission, scope, commitment to quality, authority and accountability, independence, responsibility of LACMTA's Management Audit Services, the OCEO, ~~including~~ the Board, as well as LACMTA management. Management Audit Services assists LACMTA to accomplish its objectives by understanding LACMTA's strategies and by bringing a systematic, disciplined, and risk-based approach to evaluating and recommending improvements to the effectiveness of risk management, internal controls, and governance processes. Management Audit Services also provides support to ensure that third parties receiving funding from LACMTA through contractual arrangements have properly accounted for the use of funds and complied with all applicable requirements.

## II. MISSION

Management Audit Services provides independent, objective audit, attestation, and consulting services designed to add value and improve LACMTA's operations.

## III. SCOPE

The scope of work performed by Management Audit Services includes the examination and evaluation of the adequacy and effectiveness of the LACMTA's network of risk management, internal controls, and governance. This includes audits of internal LACMTA operations as well as audits of third parties in a contractual arrangement with LACMTA. The work performed by Management Audit Services is intended to provide support to ensure:

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**Commented [S1]:** Use of the term 'under the direction of' implies a relationship where the OCEO **directs** the activities of the audit function which we understand is not the case in practice. Suggest changing 'under the direction of' to 'within the'

**Commented [DK2]:** Recommend considering language like "report the results of its work to the Board". Can certainly add CEO, Executive Designee, and others – but clearly and initially saying "we report audits to the Board" is a good practice.

**Commented [DK3]:** Consider possible noted changes to clarify administrative vs functional roles (see supporting document).

**Commented [S4]:** Make consistent the use of Board and LACMTA Finance, Budget, and Audit Committee. Throughout the charter – they seem to be used interchangeably. In making this reference consistent, also clarify to where the reporting relationship is. Is it to the Board, or the Board's Finance, Budget, and Audit Committee

**Commented [DK5]:** All of this is trying to illustrate that MAS resides within OCEO and is in OCEO's administrative portfolio, while reporting the results of its audit work to the Board.

**Commented [DK6]:** This seems to blend OCEO and the Board – if the intent is to clarify the functional vs administrative roles, suggest this grammatical change to separate OCEO and the Board.



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- Employee actions comply with policies, standards, procedures and applicable laws and regulations;
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- International Standards for the Professional Practice of Internal Auditing (Standards), Code of Ethics, Core Principles, and Definitions of Internal Auditing issued by the Institute of Internal Auditors;
- Information Systems Auditing Standards promulgated by the Information Systems Audit and Control Association;
- Standards promulgated by the American Institute of Certified Public Accountants and their Code of Professional Conduct;
- LACMTA's Employee Code of Conduct and Administrative Code, and
- Management Audit Services' Audit Policy Manual and applicable procedures.

### V. AUTHORITY AND ACCOUNTABILITY

Management Audit Services performs audit engagements ~~and services~~ for departments, programs, functions, systems, contracts, grant recipients, and other

**Commented [DK7]:** This is a suggestion to clarify that MAS is not performing "non-audit services" – work that is outside of standards. Could also say "MAS performs work for departments, programs. . .".



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activities based on the approved annual audit plan, or specific requests that are received from the CEO, and/or the CEO's Executive Designee, the Board, including management; or as identified by the Chief Audit Executive.

**Commented [DK8]:** Another clarifying option is just to say "Management Audit Services performs engagements based on the approved annual audit plan, or specific requests. . . "

Management Audit Services with strict accountability for confidentiality and safeguarding of records and information is authorized to:

- Maintain full, free and unrestricted access to any and all information, functions, operations, systems, properties, personnel and other relevant materials necessary to accomplish its work. All employees are requested to assist fully in making available material or information requested by Management Audit Services or any external auditors contracted to perform on behalf of Management Audit Services. Access to contracted third parties will be handled in accordance with contractual terms. Management Audit Services staff signs Confidentiality Statements annually. Documents provided to Management Audit Services will be handled in the same prudent manner as by those employees normally accountable for them;
- Maintain full and free access and reporting responsibilities through LACMTA's Finance, Budget and Audit Committee;
- 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 audit engagements, services or activities are being performed, as well as other specialized services from external consultants.

Management Audit Services in the discharge of duties is accountable to LACMTA's CEO and Board to:

- Provide adequate audit coverage to the areas set forth under the mission and scope of work sections of this Audit Charter.
- Report significant issues related to the processes for managing risk and governance practices controlling the activities of the organization, including potential improvements to those processes, and provide information concerning such issues through resolution. This includes risk management and governance practices.
- Provide periodic information on the status and results of the annual audit plan and the sufficiency of department resources, including -proper reporting and notification to the CEO, and/or CEO's Executive Designee, and the Board when resource constraints prevent the coverage of a risk as identified through the annual agency-wide risk assessment and included in the annual audit plan, or related to a special request, and e-This includes ensuring the resources are sufficient and competent through actions such as staff augmentation and outsourcing. The Chief Audit Executive will ensure proper reporting and notification to the CEO, and/or CEO's Executive Designee, and the Board when

**Commented [S9]:** This bullet point seems to be trying to do multiple things. Suggest it be split into two separate points



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~~resource constraints prevent the coverage of a risk as identified through the annual agency wide risk assessment and included in the annual audit plan; or related to a special request.~~

- Establish a follow-up process to track and monitor the effective implementation of management actions related to findings, recommendations, and/or issues.

### VI. INDEPENDENCE

Management Audit Services is independent of ~~LACMTA's operations and the activities it reviews~~. Specifically, Management Audit Services staff may not review areas in which staff was responsible for the design or operation of the area. Auditors are responsible for maintaining independence and integrity in all services provided.

All Management Audit Services activities shall remain free from interference relative to matters of audit selection, scope, procedures, frequency, timing, or report content to maintain independence and objectivity. The Chief Audit Executive shall report any impairment to independence; or ~~unjustified~~ restriction or limitation to audit selection, scope, procedures, frequency, timing; or report content promptly to the OCEO and the Board, ~~as appropriate~~.

As a means of ensuring independence, ~~the Chief Audit Executive~~ ~~Management Audit Services~~ will report administratively to the OCEO and maintain a functional reporting relationship to the Board. This structure permits the rendering of impartial and unbiased judgment essential to the proper conduct of audits.

Management Audit Services is not authorized to perform any operational duties for LACMTA, which shall include:

- Implementing internal controls;
- Developing policies or procedures on behalf of management;
- Installing systems;
- Preparing records that are the responsibility of management; and
- Engaging in any other activity that may impair internal auditor's judgment.

### VII. RESPONSIBILITIES

#### A. Management Audit Services is responsible for:

- Developing and executing a flexible risk-based annual audit plan which considers LACMTA's objectives and strategies, including any risks or internal

**Commented [DK10]:** This suggestion is intended to clarify the "managers manage, but auditors audit" theme – that LACMTA operates, and MAS audits LACMTA's work.

**Commented [DK11]:** We suggest that any of the listed restrictions/limitations would be unjustified – suggest deleting the word "unjustified" so MAS would report all independence impairments to the OCEO and the Board.

**Commented [DK12]:** The impairments listed here would be extremely serious – suggest removing "as appropriate" since any concerns at these levels should be reported.

**Commented [S13]:** This wording change from current audit charter improves organizational independence. We suggest changing MAS to CAE as CAE is referred to in the IIA standards.

To illustrate how these relationships will work in practice, suggest developing separate sections for each in section VII Responsibilities rather than grouping them together.



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control concerns identified by management; and submitting that plan to the OCEO and the Board for review and approval;

- Preparing or updating the agency-wide risk assessment annually and incorporating the results into the annual audit plan;
- Implementing the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by the CEO, and/or CEO's Executive Designee, the Board, including and management;
- Reporting significant audit findings to the CEO, and/or CEO's Executive Designee, the Board, including management;
- Providing management with adequate time to respond to audit findings and including management's response in the final reports;
- Presenting quarterly reports to the OCEO and the Board that summarize the results of audit activities, highlight Audit Plan progress, describe any adjustments made to the Audit Plan, and recommended changes to the Audit Plan based on new information or special requests;
- Keeping the OCEO and LACMTA's Finance, Budget and Audit Committee informed of emerging risks and issues and recommending audits to provide relevant, timely information about these areas to support oversight and decision making;
- Maintaining a professional audit staff with sufficient knowledge, competencies, skills, experience, and professional certifications to meet the requirements of this Audit Charter;
- Conducting objective and constructive performance audits, attestations, and consulting services, other non-audit engagements, which include performance and attestation audits;
- Consulting services, which are advisory in nature, can be provided as long as the services do not impair Management Audit Services' independence and fall within the scope outlined in the Audit Charter;
- Exercising due professional care in all of our work products;
- Acting in a professional manner at all times;
- 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;
- Referring suspected fraud, waste, or abuse promptly to the Office of the Inspector General; and
- Establish a quality control and assurance improvement program.

**Commented [S14]:** Suggest revising to make consistent with language in mission statement

### B. Management is responsible for:

- Maintaining an effective system of internal controls, documenting policies and procedures, and ensuring information is accurate and reliable;
- Complying with policies and procedures;



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- Cooperating fully with auditors during the discharge of their duties including replying promptly to Management Audit Services requests and recommendations; making themselves available for meetings and discussions related to audit matter, and
- Providing a response to audit findings and recommendations and assuring timely implementation of agreed upon corrective action(s) to audit recommendations.

### C. The OCEO and Board are responsible for:

- Establishing, maintaining, and assuring that Management Audit Services has sufficient authority to fulfill its duties by:
  - Approving the Audit Charter;
  - Approving a risk-based audit plan;
  - Approving the Management Audit Services budget and resource plan;
  - Receiving timely communications from the Chief Audit Executive summarizing results of audit activities; and
  - Making appropriate inquiries of management and the Chief Audit Executive to determine if there are any inappropriate scope or resource limitations.

The Audit Charter may be modified 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.

#### Commented [S15]:

In order to more fully demonstrate the differences between an administrative relationship with the OCEO and a functional relationship with the Board, suggest separating these into two sections:

- The OCEO is responsible for:
- The Board is responsible for:

The items currently listed here are some of those included in the Interpretation of 1110 – Organizational Independence in the Red Book which are specifically related to demonstrating a functional relationship to the Board. To assign them to both the OCEO and the Board confuses rather than clarifies the relationships with both.

Suggest developing an OCEO is responsible for section which defines what the administrative relationship looks like. If approval of items is part of that that's OK, as long as final approval is given to the Board

In Board is responsible for section, add as many items in the 1110 interpretation section as possible.

**Commented [DK16R15]:** Added some potential administrative functions to the memo for consideration in "The OCEO is responsible for" section if one is added – basically, OCEO would oversee the daily administrative work, while the Board would have the functions now listed above.

**Commented [DK17]:** See accompanying memo for suggested lists of both administrative and functional duties. Not critical to add the full lists to the Charter itself but see if these lists comport with your general intent/understanding of these roles.



## Management Audit Services Audit Charter

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 ~~October 2024~~May 2022.

Los Angeles County Metropolitan Transportation Authority

Board of Directors

By:

\_\_\_\_\_  
Stephanie N. Wiggins  
Chief Executive Officer

By:

\_\_\_\_\_  
Board Clerk