



TEXAS REAL ESTATE COMMISSION

Texas Real Estate Commission
Internal Audit Services

FY 2023 and FY 2024
Annual Internal Audit Plan



McConnell Jones



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McConnell Jones

November 7, 2022

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Ms. Lisa Collier, CPA, CFE, CIDA First Assistant State Auditor

Dear Ladies and Gentlemen:

Attached is the FY 2023 and FY 2024 Annual Internal Audit Plan for the Texas Real Estate Commission (TREC). This annual audit plan was approved by TREC's Audit Committee. The two-year audit plan will enable the TREC to comply with the Texas Internal Auditing Act, Texas Government Code Chapter 2102 as amended by House Bill 2485 during the 78th Legislature and House Bill 16 during the 83rd Legislature. This two-year audit plan will be executed by McConnell Jones LLP (MJ) in accordance with The Texas Internal Auditing Act, The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and Generally Accepted Government Auditing Standards (GAGAS).

Please contact Darlene Brown at 281.740.0017 or Ms. Chelsea Buchholtz, Executive Director, at 512.936.3000 if you should have any questions about this audit plan.

Sincerely,

Darlene Brown, CIA, CFE, CSM

Partner

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1.0 COMPLIANCE WITH HOUSE BILL 16: PUBLICATION OF AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

House Bill 16 amended the Texas Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans and internal audit annual reports to the agency's website within 30 days of approval. House Bill 16 also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of House Bill 16, McConnell Jones, LLP (MJ) will provide the required internal audit plan, internal audit annual report and any other required internal audit information to the Texas Real Estate Commission's Executive Director who will ensure the information is posted to the TREC's website.

2.0 PURPOSE

The purpose of this report is to communicate the annual risk-based audit plan as approved by TREC's Audit Committee, the methodology used to develop the annual audit plan, the timing and resource requirements necessary to complete the audit plan each year.

The two-year audit plan was developed based on a comprehensive risk assessment and a prioritization of the audit universe that was completed. Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors; evaluated the proposed engagements; and prioritized the audits based on the risk score and TREC's Audit Committee and leadership input.

3.0 RISK ASSESSMENT

Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. An organization's risk exposure is determined through the identification of risks and evaluating the impact on operations and likelihood of occurrence.

Risk assessments identify an organization's exposure to business disruptions and barriers to achieving the organization's strategic goals. They serve as a tool to focus limited resources to perform evaluations of controls that are in place to limit the exposure.

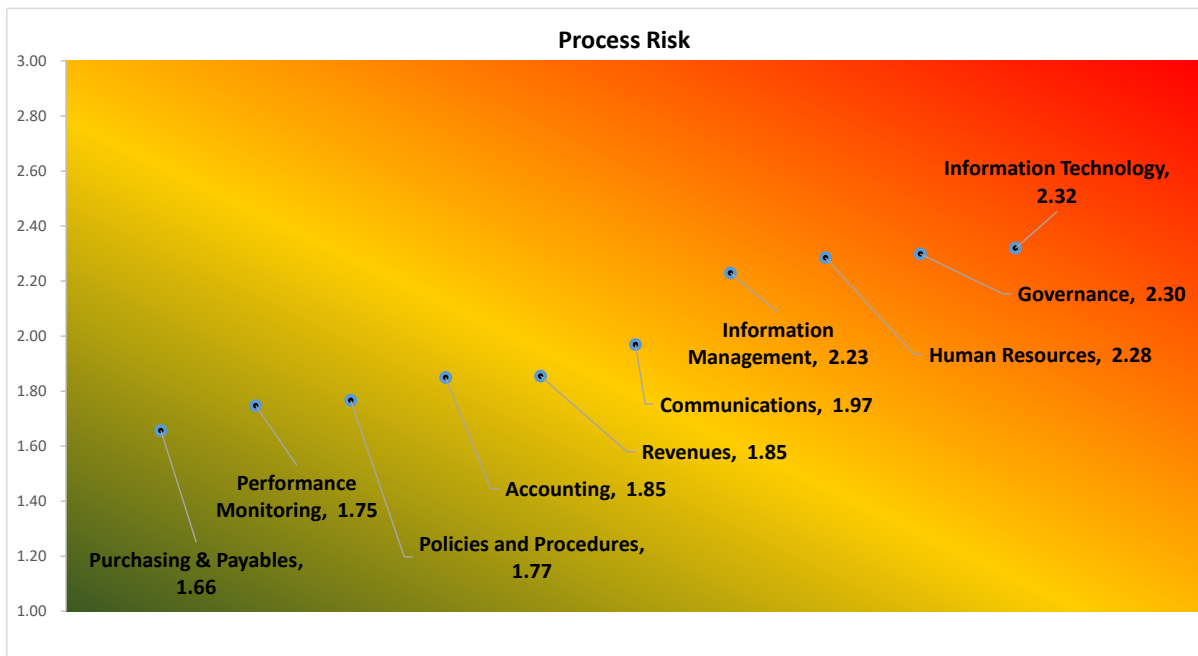
In accordance with Texas Internal Auditing Act and The Institute of Internal Auditors (IIA) Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input of the TREC leadership team. Our assessment evaluated risk exposures relating to the TREC's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, policies and procedures, and contracts.

The types of risk exposure relevant to the TREC are:

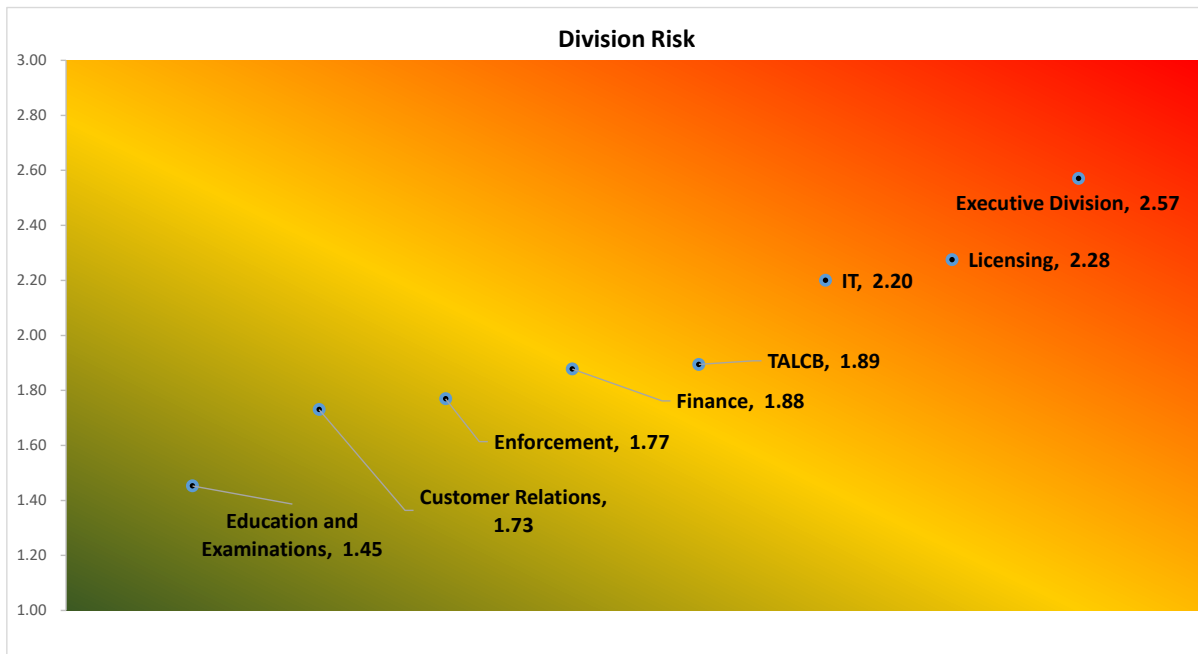
- *Financial Exposure:* Financial exposure exists when an audit area is susceptible to errors or fraud that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.
- *Compliance Exposure:* Compliance exposure exists when an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.
- *Information Exposure:* An information exposure exists when there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.
- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.

- *Human Resource Exposure:* A human resource exposure exists when an area is managing human resources in a way, which is contrary to agency policy.
- *Environmental Exposure:* An environmental exposure exists when internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
 - Recent changes in key personnel
 - Changing economic conditions
 - Time elapsed since last audit
 - Pressures on management to meet objectives
 - Past audit findings and quality of internal control
- *Public Service Exposure:* A public service exposure exists when an event in an audit area could jeopardize existing public services or new public services.
- *Reputational Exposure:* A reputational exposures exists when an event in the audit area could jeopardize the reputation of the agency and stakeholder trust.

We rated the risk universe factors on a scale of one to three. Texas Real Estate Commission’s risk maps are shown in the graphics below. The first graphic are business process risks, and the second graphic is the respective division’s risk ranking. These risks are based on the current operation’s impact on the agency’s mission.



Note: Governance includes TREC Commission, TALCB Board, Policies and Procedures, Strategic Planning, and Rule Making.



Note: Executive Division includes the Executive Director, General Counsel, Human Resources, Communications, Government Relations, and Public affairs.

4.0 FY 2023 AND FY 2024 ANNUAL AUDIT PLAN

MJ prepared a multi-year audit plan that ensures a review is performed on the high-risk processes within a two-year period. Governance and human resources will be audited in year one along with assessing the agency’s planning for the new Customer Service System Implementation. We will also assess compliance with the Public Funds Investment Act (PFIA) and follow-up on open audit findings in FY2023.

We will conduct a cyber security audit that includes sensitive and confidential data management. We will also assess the processes and controls in place for external and internal communications in year two.

This two-year plan audits the top five risks identified in our risk assessment and is shown in the table below.

Texas Real Estate Commission FY 2023 and FY 2024 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	FY 2023	FY 2024
1	Public Funds Investment Act Compliance <ul style="list-style-type: none"> ✓ Accuracy of year-end reports and financial records ✓ Required Training ✓ Investment Policy 	Compliance	✓	
2	Governance (Control Environment) <ul style="list-style-type: none"> ✓ Commissioner and TALCB Board Member Compliance with Respective Regulations ✓ Information provided to Commissioners and TALCB Board ✓ Open Meetings Compliance ✓ Strategic Planning Process 	High	✓	

Audit Activity #	Description	Risk Rating	FY 2023	FY 2024
3	Human Resources <ul style="list-style-type: none"> ✓ Benefits Processing ✓ FMLA Processes ✓ On-Boarding Processes ✓ Separation Process ✓ Compliance with TREC/TALCB Policies 	High	✓	
4	Information Technology System Deployment <ul style="list-style-type: none"> ✓ Customer Service Pre-System Implementation Planning and Project Plan 	High	✓	
5	Information Technology <ul style="list-style-type: none"> ✓ Cybersecurity Measures ✓ Compliance with TAC 202 ✓ Continuity of Operations Plan ✓ Vulnerability Scan 	High	✓	✓
6	Communications Processes <ul style="list-style-type: none"> ✓ Communications Policy ✓ Review Processes <ul style="list-style-type: none"> ○ Internal Communications ○ External Communications ○ Website Updates and Monitoring ✓ Social Media Monitoring 	High		✓
7	Follow-Up on Open Audit Findings	Compliance	✓	✓
8	Update Risk Assessment and Prepare Annual Audit Plan	Compliance		✓
9	Annual Audit Report	Compliance	✓	✓
10	Audit Communications, Committee Meetings, Project Management	N/A	✓	✓
	Total Hours		320	255
	Total Fees		\$39,507	\$31,482

5.0 SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TREC executive management and present these changes to the TREC’s Commissioners for review and approval. Notification of significant changes to the Internal Audit Plan approved by the Commissioners will be submitted to the State Auditor’s Office.