


**Metro**

Metropolitan Transportation Authority

One Gateway Plaza  
Los Angeles, CA 90012-2952213.922.2000 Tel  
metro.net

January 6, 2005

**TO: BOARD OF DIRECTORS**

**FROM: ROGER SNOBLE** 

**SUBJECT: MANAGEMENT AUDIT SERVICES DEPARTMENT**

I have appointed Ruthe Holden as Acting Managing Director of Management Audit Services Department. Ruthe has worked at LACMTA in various roles for over 12 years, the last 5 years as Director of Contract Administration in Procurement and 7 years in MASD. Prior to coming to the agency, Ruthe worked for over 7 years as an auditor for the Department of Defense. She is both a Certified Public Accountant and a Certified Information Systems Auditor. She has a Bachelors degree in Accounting and a Masters degree in Business Administration. I have complete confidence that Ruthe is both qualified and capable of managing MASD.

Also, I am formalizing the creation of an Audit Review Committee. This is intended to be an ongoing process that will be an integral part of strategic planning and management oversight. This new approach will allow greater input into the development of the annual audit plan. The plan will incorporate a strategic element, which will specify the people responsible, budget and timeframe for each audit. A copy of the plan will be distributed to the Board.

In addition, I will be requesting the American Public Transportation Association to conduct a peer review of MASD. The last peer review was completed in 2001; a copy of the final report is attached.

The peer review is important to this agency because the external auditors rely on the quality and effectiveness of the internal auditors' work. The role of our external auditors (currently PricewaterhouseCoopers) is to attest to the accuracy of the agency's financial statements and the effectiveness of our internal controls. In addition, they review the agency's compliance with pertinent federal, state and local laws and regulations as required by Circular A-133. Their opinion has a direct impact on our Bond ratings and favorable financial terms and conditions.

We have a history of receiving clean audits. The recent Report to Management prepared by our external auditors certifies that the MTA's internal control is in order and that there are no material weakness identified.



AMERICAN  
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September 21, 2001

Mr. John Fasana  
Board Chairman  
Metropolitan Transportation Authority  
One Gateway Plaza  
Los Angeles, CA 90012-2952

Julian Burke  
CEO  
Metropolitan Transportation Authority  
One Gateway Plaza  
Los Angeles, CA 90012-2952

Messrs. Fasana and Burke:

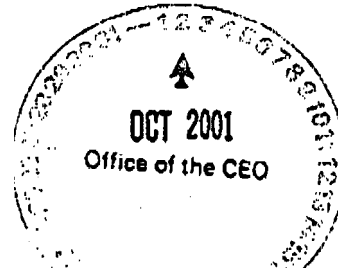
We have completed a review of the quality control process employed by the Management Audit Services Department (MASD) of the Los Angeles Metropolitan Transportation Authority (LACMTA) for the calendar year ended December 31, 2000. The purpose of our review was to determine that MASD's operations were conducted in accordance with professional auditing standards and that MASD's quality assurance efforts were sufficient to provide reasonable assurance that such standards were adhered to as specified. The scope of our review included reviewing and testing MASD's quality control policies and procedures.

Our review was done in accordance with guidelines for external quality assurance reviews endorsed by the American Public Transportation Association's (APTA) Internal Audit Committee.

APTA guidelines specify that a quality assurance system for audit departments should be appropriately comprehensive and suitably designed in relation to the organizational structure of the reviewed audit organization.

As part of our review, we interviewed the assistant to the Board Chairman, the Deputy Chief Executive Officer, Inspector General, senior management, the Managing Director of MASD, audit managers and staff. We evaluated compliance with the ten quality assurance criteria specified by the APTA Internal Audit Committee as important elements of an internal audit quality assurance program, which included the following:

1. Independence
2. Planning – Audit Coverage
3. Planning – Assigning Personnel to Audits
4. Staff Qualifications – Hiring
5. Staff Qualifications – Professional Development



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Metropolitan Transportation Authority  
September 21, 2001  
Page 2

6. Staff Qualifications – Advancement
7. Consultation
8. Supervision
9. Quality Assurance
10. Follow-Up

Based on our review, we believe that MASD generally conformed with professional auditing standards and practiced effective internal audit quality control procedures during the period reviewed.

This opinion means that policies and procedures existed and were judged to be in accordance with generally accepted government auditing standards. Any deficiencies found in applying the policies and procedures were deemed minor. However, opportunities for improvement exist in some areas.

Specifically, MASD is independent from the operations they review. Audits have been well planned and supervised to ensure appropriate audit coverage by competent staff. MASD has hired well-qualified staff that maintains their proficiency through effective continuing education, which qualifies them for potential future advancement. MASD has obtained assistance from technical experts, where appropriate, to enhance individual staff member's expertise in unfamiliar audit areas. MASD's quality assurance program is well documented and functioning as intended, including participating in an external quality assurance review. MASD has an adequate follow-up system to ensure that audit recommendations are implemented.

We have discussed what we found in the review with the MASD Managing Director, along with certain suggested improvements, and he concurs. We do not consider our suggestions to be deficiencies in MASD's practice of professional auditing standards. However, the Managing Director and we agree that the suggestions would further improve the effectiveness of the audit operation.

What we found in the major review areas, along with related suggestions for improvement, are as follows:

- MASD is independent from the operations they review. However, to avoid the potential perception that MASD is not sufficiently organizationally independent, it would be helpful to clarify the current LACMTA organization chart consistent with the MASD Managing Director's actual reporting relationship to the CEO and CFO.