

**TEXAS REAL ESTATE COMMISSION**

Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

For Fiscal Year 2000

To the Audit Committee of the  
Texas Real Estate Commission  
Austin, Texas

We performed tests of management's assertion about the effectiveness of the internal control structure and compliance with the Texas Public Funds Investment Act, the effectiveness of the internal control structure as it relates to the License application and registration process and followed up on the findings and recommendations cited in prior audit reports relating to the information systems-security. The results of our tests disclosed that such controls were generally adequate and no material instances of noncompliance were noted. The report that accompanies this letter satisfies the annual compliance audit requirements established by the Public Funds Investment Act.

We have discussed this report with TREC personnel, and we will be pleased to discuss it in detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations, if any.

*Garza/Gonzalez & Associates*

August 10, 2000

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# TEXAS REAL ESTATE COMMISSION

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## INTRODUCTION

The Texas Real Estate Commission (the Commission), was created in 1939 under the Texas Real Estate Dealer's License Act and became an independent state agency in 1949. The Real Estate License Act (the Act) is the legislative authorization for the Agency to license and regulate real estate brokers and salespersons and provides for the licensing and regulation of real estate inspectors. The Commission also regulates residential service companies and easement or right-of-way agents. The Agency is responsible for administering and enforcing the provisions contained in the Act. Chapter 201, Texas Property Code, confers authority to the Agency to register by application and regulate timeshare entities offering timeshares in Texas.

The Texas Real Estate Commission is composed of nine Commissioners who are appointed by the Governor, with concurrence by the Senate, for six-year overlapping terms. Six members must be licensed real estate brokers who have been engaged in the real estate brokerage business as their major occupations for at least five years preceding their appointments. Three members must be members of the general public who are not licensed under the Act and do not have, other than as consumers, a financial interest in the practice of a real estate broker or salesman.

The Commissioners appoint an Administrator who serves as the Agency's chief administrative officer. The Agency's operating budget is prepared and approved by the Commission on an annual basis, whereas the State legislative appropriations are determined every two years. Appropriations are approved by the State Legislature. The Agency is divided into five divisions. The four operating divisions are the enforcement division, licensing and education division, information services division, and staff services division, all of which report directly to the Assistant Administrator. The Administration Division is headed by the Administrator and includes the Agency's general counsel.

The Agency is appropriated funds by the State for its operations. Revenues are primarily real estate license applications and renewals, education fees, and other charges derived from Agency operations. Funds collected by the Agency are not directly utilized in operations, but instead are passed on to the State.

Based on the internal audit plan we performed the following internal audits:

- C Compliance with the Public Funds Investment Act
- C Licensing application and Registration process
- C Follow-Up on finding and recommendations cited in prior audit reports relating to the information systems-security, and information system-others

This report contains the results of our review in the above areas.

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In accordance with the **Standards for the Professional Practice of Internal Auditing**, the internal audits will encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. The audits will determine the following:

- **Reliability and Integrity of Information**  
Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Plan, Procedures, Laws, and Regulations**  
Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and should determine whether the organization is in compliance.
- **Safeguarding of Assets**  
Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Economical and Efficient Use of Resources**  
Internal auditors should appraise the economy and efficiency with which resources are employed.
- **Accomplishment of Established Objectives and Goals for Operations or Programs**  
Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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**EXECUTIVE SUMMARY**

**Background**

Compliance with Texas Public Funds Investment Act

Effective May 19, 1975 the Real Estate Recovery fund was established by an amendment to the Real Estate License Act. The Commission was directed to use the fund for reimbursing aggrieved persons who suffer monetary damages by reason of certain acts committed by a duly licensed real estate broker or salesperson, or by an unlicensed employee or agent of a broker or salesperson.

A \$10.00 Recovery Fund fee is collected from each new applicant for a license in addition to the regular License filing fee. If on December 31 of any year the balance remaining in the Real Estate Recovery Fund is less than \$1 million, each broker and salesperson will be required to pay an additional fee of \$10.00 or a pro rata share of the amount necessary to bring the Recovery Fund to \$1.7 million dollars, whichever is less.

As set forth in the Real Estate License Act, as amended, the deposits to the Recovery Fund may be invested and reinvested in the same manner as funds of the Employee Retirement System of Texas. All investment transactions are conducted through the State Treasury.

Licensing Application and Registration Process

The Licensing and Education Division processes applications for the licensing of real estate salespersons and brokers, apprentice, real estate and professional inspectors, and easement or right-of-way agents. With the exception of apprentice inspectors and easement or right-of-way agents, this includes the oversight of a license examination program for each of these license types to ensure competent real estate service providers. Licensing requirements include education, background checks, examinations and experience. The Licensing and Education Division renews licenses, ensures that educational requirements are satisfied, processes record changes and prepares license and education histories. The Licensing and Education Division is also responsible for the approval and regulation of continuing education providers and proprietary real estate schools.

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**I. Audit Scope**

Compliance with Public Funds Investment Act

This report satisfies the compliance audit requirements of the Public Funds Investment Act. The Texas Real Estate Commission (the Commission) has performed the compliance audit of management controls on investments and adherence to its established investment policies.

As part of our engagement, we performed procedures to:

- Determine if the Agency's policies and procedures comply with the Public Funds Investment Act (Government Code 2256, 1997) and that such policies and procedures are appropriate and reasonable for the Agency's investment types, goals, and strategies.
- Ascertain whether the Agency's policies and procedures establish investment internal controls sufficient to safeguard the fund's assets, ensure proper conduct by participants in the investment process, and eliminate conflicts of interest.
- Determine if such policies and procedures limit political and personal interference in the investment decision-making process, and
- Consider the appropriateness of the entity's investments as reflected in the policies, strategies, and plans.

The compliance testing was performed in accordance with the Standards for the Professional Practice of Internal Auditing, generally accepted governmental auditing standards, the Certified Internal Auditor Code of Professional Ethics, the Statement of Responsibilities of Internal Auditing of the Institute of Internal Auditors, and the Texas Public Funds Investment Act and included other tests as we considered necessary. Our tests of the policies, procedures, administrative and accounting systems and controls used to administer compliance with the Public Funds Investment Act disclosed no material instances of noncompliance with the requirements listed above.

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Licensing Application and Registration Process

The scope of the audit of the Licensing Application and Registration process consisted of the following:

- a. Obtained and reviewed the Commission's written policies and procedures and current practices;
- b. Performed testing to ensure that qualified individuals are licensed as a broker, salesperson, or inspector; and
- c. Performed a review of the area's internally generated reports, logs, and schedules.

Follow-up on findings and recommendations cited in prior audit reports relating to the information systems-security, and information systems-others

The scope of this audit included a review of the internal controls that have been established as a result of the findings and recommendations issued in the prior year annual report to the Commission. We obtained, reviewed and analyzed the following:

- a. The current Disaster Recovery Plan for compliance with guidelines of the Department of Information Services.
- b. The current written MIS policies and procedures.
- c. The physical security in place to prevent unauthorized access.

**II. Peer Review Report**

The internal audit function received a peer review in August 1997. The peer review resulted in an unqualified opinion.

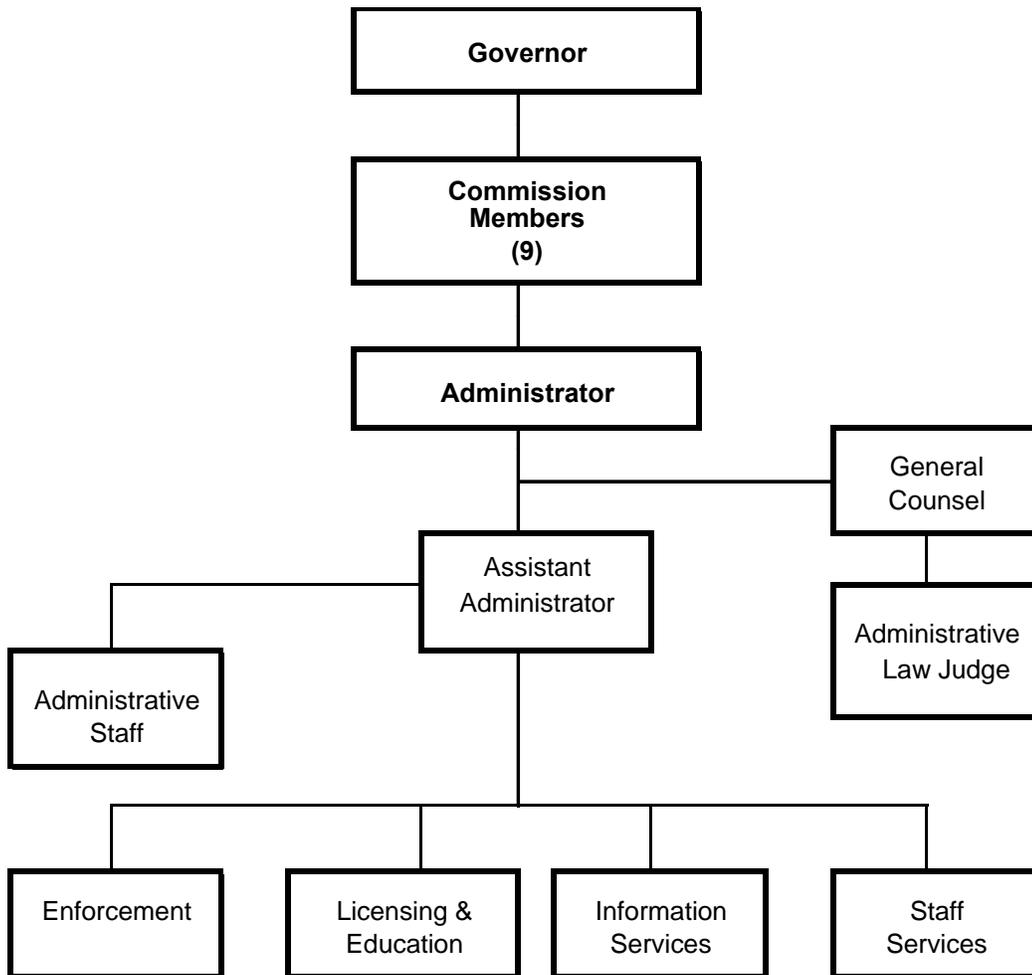
**III. Internal Audit Recommendations**

We propose no significant recommendations for the Real Estate Recovery Fund nor for the licensing application and registration process for the fiscal year ended 2000.

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**IV. Organizational Chart**



**V. Proposed Internal Audit Plan for Fiscal Year 2001**

- Compliance with the Public Funds Investment Act
- Examination Process
- Investigation Process
- Complaint Resolution Process

TEXAS REAL ESTATE COMMISSION (TREC)

Portfolio Composition as of August 31, 1999

Investment Type	Book Value	Market Value
Savings Accounts(s) in Financial Institutions	\$ N/A	\$ N/A
Certificates of Deposit	N/A	N/A
Repurchase Agreements	N/A	N/A
No-Load Money Market Mutual Fund	N/A	N/A
No-Load Mutual Fund	N/A	N/A
Investment Pool(s)	N/A	N/A
U.S.Government Securities - Short-Term	N/A	801,406
U.S.Government Agencies - Long-Term	N/A	1,113,594
Mortgage-Backed Securities, Federal Home Loan Mortgage Notes	N/A	N/A
Collateralized Mortgage Obligations		
Interest-Only Strips	N/A	N/A
State Maturities Longer Than 10 Years	N/A	N/A
Municipal Debt	N/A	N/A
Guaranteed Investment Contract(s)	N/A	N/A
Corporate Bonds, Debentures, or Similar Debt Obligations	N/A	N/A
Equities	N/A	N/A
Other Investments		
Checking Accounts, interest-bearing, cash in investment accounts	1,054,057	1,054,057
<b>TOTAL PORTFOLIO</b>	<b>\$ 1,054,057</b>	<b>\$ 2,969,057</b>