

TEXAS REAL ESTATE COMMISSION
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2004

TEXAS REAL ESTATE COMMISSION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2004

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To the Commission Members 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 Residential Service Company Act; and the effectiveness of the internal control structure and compliance with its policies over the Information Systems and Capital Assets – Compliance processes for the year ending August 31, 2004. 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.

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 13, 2004

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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 2004 internal audit plan we performed the following internal audits:

- Compliance with the Residential Service Company Act
- Information Systems
- Capital Assets

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

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EXECUTIVE SUMMARY

Background

Compliance with the Residential Service Company Act

The Residential Service Company Act was previously effective as Article 6573b Vernon's Civil Statutes. On June 1, 2003, through the 77th legislature, the Act was changed to Chapter 1303 of the Texas Occupations Code. The Act regulates the licensure of Residential Service Companies. A Residential Service Company offers home warranty contracts to repair or replace all or any part of the appliances, structural components, electrical, plumbing, and heating and/or air conditioning system of a residential property for a specific fee and for a specific period of time. A home warranty is offered through a residential service contract and is traditionally offered to the buyer or seller of an existing home in conjunction with the sale or purchase of the property. In most cases, the real estate broker or salesperson acts as an agent of the residential service company in presenting the warranty to the buyer or seller.

There are currently twenty-one (21) companies licensed to do business in the State of Texas. Three of the companies were licensed during the current year. Chapter 539.31-91 of the Texas Administrative Code specifies the fees to be charged and collected from Residential Service Companies. The current fee structure specifies a \$3,500 fee for filing an application for a license or filing an annual report (renewal) and \$250 fee for filing an evidence of coverage or a schedule of charges. In addition the Residential Service Company must pay the cost of an on-site examination conducted by the Commission. During the year four (4) on-site examinations of Residential Service Companies were performed. Other significant activities included entering into agreed orders with separate Residential Service Companies for the violation of Section 1303.301 by using false or misleading advertisement and to provide a probationary license to a RSC that had previously been denied.

Information Systems

Information Systems (IS) reports to the Assistant Administrator and is comprised of a Director, two (2) Programmers, a Web Design and Maintenance Analyst, a Network Support Specialist and three (3) Computer Operations personnel.

The IT Department provides support to the Commission for computerized data processing needs to include the Enforcement Division, Licensing, Education and Communication Division, the Staff Services Division and the Administrative Division. Support is provided through three main areas the Internal Systems, Cooperative Systems and Public Access Systems and is also responsible for ensuring that hardware and software are operating properly and that the Commission's computer system and information are adequately safeguarded.

Internal Systems include the following: the fee receipts, licensing education data base, examination result posting, license and renewal processing, enforcement case tracking, open records access and education provider approval systems.

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Cooperative Systems include the use of externally generated information and access to Commission data through cooperative means such as Texas On-line, Texas Guaranteed Student Loan Corporation, the Office of the Attorney General, the Department of Public Safety and the Real Estate Center at Texas A&M University. IS also provides computer services for the Texas Appraiser Licensing and Certification Board.

Public Access Systems provide comprehensive public access through E-Mail addresses, an E-Mail List Server and the Commission Website.

Information Services has four major initiatives that address the Commissions major goals and objectives as follows:

- develop and deploy technology solutions which facilitate access to agency information for both external and internal customers through increasing access to agency information and processes;
- develop and implement technology solutions to enhance the productivity of agency staff by achieving standardization of hardware and software products and reducing manually intensive processes;
- integrate current education application into a cohesive system that provides adaptability in meeting educational goals through responding to the Education Task Force recommendations;
- implement solutions enhancing technical, security and infrastructure ensuring accurate and timely services for operations;

To develop the priorities for Information Systems the Commission has established an Information Resources Steering Committee chaired by the Assistant Administrator. Other members include the Administrator, General Counsel, Director of Staff Services, Director of Enforcement and the Director of Information Services.

Information Systems ensures the support of operational requirements and has adopted a planning methodology as follows:

- support the Commission goals and objectives;
- evaluate and prioritize existing programs and services;
- identify and prioritize new initiatives;
- link funding to operational and strategic priorities;
- incorporate an appraisal of efficiency and quality;
- include progress update with feedback from appropriate employees

Information Systems development methodology includes requirements gathering, risk assessment, architecture, functional design, development and deployment. Responsibilities include Software Audit and Management; the adoption of a Software Management Policy and Software License Tracking and Assessment.

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An additional responsibility is the development of a Disaster Recovery Plan. In developing the Business Continuity Plan the Commission considered the affect of a disaster for Information Systems and the applicable recovery procedures. The recovery plan includes moving facilities to a "cold" site, obtaining replacement equipment; the ordering of software disks and/or download of essential files if necessary; set-up and restore at the "cold" site and the eventual movement to a permanent new site.

Capital Assets

The Commission follows the State Property Accounting (SPA) guidelines for identifying capital assets. Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. Assets are capitalized at cost or at appraised fair value at the date of acquisition. Assets purchased by governmental funds are reported as expenditures for the fund financial statement on the modified accrual basis of accounting and are capitalized for the government-wide financial statements on the full accrual basis. Capitalized assets are depreciated over their estimated useful lives unless they are inexhaustible. Inexhaustible assets such as works of art and historical treasures are not depreciated. The straight line depreciation method is used by the agency.

During the current year the agency did not participate in any capital lease agreements, however three operating leases were in effect during fiscal year ended August 31, 2004. The Commission and the Texas Appraiser Licensing and Certification Board (TALCB) lease office space through the Texas Building and Procurement Commission the lease term runs from September 1, 2001 until August 31, 2006 for offices space at 1101 Camino La Costa, Austin, Texas. The Commission and TALCB leased copiers through a State of Texas contract through the Texas Building and Procurement Commission the lease terms began November 15, 2002 through November 14, 2006 for the Commission and from February 1, 2003 through January 31, 2008 for the TALCB. In addition, the Commission leased a three station folder/insert machine through a State of Texas contract through the Texas Building and procurement Commission for the period of June 13, 2003 through June 12, 2008.

Significant capitalization policy and procedures include the following guidance:

- establishes the capital asset threshold of \$5,000 and a useful life of more than one year;
- establishes the "Controlled Asset" threshold for items valued from \$500 to 4,999, requiring that controlled assets be properly secured and "tracked";
- procedures for adding capitalized and controlled assets to SPA;
- the policy for items valued at less than \$499 which are also tagged by the Commission and listed in the "Inventory Log – Items not on SPA";
- the policy for movement of Capitalized and Controlled Assets (requiring the use and approval of a "Property Transfer Form");
- procedures for the sale or transfer of software;
- procedures for the annual inventory count

The Capitalized Property total as of June 30, 2004 is \$489,595.

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I. Internal Audit Plan for Fiscal Year 2004

The fiscal year 2004 internal audit plan for the Texas Real Estate Commission (the Commission) is based on the Risk Assessment performed for the fiscal year ended 2003. The internal audit plan includes three (3) 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 2004.

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 prior years, the following internal audits were performed:

Fiscal Year 2003

1. Compliance with the Texas Public Funds Investment Act
2. Education Program Monitoring

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3. Performance Measures; and
4. HUB – Compliance

Fiscal Year 2002

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

Each of the internal audit areas audited in prior years is considered Maximum or High Risk.

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.

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The Internal Audit Plan for fiscal year 2004 includes audit areas recommended for internal audits as follows:

1. Compliance with the Residential Service Company Act
2. Information Systems
3. Capital Assets
4. Other Tasks as May Be Assigned by the Commission

II. External Quality Assurance Review

The internal audit department received a peer review in August 2003. The peer review resulted in an unqualified opinion.

III. High Level Audit Objectives

Compliance with the Residential Service Company Act

The scope of the audit of compliance with the Residential Service Company Act (RSC) is to determine that the Commission monitors compliance with established policies and procedures of the act and monitors the RSC licensing requirements including the following:

- The utilization of the Texas Administrative Code 539, fee schedule for collecting fees from the Residential Service Companies;
- The information included in the RSC application is timely and efficiently evaluated for accuracy and completeness;
- The Residential Service Contracts and the Annual Report with applicable financial reporting requirements are reported in an accurate and timely manner.
- Disciplinary action/enforcement was efficiently and timely performed when violations occur.

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We performed the following procedures to determine that compliance with the policies, procedures and requirements are properly regulated:

- a. Obtained and reviewed the Commission's procedures and ascertained that they are consistent with the Residential Service Company Act (Occupations Code 1303 and Texas Administrative Code 539).
- b. Identified Commission personnel responsible for RSC compliance; obtained an understanding of the agencies current practices and procedures; and tested the adequacy over the monitoring of the licensed RSCs and compliance with applicable reporting requirements.
- c. Obtained the Residential Service Contract, Evidence of Coverage, Schedule of Charges and the Annual RSC Reports for selected RSCs to determine that complete and accurate documentation was obtained and that the reports were properly prepared and submitted in a timely manner.
- d. Obtained the Agreed Order between the Commission and the RSC and ascertained that the process was performed in accordance with the Residential Service Company Act and the agreed requirements are being met.

Information Systems

The scope of our audit was to gain an understanding of the Information Systems processes and controls to determine if TREC complies with written policies, procedures, current practices, and applicable state requirements for:

- a. The recording, reporting, and safeguarding of assets.
- b. Performing data security administration, data center operations and systems development/maintenance
- c. The development and maintenance of a Business Continuity Plan that includes an IT Disaster Recovery Plan
- d. Reporting, logging, and generating schedules as required by and to support established policies and procedures.

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The procedures performed to achieve the scope of our audit were as follows:

- a. Reviewed the following documents to obtain an overview and understanding of the IT Department and its functions:
 - a. Information Resources Strategic Plan
 - b. Information Technology Detail Report (ITD)
 - c. Statewide Information Technology Asset Reporting Data (SITAR)
 - d. Business Continuity Plan including the IT Disaster Recovery Plan
 - e. Information Security Program
 - f. Organizational Charts and Job Descriptions
- b. Reviewed the current inventory of computer hardware conducted by TREC.
- c. Reviewed the listing and use of valid User IDs and the related password administration
- d. Determined that the Business Continuity Plan contained the required documented elements
- e. Determined the Information Systems expenditures were captured and reported as required by Information Resource Department requirements (i.e.; ITD and SITAR reports).

Capital Assets

The scope of the audit of the Capital Assets audit area is to determine that TREC complies with the policies and procedures for capitalization of assets including:

- Capital Assets represent a complete and valid listing of the total capital cost of assets purchased, constructed or leased and physically on hand
- Capitalized costs associated with all sold, abandoned, damaged, or obsolete capital assets have been removed from the accounts
- Depreciation charged on capital assets has been computed on an acceptable basis consistent with that used in prior periods.

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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 State Property Accounting (SPA).
- b. Identified TREC personnel responsible for capital asset compliance to obtain an understanding of the agencies current practices and the adequacy of accountability maintained and of reporting requirements.
- c. Determined that additions to capital assets for the current year were performed consistent with the capital asset policies and are properly recorded.
- d. Performed an analysis of computed depreciation expense for selected assets.
- e. Reviewed current year retirements of capital assets to ensure the assets were removed from the capital asset accounts.
- f. Reviewed lease agreements to determine that operating leases recorded are properly classified (not considered capital leases).
- g. Performed an analysis of repairs and maintenance activity to determine that all purchases of capital assets are properly recorded.

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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	8/13/2004	Compliance with the Residential Service Company Act	X	X	X	X	X
1	8/13/2004	Information Systems	X	X	X	X	X
1	8/13/2004	Capital Assets	X	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	8/13/04	Residential Service Company Act	<p>Residential Service Company</p> <p>1. The Commission is responsible for issuing a license to trustworthy, responsible and competent applicants. Reliance is placed on the information provided to the commission from the applicant. No additional investigation is attempted by the enforcement division.</p> <p>Recommendation We recommend that the Commission include a DPS background check release form with the application process.</p> <p>Management's Response Management agrees with this recommendation and will begin running DPS checks immediately.</p> <p>2. The Commission is regulated by the Occupation Code Chapter 1303 and the Texas Administrative Code Chapter 539 to ensure compliance with the Residential Service Company Act. The Commission is in the process of developing policies and procedures that will ensure compliance with the Act.</p> <p>Recommendation We recommend that the TREC continue to develop and adopt formal policies and procedures that will ensure compliance with the Residential Service Company Act and the applicable portions of the Occupational Code and the Texas Administrative Code.</p> <p>Management's Response Management will complete a policy and procedure manual for the Residential Service Company Program by November 1, 2004.</p>		<p>Internal Control over the Application Approval Process.</p> <p>Internal Control over the Residential Service Company Act.</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	8/13/04	Residential Service Company Act	<p>3. Fees collected from the RSC's are entered in the accounting system without an ID field to identify the company paying the fees.</p> <p>Recommendation We recommend that the Commission ensure that the RSC company ID number be entered into the accounting system to accurately identify the source of the fees by the respective company.</p> <p>Management's Response On August 16, 2004, Management began entering fees into the accounting system using the licensee's identification number for fees paid by a current licensee.</p> <p>On August 16, 2004, Management began creating a computerized identification number for each new applicant for a license and began entering fees into the accounting system using the applicant's identification number.</p> <p>4. An agreed order requires the Commission to review advertisement of an RSC before the advertisements are published. This function may be liability and a burden to the Commission.</p> <p>Recommendation We recommend that the Commission consider modifying the agreed order to require the RSC to obtain their own legal counsel to review all advertisement published to ensure compliance.</p> <p>Management's Response The Commission has a duty to answer questions and interpret the provisions of the Residential Service Company Act. Management does not believe that the Residential Service Company Act gives the Commission authority to require a licensee to retain legal counsel as suggested. Management believes it is not necessary to revise the agreed order in question but agrees to take the noted concerns into consideration if similar issues arise in the future.</p>		<p>Internal Control over the Residential Service Company Act</p> <p>Internal Control over the Residential Service Company Act</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	8/13/04	Residential Service Company Act	<p>5. After an on-site monitoring visit the RSC has 30 days to respond to the Commission's findings and recommendations report. A report sent to an RSC on May 17, 2004 had not been addressed as of August 13, 2004 (64 days later). The Commission has not followed-up with the RSC.</p> <p>Recommendation We recommend that the Commission develop a process to assure RSC's respond within the required 30 days.</p> <p>Management's Response Management has implemented the following procedures: Once the management letter is mailed from Administration, the RSC Legal Assistant will post a tickler on her Microsoft Outlook Calendar for the RSC's response deadline as listed in the letter. If no response is received from the RSC by the deadline, then the RSC will be sent a reminder letter requesting an immediate response. If no immediate response is received, the Enforcement Division will initiate disciplinary proceedings against the RSC's license pursuant to the authority granted in Section 1303.053 of the Residential Service Company Act.</p> <p>6. Section 1303.103 of the Texas Occupations Code requires that Residential Service Companies file by April 1 of each year annual reports "certified" by an independent public accountant. Two (2) of the nine (9) annual reports selected for review were not prepared by a Certified Public Accountant.</p> <p>Recommendation We recommend that the Commission require all RSC to file reports prepared by an independent public accountant and to define the word "certified", in Texas Occupations Code Section 1303.202(b)(3)(A). A certified public accountant can prepare and issue either an Audit, a Review or a Compilation Report. We recommend that the Commission require audited financial statements.</p> <p>Management's Response Management believes the financial statements submitted by AON Home Warranty Services, Inc. for its 2003 Annual Report met the statutory requirement. The Commission became aware during its examination of Buyers Home Warranty Company in September 2003 that the company's financial statements did not meet the statutory requirement. The Commission has received assurances from the company that the financial statements included with its 2004 Annual Report will be in compliance with the statutory requirements</p> <p>An RSC's financial information is verified during regularly scheduled examinations and is also reviewed by the Commission's outside CPA on an annual basis. In addition, Management believes that the cost for the preparation of audited financial statements would be prohibitive for smaller licensees.</p>		<p>Internal Control over the Residential Service Company Act.</p> <p>Internal Control over the Residential Service Company Act.</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	8/13/04	Residential Service Company Act	<p>7. The Texas Occupations Code Section 1303.152 requires Residential Service Companies to “maintain a funded reserve account against its liability to provide repair and replacement services under its outstanding” contracts. Even though this is monitored every six (6) months there is no mechanism to levy the “funded reserve”, when needed.</p> <p>Recommendation We recommend that the Commission develop a method to ensure that the “funded reserve” is available for the payment of claims against outstanding Residential Service Company contracts in the event of a financial failure.</p> <p>Management’s Response The Residential Service Company Act and the Commission’s Rules currently require that funded reserves be identified as such and may not be encumbered or commingled with monies that are not funded reserves. Additionally, funded reserves cannot be withdrawn or liquidated without the Commission’s written consent. Management believes these protections to be sufficient to ensure that the funds are available to satisfy the claims of Texas consumers. Management further believes that the Residential Service Company Act does not give the Commission authority to “levy the funded reserve” without a legislative amendment</p>		Internal Control over the Residential Service Company Act.
1	8/13/04	Information Systems	<p>Information Systems</p> <p>1. The Information Systems policies and procedures did not include standards and procedures for Systems Development and Program Change Control as required by the Information Resources Department. Additionally, TREC has not adopted required policies and procedures for performing Data Base Administration, DASD Management, Performance Monitoring and Capacity Planning although these procedures are routinely performed during system development and maintenance.</p> <p>Recommendation We recommend that TREC adopt policies that address the requirements for System Development, Program Change Control, Data Base Management, DASD Management and Performance Monitoring to ensure compliance with all of the applicable state and department of Information Resource requirements.</p> <p>Management’s Response We concur with the recommendation. The Project Management policy, Project Management procedure and Change Control Policies have been established that confirm to the DIR Quality Assurance Guidelines. The remaining policies (Performance Monitoring, Data Base Management, DASD Management Capacity Planning) are being developed and will be complete by the end of September 2004.</p>		Efficiency and effectiveness of Information Systems, Safeguarding of Assets and Accomplishment of Goals and Objectives.

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1	8/13/04	Information Systems	<p>2. The TREC Business Continuity Plan which includes the Information Systems Disaster Recovery Plan was completed in August 2004. The Information Resources Department requires testing of a disaster recovery plan on at least an annual basis to include testing of critical applications and services as follows:</p> <ul style="list-style-type: none"> • realistic conditions and activity volumes • a post test analysis report and review process that includes a comparison of test results to the original goals • development of a corrective action plan for all problems encountered • testing of multiple user departments at the same time to uncover potential conflicts <p>Documentation was unavailable to document testing of the Disaster Recovery Plan that existed prior to the Business Continuity Plan.</p> <p>Recommendation We recommend that TREC perform testing of the Business Continuity Plan on an annual basis specifically to include the critical applications and services of the information systems. The tests should increase in scope and complexity annually to include the range of the plan.</p> <p>Management's Response We concur with the recommendation. An agency test of the Business Continuity Plan will be completed in December 2004 and weaknesses documented for correction to the plan.</p>		Safeguarding of Assets

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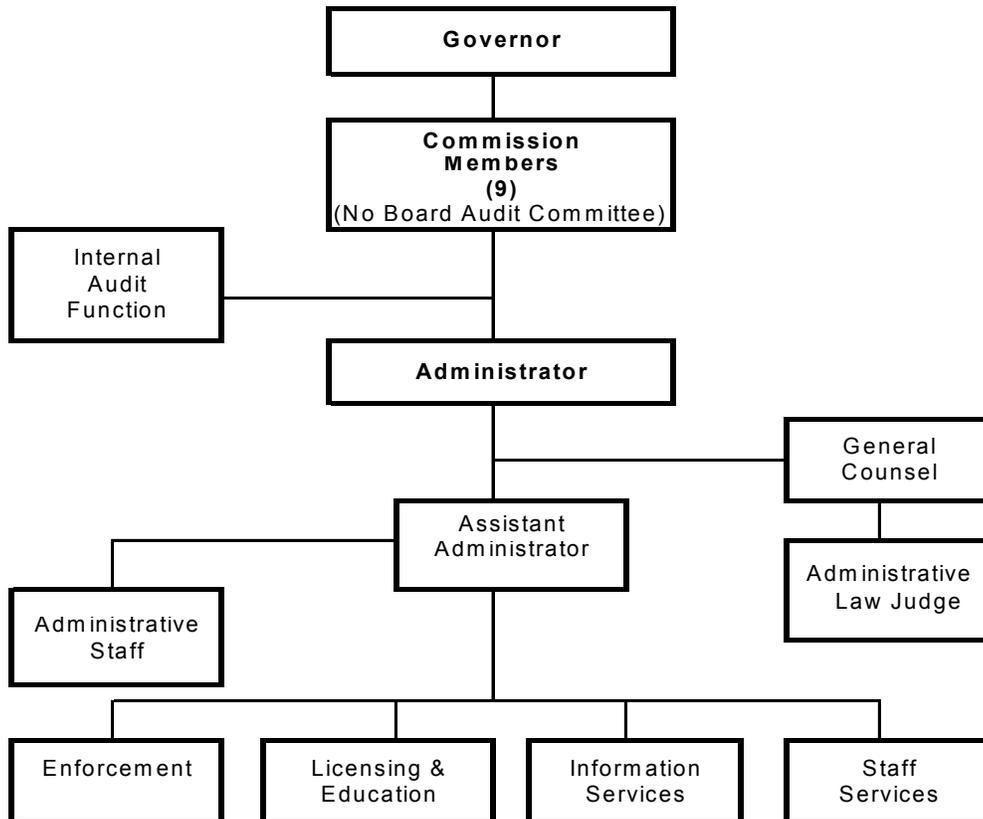
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1	8/11/03	Annual Audit Report	<p>Follow-up on Prior Year Recommendations:</p> <p>Average time for Complaint Resolution</p> <ul style="list-style-type: none"> • Modify programs to use the date received field to include administrative time taken to forward complaints to the Enforcement Division and the time to perform an initial review to determine the validity and nature of the complaint and allow this measure to be properly calculated and reported for FY 2004. 	Implemented	

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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 2005

- Develop a three (3) year entity Risk Assessment
- Compliance with the Texas Public Funds Investment Act
- Other tasks as may be assigned by the Commission