

TEXAS REAL ESTATE COMMISSION
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2005

TEXAS REAL ESTATE COMMISSION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2005

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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 Compliance with the Public Funds Investment Act and Licensing Application and Registration Process; and the effectiveness of the internal control structure and compliance with its policies over the investment process and reporting and the licensing process for the year ending August 31, 2005. 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 15, 2005

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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 221, 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, education and communication 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 2005 internal audit plan we performed the following internal audits:

- Compliance with the Public Funds Investment Act
- Licensing Application and Registration Process

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. On a determination by the commission at any time that 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, except that an investment may not be made that would impair the liquidity necessary to make payments from the trust account as required by this Act. 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. 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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License Application & Registration Process

The License Application and Registration Process audit area processes applications and license renewals for 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, an examination is required of the applicant for each of these license types to ensure competent real estate service providers in the State of Texas.

The objective of the Licensing audit area is to determine that applicants for licensure meet legal requirements for real estate license issuance. Ensuring standards includes the following major activities:

- Processing applications and renewals
- Processing information changes
- Entering education credits
- Maintain records on former licensees.
- Issues six types of licenses: salesperson, broker, inspector (apprentice, real estate, and professional), Limited Liability Corporation (LLC), Corporation, Easement or Right of Way (ROW).

As of May 31, 2005, the number of the licensees for all types processed or managed was 139,707, an increase of approximately 23% since 2002. Despite this significant increase in volume, TREC sustained a 7% legislatively mandated reduction of \$290,790 during fiscal year 2003. Across the agency, the mandated reductions resulted in the elimination of 12 full-time equivalent positions along with other cuts; the Licensing section was reduced by two FTEs during these layoffs.

Statistical breakdown of 139,707 licensees as of May 31, 2005

Brokers	40,206
Salespersons	94,683
Inspectors	3,891
ERWs	927

The licensing function at TREC is administered through two (2) sections as follows: Licensing and Education. The Education Program Audit Area has been the subject of internal audits in prior years over education program monitoring and the proprietary school program approval process. For the purpose of this internal audit over the License Application and Approval Process we will include testing of the evaluation performed and data entered into the TREC Information System by the Education Section of "Core" Education requirements and of Continuing Education requirements for the issuance and renewal of licenses.

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The licensing function is automated through the use of TREC's comprehensive and coordinated licensing system entitled the "Texas Real Estate Licensing Information System" (TRELIS). TRELIS is a fee and history-driven system consisting of more than 800 reporting programs and interactive screens maintained by two staff programmers. TRELIS provides a complete licensing system beginning with information on applicants for licenses, integration of education records for candidates, incorporation of examination results, determination of eligibility for licensure, certification that the minimum requirements have been met, and the production of a license which is subsequently mailed to the licensee.

TRELIS is used to track financial and historical events occurring for each applicant and licensee, maintenance of continuing education records, produces an accurate licensee data base, and ensures up to date computerized record-keeping for over 200,000 active, inactive, and expired licensees for use in processing original applications and renewals. The system automatically produces "curative" letters seeking missing information from licensees, based on licensing personnel review, renewal notices in advance of each license expiration; issues new and renewed licenses; and "expires" licenses when appropriate. A wide range of reports concerning licensing matters is produced by the TRELIS system to help measure and manage the entire licensing process.

In August 2000, TREC began using the TexasOnline Authority as a payment portal to provide for online license renewals for salespersons. The use of TexasOnline as a payment portal has further automated and streamlined the licensing function at TREC. TREC has expanded its online capabilities to include original application and renewal for brokers and salespersons including Corporate and Limited Liability Companies and for the renewal of Professional Inspectors, Real Estate Inspectors, Apprentice Inspectors, Easement ROW Business and Easement ROW Individual licenses.

Online applications and renewals are processed in the following manner:

- Customer accesses TexasOnline or TREC website and renews or applies online
- TREC Information Services (IS) harvests renewal data at 5.00 a.m.
- The harvested data is posted to the TREC computer
- IS notifies Cashier regarding the batch numbers used
- IS distributes the financial data to Staff Services
- As approved the next morning IS prints licenses
- Staff Services prepares licenses for mailing
- IS receives new data file from the Comptroller of Public Accounts (CPA) and prints a report.
- IS receives production data file from CPA. Financial reconciliation programs are run and output is given to Staff Services for financial reconciliation.
- Staff Services reconciles output received from IS.
- Licensing files a hard copy of the renewal license in the master file.

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The processing of licenses and renewals online reduce the occurrence and /or eliminates the following manual processes:

- Serving walk-in customers who pay via check or money order in Cashier
- Receiving and opening mail in Cashier
- Processing checks and money orders in Cashier
- Processing renewal and application batches in Licensing
- Processing "exceptions" such as incorrect, unsigned, or returned checks (the system edits prevent incorrect data and the online application is considered a valid record)

In processing licenses online TREC has improved customer service by offering a 24-hour/day renewal and application process and by allowing for payment receipt by debit or credit cards in addition to checks and money orders.

Due to streamlining of job duties and an increased usage of TREC's online application and renewal option, the Licensing function has continued to meet or exceed each of these key performance measures during the past 5 years through the 3rd quarter of 2005.

- number of new licenses issued to individuals
- number of licenses renewed (individuals)
- average licensing cost per individual license issued
- average time for individual license issuance.

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I. Internal Audit Plan for Fiscal Year 2005

The fiscal year 2005 internal audit plan for the Texas Real Estate Commission (the Commission) is based on the Risk Assessment performed for the fiscal year ended 2005. The internal audit plan includes two (2) 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 2005.

Risk Assessment

Of the twenty (20) audit areas identified in the Internal Audit Plan for fiscal years 2000 – 2004 we combined the Proprietary School Program Approval Process and the Education Program Monitoring areas. The audit areas were reduced by a total of one (1) area. An assessment of the resulting nineteen (19) potential audit areas was performed using risk assessment techniques.

Based on the risk assessment, we identified four (4) audit areas that were assessed as Maximum Risk. They are:

- License Application and Registration Process
- Information Systems
- Payroll and Personnel Process
- Cash Collection Fee Process / Remittance

Five (5) audit areas were assessed as High Risk. They are:

- Reporting and Budgeting
- Complaint / Investigation Process
- Customer Communications
- Cash Disbursement and Travel Processing
- Administrative Hearing Process

The Risk Factors and the Risk Assessment Summary are included in Attachment A and B, respectively.

In prior years, the following internal audits were performed:

Fiscal Year 2004

1. Compliance with the Residential Service Company Act
2. Information Systems
3. Capital Assets

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Fiscal Year 2003

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

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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A six (6) year Internal Audit Plan was developed during the year for the fiscal years 2005 through 2010 and includes the following recommended internal audits.

Fiscal Year 2005

1. Perform Risk Assessment and Develop a six (6) Year Audit Plan
2. Compliance with the Texas Public Funds Investment Act
3. License Application and Registration Process
4. Other Tasks as May Be Assigned by the Commission

Fiscal Year 2006

1. Cash Collection Fee Process and Remittance
2. Customer Communications
3. Other Tasks as May Be Assigned by the Commission

Fiscal Year 2007

1. Compliance with the Texas Public Funds Investment Act
2. Complaint / Investigation Process
3. Performance Measures
4. Other Tasks as May Be Assigned by the Commission

Fiscal Year 2008

1. Information Systems
2. Examination Process
3. Other Tasks as May Be Assigned by the Commission

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Fiscal Year 2009

1. Compliance with the Texas Public Funds Investment Act
2. Education Program
3. Recovery Fund
4. Other Tasks as May Be Assigned by the Commission

Fiscal Year 2010

1. Records Retention
2. Residential Service Companies
3. Other Tasks as May Be Assigned by the Commission

The six year audit plan will be subject to annual review and evaluation.

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 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.

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- 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.

Licensing Application and Registration Process

The objective of our audit of the Licensing Application and Registration Process audit area is to determine that the Texas Real Estate Commission (TREC) Licensing and Education Sections perform the application and registration process 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. Obtained an understanding of the Licensing Application and Registration process by reviewing the applicable laws, regulations and the Rules of the Texas Real Estate Commission including the applicable sections of Texas Real Estate Licensing Act (Chapter 1101 & 1102 of the Texas Occupation Code).
- b. Performed inquiries to obtain an understanding of the audit area by interviewing the applicable Licensing Division management personnel including the Licensing Manager; the Education Manager and/or other personnel as necessary.
- c. Obtained and reviewed the job descriptions of licensing personnel to obtain an understanding of the activities and duties involved in the licensing and application process.
- d. Obtained and reviewed the License Processing Procedures used by the Licensing Section personnel to determine the applicable procedures for each license, renewal and change control transaction type and to identify applicable control procedures applied to perform tests of those procedures and controls.

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- e. Reviewed the key performance measures as reported in the ABEST system to obtain an understanding of the goals and objectives that affect the Licensing Application and Registration Process.
- f. Made a selection of licenses, renewals and change control transactions 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 licensing process.

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	8/15/2005	Compliance with the Public Funds Investment Act	X	X	X	X	X
1	8/15/2005	Licensing Application and Registration Process	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	8/15/05	Compliance with the Public Funds Investment Act	No findings and recommendations, relating to the Public Funds Investment Act.		
1	8/15/05	Licensing Application and Registration Process	<p>1. <u>Renewal Application Approval Process</u></p> <p>During the test-work we reviewed various renewal applications for salespersons and brokers and renewal applications for inspectors and easement or right of way agents. The renewal applications do not require an original signature of the person applying for renewal although the person is reporting his/her permanent address and is providing a response to the following question: "Have you ever entered a plea of no lo contendere to, been found guilty of, or been convicted of a felony, irrespective of an order granting probation or suspending the imposition of sentence that you have not previously reported to the Texas Real Estate Commission".</p> <p>Recommendations We recommend that the Commission modify the renewal applications to provide for the applicants' signatures that are submitted to the Commission through the mail or by walk-in delivery, as it is reasonable that renewals submitted on-line do not require a signature since the applicable security controls to submit an on-line renewal are applied.</p> <p>Management's Response Since the law does not require a signature from renewal applicants, TREC did away with the signature requirement. Requiring the signature in the past caused a large volume of curatives; however, in working the curatives, staff rarely found any abuse. There have been no Enforcement-related issues that have resulted from a lack of a signature. No one has ever fraudulently renewed a license, based on our records. Additionally, we cannot justify requiring a signature for walk-ins or mailed in renewals without doing the same for online renewals. TREC does not plan to implement the auditor's recommendation.</p>		Strengthen Policies and Procedures over the Licensing process.

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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	8/15/05	Licensing Application and Registration Process	<p>2. <u>Late Renewal Application Process</u></p> <p>The Commission currently processes late license renewal applications for various types of licensees such as Brokers, Salespersons, Inspectors, and Right of Way or Easement Agents. TREC requires a "background check" to be performed through DPS for all "late renewal applications". However, the Commission releases licenses for these "late" renewal applications if the applicants have marked the box indicating they have <u>NOT</u> been found guilty, or been convicted of a felony offense before the DPS background report is returned and reviewed for clearance.</p> <p>Recommendations We recommend that TREC delay the release/issuance of licenses until the DPS reports/records are received and reviewed for all "late" renewal applications, to ensure applicants are clear of criminal offenses and that only applicants meeting all requirements are licensed or renewed.</p> <p>Management's Response Currently, only late renewal applications within a year of their expiration date issue pending a DPS check. This decision was made to keep the process moving for licensees recently out of the business. The law allows TREC to take action in cases that warrant it; additionally, there are enforcement controls in place. If a licensee shows up on a DPS report after a license is issued, TREC takes the appropriate enforcement action. All other late renewal applications do not issue until DPS clears.</p>		Strengthen Policies and Procedures over the Licensing process.

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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	8/15/05	Licensing Application and Registration Process	<p>3. <u>Application Processing</u></p> <p>We reviewed a total of fifty-five (55) of the various types of licenses, renewals, change control and "late" renewal applications received and processed by TREC. The purpose of our testing was to determine that the TREC rules, regulations and identified processing policies were applied efficiently, effectively and in a complete and even manner. During our review we noted that certain support documentation and/or licensing procedures were not performed or documented as follows:</p> <ul style="list-style-type: none"> • One of the applications reviewed for original licensing did not include support material for the completion of required education credits although the education was shown to be complete on the TREC Information System. • One application for renewal of the Easement or Right of Way Agent license was not included in the applicant file as required to document the submission of the proper documents. • One application for Easement or Right of Way Agent license renewal was not fully completed. The applicant did not respond to the criminal conviction inquiry. There also was no indication that the application was referred to enforcement or that the response to the inquiry was otherwise requested or received. <p>Recommendations We recommend that TREC develop procedures to perform reviews or self audits of licensing transactions performed to include review for completeness, proper filing and that completion of education requirements as indicated on the TREC information system are supported by documentation. TREC may additionally consider a system that would provide an electronic image of such documentation to improve the efficiency and accuracy of filing required support data.</p> <p>Management's Response We concur with the recommendation that self-audits be conducted to ensure completeness of records and proper filing. A copy of proposed procedures is included as Attachment C.</p> <p>TREC has investigated the possibility of electronic imaging; the costs for such a project run between \$800,000 to \$1,000,000. A lack of financial resources prevents us from embarking on an imaging project. TREC has requested appropriate funding from the legislature in past sessions; this request has not been fulfilled.</p>		Ensure Licensing Policies and Procedures are applied.

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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	Follow-up of Prior Year	<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>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>Agency Does not Plan to Implement Recommendation – Current Rules require a segregation of “funded reserves” and outlines the applicable funding vehicles. The Agency considers this sufficient.</p> <p>Implemented</p>	<p>Internal Control over the Residential Service Company Act.</p> <p>Efficiency and effectiveness of Information Systems, Safeguarding of Assets and Accomplishment of Goals and Objectives.</p>

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1	8/13/04	Follow-up of Prior Year	<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>	Implemented	Safeguarding of Assets

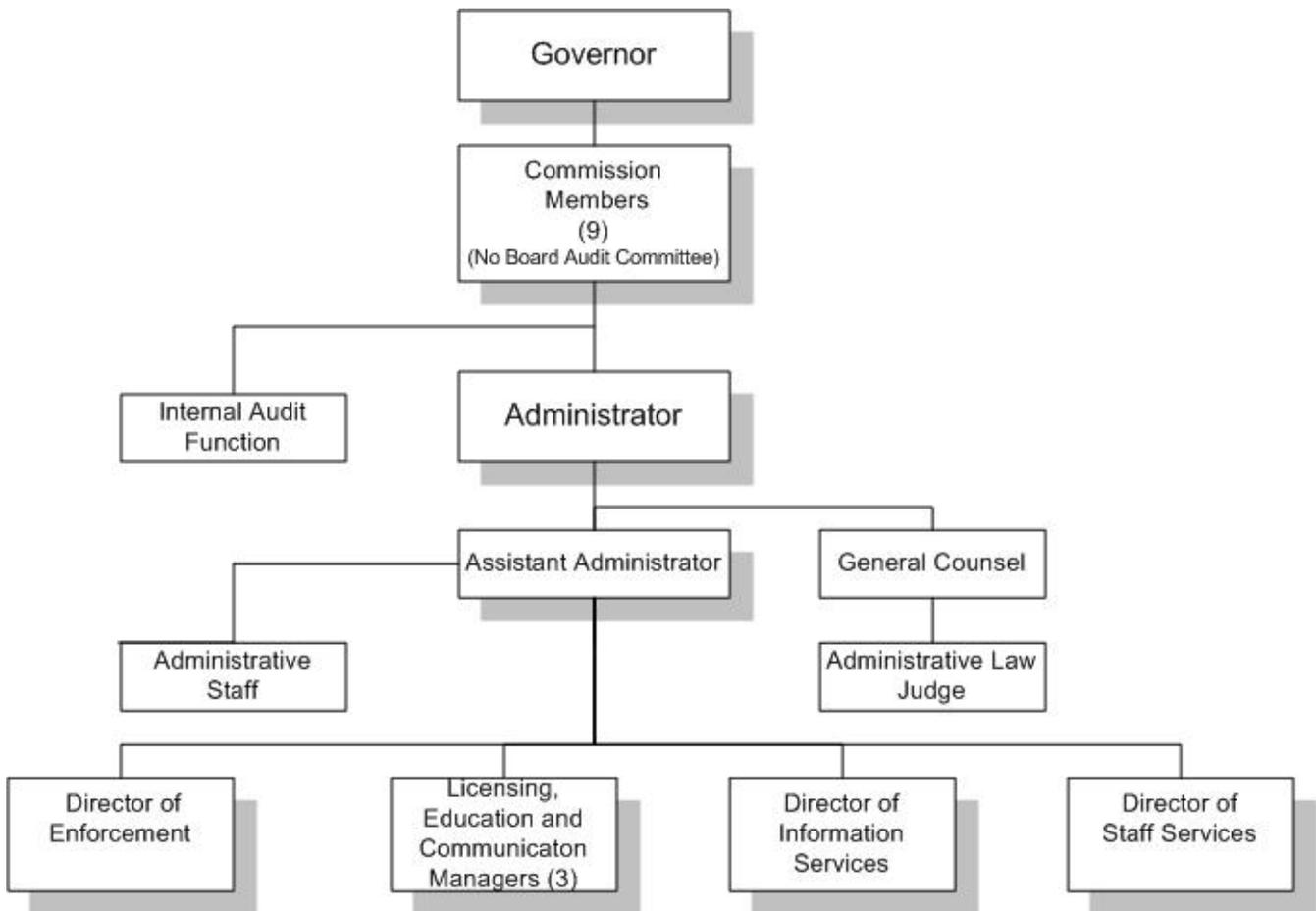
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VI. List of Consulting Engagements and Non-audit Services Completed

None to Report

VII. Organizational Chart



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VIII. Report on Other Internal Audit Activities

None.

IX. Proposed Internal Audit Plan for Fiscal Year 2006

- Cash Collection Fee Process and Remittance
- Customer Communications
- Other tasks as may be assigned by the Commission\

X. External Audit Services Procured in 2005

The Agency procured the following external audit services:

- A six (6) year Risk Assessment Service
- Current year Internal Audit Services
- Financial data analysis of the RSC's for the Residential Service Company Act Requirements.

**Texas Real Estate Commission (TREC)
Summary of Investments**

	August 31, 2004 <u>Book Value</u>	August 31, 2004 <u>Market Value</u>
Equity Securities	N/A	N/A
Other Investments	N/A	N/A
Debt Investments >1 year:		
U.S. Government	1,743,950.00	1,747,831.25
U.S. Government Agency	N/A	N/A
Mortgage Pass Throughs	N/A	N/A
C.M.O.s	N/A	N/A
Other Asset-Backed Bonds	N/A	N/A
Foreign Issued Obligations	N/A	N/A
Municipal Obligations	N/A	N/A
Corporate Obligations	N/A	N/A
G.I.C's	N/A	N/A
Bond Mutual Funds	N/A	N/A
Other (list)	N/A	N/A
<i>Total Debt Investments >1 year</i>	1,743,950.00	1,747,831.25
Short Term Investments:		
U.S. Government	408,187.50	409,656.25
U.S. Government Agency	N/A	N/A
C.D.'s/B.A.'s	N/A	N/A
A1/P1 Commercial Paper	N/A	N/A
Repurchase Agreements	N/A	N/A
TexPool	N/A	N/A
Other Money Market Funds & Pools	N/A	N/A
Bank Deposits	N/A	N/A
Cash Held at State Treasury	981,347.90	981,347.90
Other (list)	N/A	N/A
<i>Total Short Term Debt</i>	1,389,535.40	1,391,004.15
TOTAL INVESTMENTS:	3,133,485.40	3,138,835.40

**Texas Real Estate Commission
Risk Assessment Summary
August 31, 2005**

Potential Audit Topic	Risk Factor Scores																2005
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total
Maximum Risk: > 196																	
1. License application and registration process	3	3	1	3	3	3	1	2	1	2	2	1	3	2	2	1	210.00
2. Information Systems	2	3	2	3	1	1	1	2	2	2	3	2	2	3	2	1	202.00
3. Payroll and personnel process	3	2	3	2	2	1	1	1	1	2	3	2	3	2	1	2	199.00
4. Cash collection fee process / remittance	3	3	3	2	2	1	2	1	1	2	3	2	2	2	1	1	198.00
High Risk: 183 - 196																	
5. Reporting and budgeting	3	1	1	3	3	3	1	1	1	1	3	3	1	3	1	1	194.00
6. Complaint / Investigation Process	3	3	1	3	2	2	1	2	1	1	3	1	2	3	1	1	194.00
7. Customer communications	2	3	1	2	3	3	1	2	1	2	2	1	2	3	1	1	192.00
8. Cash disbursement and travel processing	3	3	3	2	2	2	1	1	1	2	3	2	1	2	1	1	191.50
9. Administrative hearing process	1	2	1	3	3	3	1	1	1	1	3	1	2	3	2	1	188.00
Moderate Risk: 169 - 183																	
10. Examination process	2	3	1	2	2	2	1	1	1	2	2	1	3	3	1	1	180.00
11. Purchasing and receiving	2	2	3	2	2	1	1	1	1	1	3	2	2	2	2	1	179.50
12. Education program	2	3	1	2	2	2	2	2	1	1	2	2	2	2	1	1	177.50
13. Records retention	1	1	3	2	2	1	1	1	1	2	2	2	3	2	3	1	177.00
14. Recovery Fund	2	1	2	2	2	1	1	1	1	1	3	2	3	3	1	1	176.00
15. Fixed assets	2	1	3	2	1	1	2	1	1	2	3	2	1	2	1	2	171.50
Low Risk: < 169																	
16. HUB - compliance	2	2	1	2	2	1	1	1	1	1	3	2	2	2	2	1	165.50
17. Residential Service Companies	2	1	1	2	1	2	1	1	1	2	3	2	2	2	2	1	164.00
18. Performance Measures	1	1	1	2	2	2	2	1	1	2	3	1	1	3	1	1	160.50
19. Training and development (staff)	2	1	1	1	3	3	1	1	1	2	2	2	1	1	2	1	156.00

Risk Factor Scores

- 1 Low Risk
2 Moderate Risk
3 High Risk

Average Score**182.95**

**Texas Real Estate Commission
Risk Assessment Summary
August 31, 2005**

Risk Factor		Weight
1	Annual Dollar Involved	6.50%
2	Transaction Volume	6.00%
3	Safeguarding Assets	7.00%
4	Impact of Adverse Publicity	7.00%
5	Time Since Last Audit	7.00%
6	Results of Last Audit	6.50%
7	Operation Changes	6.00%
8	Personnel Turnover	5.50%
9	Policies and Procedures	5.50%
10	Training	5.00%
11	Work Complexity	7.00%
12	Work Load Fluctuation	5.50%
13	Sensitivity of Data	7.00%
14	Impact of Inaccurate Data	7.50%
15	Management Review	5.00%
16	Goals and Objectives	6.00%
	Total Score	100.00%

Planned Procedures For Self Audit - Licensing Section

Staff will perform a monthly self audit of TREC files to ensure that the requirements to obtain or renew a license have been satisfied. This self audit will examine applications, education requirements, renewals and curatives that were completed and or submitted at the time of filing. To ensure documentation is processed accurately, licensing staff will do the following:

Pull control lists for Sales, Brokers, Corporations, LLC's, Inspectors (apprentice, real estate inspector, professional inspector), Renewals and ERW's (individual and business) on a monthly basis.

Pick at least 5 license numbers listed on the each control list and pull the masterfile(s).

Review the application or renewal card for completeness.

Review the education documents as required to ensure that the education evaluation matches the education summary screen.

Review any curatives.

Review DPS status.

If an application or renewal is found to be incomplete, a letter will be sent to the licensee to request the required information.

