

**TEXAS REAL ESTATE COMMISSION**

Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

Fiscal Year 2003



TEXAS REAL ESTATE COMMISSION  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2003

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

We performed tests of management's assertion about effectiveness of the internal control structure and compliance with the Texas Public Funds Investment Act, the effectiveness of the internal control structure and compliance with its policies over the Education Program Monitoring, Performance Measures and HUB – Compliance processes for the year ending August 31, 2003. The results of our tests disclosed that such controls were generally adequate and no material instances of noncompliance were noted; however we noted certain matters that are opportunities for strengthening internal controls and compliance with laws, rules, regulations; and established policies and procedures. The report that accompanies this letter satisfies the compliance audit requirements established by the Public Funds Investment Act and summarizes our comments and suggestions regarding the various processes reviewed.

We have discussed these comments and suggestions with Texas Real Estate Commission 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.

*Garza/Gonzalez and Associates*

August 11, 2003



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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 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 salesperson.

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 consists of 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 2003 internal audit plan we performed the following internal audits:

- Compliance with the Public Funds Investment Act
- Education Program Monitoring
- Performance Measures
- HUB - Compliance

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

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EXECUTIVE SUMMARY

**Background**

Compliance with the Public Funds Investment Act

Effective May 19, 1975 the Real Estate Recovery fund (Real Estate Recovery Trust Account effective June 1, 2003) 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 Trust Account 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 Trust Account 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 Trust Account to \$1.7 million dollars, whichever is less. To ensure the availability of a sufficient amount to pay anticipated claims on the fund, the commission by rule may provide for the collection of assessments at different times and under different conditions other than those specified by this Act.

As set forth in the Real Estate License Act, as amended, the deposits to the Recovery Trust Account 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. In addition, the Real Estate Inspection Recovery Fund is maintained with collected monies from real estate inspectors being deposited in the State Treasury and earning statutory interest. Similar legislative provisions are present for the Real Estate Inspection Recovery Fund.

According to the Public Funds Investment Act (PFIA), Government Code Chapter 2256, the governing body of state agencies may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006.

State agencies are required to adopt a written investment policy, to be reviewed not less than annually. An investment officer for the agency is required to be appointed by the governing board and is responsible for the investment of its funds consistent with the investment policy as adopted by the agency. Each member of the governing board and its investment officer(s) are required to attend at least one training session relating to the person's responsibilities under PFIA within six months after taking office or assuming duties. In addition, the investment officer(s) are required to attend a training session not less than once in a two-year period. Additionally, not less than quarterly, the investment officer(s) shall prepare and submit to the governing body of the agency a written report of investment transactions for all funds covered by the PFIA for the preceding reporting period.

To comply with the provisions of the Texas Public Funds Investment Act TREC personnel ensure the investment policies are approved annually by the governing board containing all required elements, each commissioner and investment officer obtains the minimum training requirements and on at least a quarterly basis the investment officer provides to the commission reports of investment transactions containing all required elements.

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Education Program Monitoring

The Commission is authorized to accredit educational programs or courses of study for core real estate and real estate inspection and to establish standards of accreditation for such programs conducted in the State of Texas. Colleges and universities accredited through their respective accrediting agency that provide real estate education are deemed to have met the Commission's standards based on that accreditation. The rules that apply to the accreditation and approval of courses do not apply to colleges and universities. However, the Commission will not award credit for courses taken at colleges and universities that do not meet TREC guidelines and requirements. Additionally, the Commission performs the approval of instructors of core real estate and real estate inspection course subject matter areas.

The Commission regulates the provision of Mandatory Continuing Education (MCE) for real estate and inspection licensees. A person who wishes to offer courses accepted by the commission for MCE credit shall apply to the Commission to be an MCE provider and must apply for approval of each MCE course using application forms prepared by the Commission. Instructors are approved by the commission for particular subject areas and may only teach courses in that subject matter area for core real estate and inspection and MCE courses.

Based on the Texas Administrative Code Title 22, Part 23, Chapter 535, Subchapter G, Rule(s) 535.66 (b) for core real estate education providers and 535.73, (c) for MCE providers: providers are subject to audit by commission employees through on-site audits, evaluation of the effectiveness of course materials or instructors through surveys of students, requiring providers to furnish students with an evaluation form approved by the commission and to request that the students complete and return the form directly to the provider who will keep the forms for review during TREC administrative audits. An audit report or evaluation indicating noncompliance with applicable sections of the Rules of the Texas Real Estate Commission are treated as a written complaint against the provider or instructor concerned and is referred to the enforcement division of the commission for appropriate resolution.

There are generally three types of audits: 1.) Administrative Audit; 2.) Unannounced Classroom Audits; and 3.) Audits of Alternative Delivery Courses.

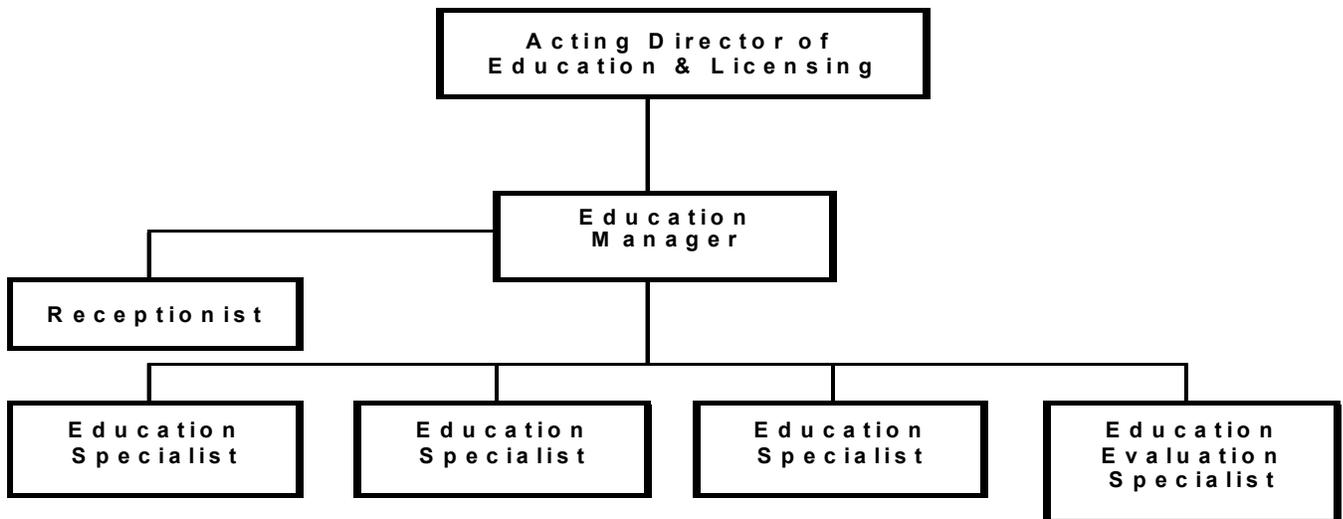
The Education Division is responsible for preparing an audit assignment schedule, informing the Field Investigators of the schedule, documenting completion of the audit, and initiating correspondence with the education providers to communicate the results of the audit. The Field Investigators who perform the audits report to the Enforcement Division. The Field Investigators are assigned the audits based on the area of the State where the provider operates. The various areas are as follows: Austin, Corpus Christi, Dallas/Ft. Worth, El Paso, Houston, Lubbock and San Antonio. The audit schedule is determined based on whether the provider has been audited in the past or in a recent period and whether education related complaints have been received for the provider. The audit schedule is used to document the audit schedule, the type of audit and the completion date of the audit.

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Upon completion of the audit the Field Investigators file the report with the Education Division and the audit schedule is updated to document the audit schedule, the type of audit and the completion date of the audit. The Education Division reviews the reports and determines if evidence of any violations of the Texas Real Estate Act is present. If serious violations are present the audit results are referred to Enforcement for review and further investigation. In the case of only minor violations a follow-up letter is prepared informing the provider of the violations and a request to perform corrective action and the audit file is closed. Audits with no violations are communicated and closed. The performance of the audit and provider communications are also documented in the electronic records of the provider maintained in the Texas Real Estate Licensing Information System (TRELIS).

The Education Section is supervised by the Assistant Administrator/Acting Director of the Licensing and Education Division and is comprised of six (6) staff:



Performance Measures

Performance measures are used to measure the progress toward achieving entity goals and objectives and provide a basis of valid assessment of actual performance as compared with projected performance. Entity performance measures should align with its mission statement, goals, objectives, plans and strategies.

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To measure the performance of its objectives and strategies, outcome, output, efficiency, and explanatory performance measures are established. These measures are:

- **Outcome-** to measure the extent to which the activity has met the desired objective;
- **Outputs-** to measure units produced or services provided;
- **Efficiency-** to measure cost per unit of service provided; and
- **Explanatory-** to document relevant statistics beyond the TREC's control.

The measures are submitted to the Legislative Budget Board (LBB) for approval. The Automated Budget Evaluation System of Texas (ABEST) is used by the TREC to report progress toward meeting the key performance measures on a quarterly basis. All other performance measures are reported on a biennial basis.

Various TREC personnel are responsible for compiling the results of performance measures which are then provided to TREC's Director of Staff Services. The Director of Staff Services is responsible for the reporting the results of key performance measures through ABEST. Explanations for results that vary by 5% or more from the annual target are required to be reported through the ABEST.

The State Auditors' Office has established various certification categories for performance measures, as follows:

<b>Category of Certification</b>	<b>Accuracy of Reported Amount</b>	<b>Evidence of Controls</b>
Certified	Accurate within +/- 5%	Appearance of control over the accuracy, collection and reporting of data
Certified with Qualification	Accurate within +/- 5%	Not adequate to ensure continued accuracy
Certified with Qualification	Not determinable	Strong controls but source documentation is unavailable for testing
Certified with Qualification	Accurate within +/- 5%	Measure definition not followed when calculating the reported results
Factors Prevent Certification	Not determinable	Inadequate controls
Factors Prevent Certification	Not determinable	Documentation is not available to determine the accuracy of reported performance
Inaccurate	Not accurate within +/- 5%	N/A
Inaccurate	N/A	More than 5% error rate in supporting documentation

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HUB - Compliance

The Texas Building and Procurement Commission (TBPC) is authorized by the Texas Government Code to promulgate rules governing both the responsibilities of agencies and vendors relative to HUB statutory provisions. According to the Texas Administrative Code (TAC), Title 1, Part 5, Chapter 111, Subchapter B, Rule §111.11, it is the policy of the Texas Building and Procurement Commission to encourage the use of historically underutilized businesses (HUBs) by state agencies and to assist agencies in the implementation of this policy through race, ethnic, and gender-neutral means. The purpose of the program is to promote full and equal business opportunities in state contracting in accordance with the goals specified in the State of Texas Disparity Study.

According to the Texas Government Code, Sections 2161.181 and 2161.182, each state agency shall make a good faith effort to utilize HUBs in contracts for construction, services (including professional and consulting services) and commodities purchases. Each agency may achieve the annual procurement goals by contracting directly with HUBs or indirectly through subcontracting opportunities.

Agencies are required to prepare a written plan for the use of HUBs in purchasing, and in public works contracts in accordance with Texas Government Code, Chapter 2056, and Chapter 2161, §2161.123. In addition, the agency shall adopt the commission's rules related to the HUB Program as part of its required strategic plan. Agencies must also include a detailed report with their appropriations request identifying Good Faith Effort (GFE) compliance. The report should include the agency's effort to identify HUBs for contracts and subcontracts, the agency's utilization of HUBs and the agency's successes and shortfalls to increase HUB participation.

On an annual and semi-annual basis the comptroller reports payments made for the purchase of goods, services and public works awarded and paid from treasury funds by each state agency to the TBPC. The TBPC prepares a consolidated report based on a compilation and analysis of the reports provided by the comptroller for the use of the state treasury funds and non-state treasury funds awarded and paid as reported and submitted by each state agency. The consolidated reports are submitted by the commission to the presiding officer of each house of the legislature, the members of the legislature and the joint select committee.

TREC maintains and compiles monthly activity for the purpose of preparing the Annual and Semi-Annual Supplemental HUB Report detailing the agency's use of historically underutilized businesses.

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**I. Internal Audit Plan for Fiscal Year 2003**

The fiscal year 2003 internal audit plan for the Texas Real Estate Commission (the Commission) is based on the Risk Assessment performed for the fiscal year ended 2002. The internal audit plan includes four (4) audits to be performed during the fiscal year and other internal audit activities as assigned by the Board of Commissioners. The internal audit plan also includes preparation of the Annual Internal Audit Report for fiscal year 2003.

Risk Assessment

Of the twenty (20) audit areas identified in the Internal Audit Plan for fiscal years 2000 – 2004 we combined the Information Systems – Security and Information Systems – Other; and the Investigation Process and Complaint Resolution Process, and eliminated two (2) audit areas the Investment Process since a review is required every two years and Mandatory Continuing Education since it is a component of the Licensing Application and Registration Process. The audit areas were reduced by a total of four (4) areas. We added HUB Compliance, Performance Measures, Residential Service Company and Records Retention as separate auditable areas increasing the total number of auditable areas by four (4). An assessment of the resulting twenty (20) potential audit areas was performed using risk assessment techniques.

Based on the risk assessment, we identified three (3) audit areas that were assessed as Maximum Risk. They are:

- Cash Collection Fee Process / Remittance
- Recovery Fund
- Proprietary School Program Approval Process

Six (6) audit areas were assessed as High Risk. They are:

- Residential Service Companies
- HUB – Compliance
- Performance Measures
- Information Systems
- Fixed Assets
- Education Program Monitoring

In the prior year, the following internal audits were performed:

1. Cash Collection Fee Process / Remittance
2. the Recovery Fund; and
3. the Proprietary School Program Approval Process.

Each of the internal audit areas audited in the prior year was considered Maximum Risk.

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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 Commission'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 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.

The Internal Audit Plan for fiscal year 2003 includes audit areas recommended for internal audits as follows:

1. Compliance with the Public Funds Investment Act
2. Education Program Monitoring
3. Performance Measures
4. HUB - Compliance
5. Other Tasks as May Be Assigned by the Commission

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**II. External Quality Assurance Review**

The internal audit department received a peer review in August 2000. The peer review resulted in an unqualified opinion.

**III. High Level Audit Objectives**

Compliance with the 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:

- a. Determine if the Commission's policies and procedures comply with the Public Funds Investment Act (Government Code 2256, 1999) and that such policies and procedures are appropriate and reasonable for the Commission's investment types, goals, and strategies.
- b. Ascertain whether the Commission's policies and procedures establish internal controls sufficient to safeguard the funds assets, ensure proper conduct by participants in the investment process, and eliminate conflicts of interest over the investments of the Agency.
- c. Determine if such policies and procedures limit political and personal interference in the investment decision-making process, and
- d. Consider the appropriateness of the Commission'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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Education Program Monitoring

The objective of our audit of the Education Program Monitoring audit area is to determine that the Texas Real Estate Commission (TREC) Education Division performs the audits/monitoring in an efficient, fair manner and in compliance with the established policies, procedures and practices.

We performed certain procedures to determine compliance with the established policies, procedures, practices and reporting requirements of audits completed during the fiscal year as follows:

- a. Obtain an understanding of the Education Program Monitoring process by reviewing the applicable laws, regulations and the Rules of the Texas Real Estate Commission.
- b. Perform inquiries to obtain an understanding of the audit area by interviewing the applicable Education Division management personnel and/or other personnel as necessary.
- c. Make a selection of audits completed during the fiscal year to determine whether policies and procedures of the Texas Real Estate Commission were complied with in the performance of the audit.
- d. Evaluate the coverage of education providers through the monitoring process based on the audit schedule

Performance Measures

The objective of our audit of the TREC's Performance Measures was to determine the following:

- Reliability and Integrity of Information - To determine if results of progress toward meeting the key performance measures reported through the ABEST and to the TREC Commission Members on a quarterly basis are reliable and accurate.
- Compliance with Policies, Plan, Procedures, Laws, and Regulations - To determine if the TREC is in compliance with policies and procedures in place for the means of accumulating and compiling information for achieving the outcome and output performance measures which could have a significant impact on legislative approval of future appropriations requests.
- Accomplishment of Established Objectives and Goals for Operations or Programs - To determine if results of the outcome and output performance measures are consistent with the projected measures submitted in the Legislative Appropriations Request.

In order to accomplish our objectives we performed certain procedures included the following:

- a. Obtain an understanding of TREC's goals, objectives and performance measures by reviewing the policies, procedures, and controls relating to the performance measures

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- b. Review the internal control environment over accumulating information for actual results of TREC's performance measures
- c. Review support of the performance measures to determine the reliability and accuracy of those measures as reported in the ABEST System and to the TREC Board Members.

HUB - Compliance

The scope of the audit of the HUB Compliance audit area is to determine that TREC complies with the policies and procedures for purchases related to HUB compliance including:

- the utilization of the Texas Building and Procurement Commissions HUBs directory for HUB certified vendors in acquiring vendors for purchases of goods and services or utilizes other means to identify HUBs
- the information included in the automated system tracking and reporting the use of HUBs for the purchase of goods and services is efficient and accurate
- the supplemental report which includes the number of HUBs submitting bids and/or proposals and the number of contracts awarded to HUBs is compiled in a efficient, accurate and timely manner

We performed certain procedures to determine compliance with the policies, procedures and reporting requirements as follows:

- a. Obtained and reviewed TREC's written policies and procedures and ascertain that they are consistent with the purpose, goals and policies of the Texas Building and Procurement Commission as it relates to HUB;
- b. Identified TREC personnel responsible for HUB compliance to obtain an understanding of the agencies current practices and the adequacy of accountability maintained over procurement and reporting requirements.
- c. Obtained the Semi-Annual and Annual HUB Reports and determined whether the reports were prepared and submitted on a timely manner, accurate based on support documentation, and that the HUB supplemental reports were properly supported by the procurement support;
- d. Ascertained that selected procurement actions included in the monthly reports included documented contact with HUB vendors and determined whether a HUB vendor was selected as reported. To perform the procedure we reviewed support documentation for selected procurements, and determined that the procurement procedures related to HUB compliance were performed.

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**IV. List of Audits Completed by High Level Audit Objectives**

Report No.	Report Date	Name of Report	High Level Audit Objectives				
			Financial (and other) Reporting	Effectiveness and Efficiency	Compliance with Policies, Laws and Regulations	Safeguarding of Assets	Accomplishment of Objectives and Goals
1	8/11/2003	Compliance with the Public Funds Investment Act	X		X	X	X
1	8/11/2003	Education Program Monitoring		X	X		X
1	8/11/2003	Performance Measures	X	X	X		X
1	8/11/2003	HUB Compliance	X	X	X		X

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**V. Key Audit Findings/Recommendations**

Report No.	Report Date	Name of Report	Observations/ Findings/Recommendations	Status (Implemented, Planned, In Progress, Factors Delay Implementation, Agency Does Not Plan to Implement Recommendation)	Fiscal Impact/Other Impact
1	8/11/03	Annual Audit Report	<p>Education Program Monitoring</p> <p>1. The Education Section is responsible for the performance of the audits of the Education Providers. When the audits are assigned to the field investigator the Education Section provides certain pre-audit information using a pre-audit form developed by the Education Section to assist the auditor in performance of the audit. In our review of four (4) of the eight (8) audits performed during the fiscal year there was no evidence that the pre-audit information was provided for two (2) of the four (4) audits reviewed.</p> <p><b>Recommendation</b> We recommend that the Commission maintain a record of the pre-audit form in the file of the education provider to document the preparation of the required pre-audit form.</p> <p><b>Management's Response</b> We concur with the recommendation. The problem was caused due to high employee turnover during this period of time. Pre-audit forms were duly submitted for each of the above audits; in fact, field investigators cannot perform audits without these forms. Unfortunately, the pre-audit forms were not filed as required. All pre-audit forms are now being filed consistently.</p> <p>2. We performed an analysis of the audits completed per the TREC Audit Schedule prepared and maintained by the education section. The audit schedule lists all scheduled and completed audits. A total of 117 audits were completed for the period of the 3<sup>rd</sup> quarter of 1997 to the 3<sup>rd</sup> quarter of the current year, covering 89 out of 172 providers. Based on our review 57% or 85 of 149 MCE and Proprietary School providers were audited and 17% or 4 of 23 alternative delivery providers (correspondence or electronic media) were audited.</p> <p><b>Recommendation</b> We recommend that the TREC develop an annual audit plan using certain risk assessment strategies such as (size of entity, years in operation, changes in management, complaints received, timeliness and accuracy of reporting, etc.) to determine efficient use of TREC resources while maintaining or increasing coverage of education providers.</p> <p><b>Management's Response</b> We concur with the recommendation. An annual audit plan using the following risk management strategies has been developed: Years in operation, changes in management, minor "complaints" received from the public, formal Enforcement complaints, timeliness and accuracy of reporting, and length of time between audits. The plan has been deployed and a copy is attached.</p>	<p>Implemented</p> <p>Implemented</p>	<p>Internal Control over the Proprietary Program Approval Process.</p> <p>Internal Control over the Proprietary Program Approval Process.</p>

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Report No.	Report Date	Name of Report	Observations/ Findings/Recommendations	Status (Implemented, Planned, In Progress, Factors Delay Implementation, Agency Does Not Plan to Implement Recommendation)	Fiscal Impact/Other Impact
1	8/11/03	Annual Audit Report	<p>Performance Measures</p> <p>3. Average time for Individual License Issuance</p> <p>The statistical information provided by TRELIS (Texas Real Estate Licensing Information Software) properly computed the percentage to report the performance measure "Average time for individual license issuance", however for the reporting period selected an unnecessary calculation and adjustment was made to change the TRELIS result. The unnecessary adjustment occurred because the calculation methodology documented in ABEST for the performance measure was not followed.</p> <p>Recommendation We recommend that a thorough review of the performance measure results be performed prior to entering the result in ABEST to prevent adjustments to properly computed results.</p> <p>Management's Response We concur with the recommendation. The manual calculation that was performed to TRELIS report data was not necessary and caused an incorrect figure to be reported. The unadjusted TRELIS report data will be used for future calculations. It should be noted that the 37 day target for this measure was met with both the incorrect figure reported (30.0 days) and the correct figure (33.0 days). Corrections for previous quarters will be made in ABEST and the measure will be certifiable for FY 2003.</p> <p>4. Percentage of Documented Complaints Resolved within 6 Months</p> <p>In the computation for the "Percent of Documented Complaints Resolved within 6 Months" the TRELIS did not include all available event codes (i.e.; 12 – Application Inquiry and 17 – Residential Service Companies). The resulting calculation was not complete. The event codes not considered represent approximately 7.5% of all cases closed in the period. Since the actual result is unknown the computed percentage can not be relied upon to determine whether the reported amount can be "Certified".</p> <p>Recommendation We recommend that TREC perform a review of the process to compute the performance measure to determine whether the event codes 12 and 17 are properly excluded and modify the ABEST definition and calculation methodology or modify TRELIS to include the omitted event codes and provide for capturing the required open and close dates per the system.</p> <p>Management's Response We concur with the recommendation. Computer programs have been modified to include event codes 12 and 17. This modification will allow the correct data to be reported in the annual measure report and the measure will be certifiable for FY 2003.</p>	<p>Implemented</p> <p>Implemented</p>	<p>Internal Control over the Reporting of Performance Measures</p> <p>Internal Control over the Reporting of Performance Measures</p>

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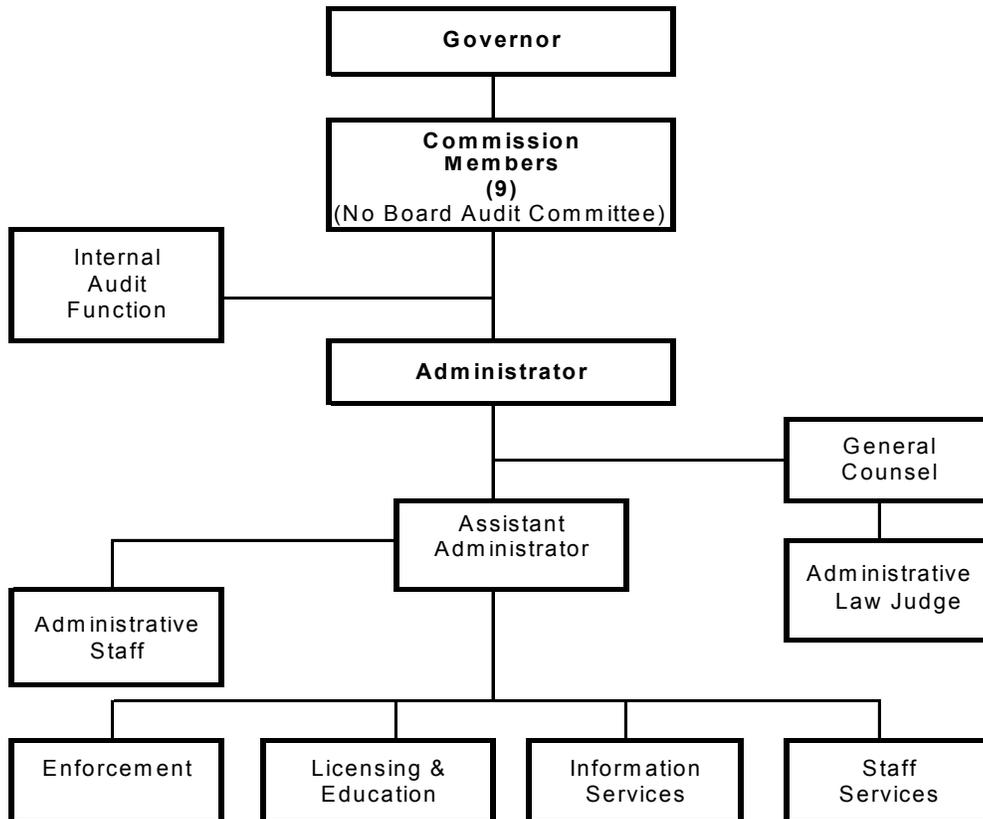
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Report No.	Report Date	Name of Report	Observations/ Findings/Recommendations	Status (Implemented, Planned, In Progress, Factors Delay Implementation, Agency Does Not Plan to Implement Recommendation)	Fiscal Impact/Other Impact
1	8/11/03	Annual Audit Report	<p>5. Average time for Complaint Resolution</p> <p>We selected a sample of ten (10) cases to test the performance measure "the average time for complaint resolution". Based on our test the date a case is entered into TRELIS is an average of thirteen (13) days after receipt by the Commission. The date entered when opening the case is the date the case is entered into the system. The administrative time taken to forward complaints to the Enforcement Division and the time taken to perform an initial review to determine the validity and nature of the complaint is not included in the calculation to determine the average time for complaint resolution. Therefore the performance measure results cannot be certified.</p> <p>We recommend that the Commission use the date received as the opening date in the TRELIS system to provide a more accurate measure of the average time for complaint resolution.</p> <p>Management's Response We concur with the recommendation. Programs will be modified to use the date received field in lieu of the date opened field which will allow this measure to be certifiable for FY 2004.</p> <p>Follow-up on Prior Year Recommendations:</p> <ul style="list-style-type: none"> <li>• Develop and adopt a comprehensive checklist addressing all rules and regulations required to approve Proprietary Schools, Instructors and Courses and consistently use the checklist for all applicants.</li> </ul>	<p>In Progress</p> <p>Implemented</p>	<p>Internal Control over the Reporting of Performance Measures</p>

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**V. Organizational Chart**



**VI. Report on Other Internal Audit Activities**

There were no additional internal audit activities assigned by the Texas Real Estate Commission. However, on a semi-annual basis we analyze financial data provided to TREC as part of the Residential Service Company Act requirements.

**VII. Proposed Internal Audit Plan for Fiscal Year 2004**

- Residential Service Companies
- Information Systems
- Fixed Assets
- Other tasks as may be assigned by the Commission

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**KEY PERFORMANCE MEASURES CERTIFICATION RESULTS 3<sup>rd</sup> QUARTER FISCAL YEAR 2003**

Related Objective or Strategy	Classification and Description of Measure	Targeted Performance	Actual Performance	Certification Results	Auditor Comments
Goal 1 01-01-01-01	Outcome Percent of Licensees with No Recent Violations	99%	99%	Certified	
Goal 1 01-01-01-02	Output Number of New Licenses Issued to Individuals	13,000	16,790	Certified	
Goal 1 01-01-01-03	Output Number of Licenses Renewed (Individuals)	53,000	45,178	Certified	The target is expected to be exceeded on the 4 <sup>th</sup> quarter.
Goal 1 01-01-01-01	Efficiency Average Licensing Cost per Individual License Issued	15	16.07	Certified	
Goal 1 01-01-01-02	Efficiency Average Time for Individual License Issuance	37	30	Inaccurate	Errors in adjusting calculations performed to TRELIS reports resulted in a variance of more than 5% from the reported amount to the actual amount.
Goal 2 02-01-01-03	Outcome Percentage of Documented Complaints Resolved within 6 Months	70%	85%	Factors Prevent Certification	Date opened and date closed data is not available on certain omitted cases that represent 7.5% of all cases closed in the period. Therefore the reported amount cannot be accessed as accurate within 5%.
Goal 2 02-01-01-01	Output Number of Complaints Resolved	3100	2,621	Certified	The target is expected to be exceeded on the 4 <sup>th</sup> quarter.
Goal 2 02-01-01-01	Efficiency Average Time for Complaint Resolution	115	85	Factors Prevent Certification	The date a case is entered into TRELIS is used as the start date to perform this calculation. Based on our review the date the case is received by the Commission is 1 to 39 days prior to the entry date.
Goal 3 03-01-01-01	Output Number of Calls Received	330,000	342,379	Certified	

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Investment Portfolio  
August 31, 2002

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	398,094	411,500
U.S. Government Securities - Long-Term	1,621,000	1,710,656
Mortgage-Backed Securities, Federal Home Loan Mortgage Notes	N/A	N/A
Collateralized Mortgage Obligations	N/A	N/A
Municipal Debt	N/A	N/A
Guaranteed Investment Contracts(s)	N/A	N/A
Corporate Bonds, Debentures, or Similar	N/A	N/A
Equities	N/A	N/A
Other Investments	<u>815,119</u>	<u>815,119</u>
TOTAL PORTFOLIO	<u>\$ 2,834,213</u>	<u>\$ 2,937,275</u>