TEXAS REAL ESTATE COMMISSION

Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2006

TEXAS REAL ESTATE COMMISSION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2006

TABLE OF CONTENTS

Page

Internal Auditors' Report 1

Introduction 2

Executive Summary 3-6

I. Internal Audit Plan for Fiscal Year 2006..... 7-9

II. External Quality Assurance Review 10

III. High Level Audit Objectives .....…10-11

IV. List of Audits Completed by High Level Audit Objectives 12

V. Key Audit Findings/Recommendations 13-15

VI. List of Consulting Engagements and Non-audit Services Completed.....16

VII. Organizational Chart 16

VIII. Report on Other Internal Audit Activities 17

IX. Proposed Internal Audit Plan for Fiscal Year 2007 17

X. External Audit Services Procured in 2006.....17

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 its policies over the cash collection fee process/remittance and the Customer Communications process for the year ending August 31, 2006. 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

June 16, 2006

TEXAS REAL ESTATE COMMISSION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2006

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 2006 internal audit plan we performed the following internal audits:

- Cash Collection Fee Process and Remittance
- Customer Communications

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

TEXAS REAL ESTATE COMMISSION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2006

EXECUTIVE SUMMARY

Background

Cash Collection Fee Process/Remittance

The Cashier Department (Department) is responsible for the cash collection processing and remittance of fees paid to the Commission. This department is under the supervision of the Staff Services Director and comprised of the following:

- One (1) Supervisor
- One (1) First Assistant Cashier
- Two (2) Assistant Cashiers
- One (1) Mail Opener
- Two (2) Part-time Mail Openers

The cash collection fee process includes the following phases:

- Processing mail
  - Mail includes regular mail and renewal mail. Renewal mail consists of license renewal application. Regular mail consists of various items, such as applications, change of address or other information, materials and books, publications, etc.
  - The Department opens and sorts mail.

- Registering mail receipts
  - As mail is sorted, batches are created and a register and batch number are assigned.
  - The register and batch numbers are assigned in sequential order throughout the fiscal year and are recorded in the 'Batch Number Log and Register Number Log'.

- Balancing batches
  - Within each batch; the instrument, such as the application or other form, and the payment received are separated, and recorded separately.
  - The batch is balanced to ensure that the payment received and instrument amounts agree.
  - The payments are maintained by the Department for deposit and the instruments are distributed to the appropriate Commission sections which include the licensing and education sections for verification.

- Preparing deposits
  - After the sections have verified the batches, the batches are released for deposit.
  - The Information Services (IS) Division provides a computer printout to the Department consisting of the deposit detail, a list of batches on the deposit, and the deposit voucher.
  - The computer printout is checked for accuracy and payments are attached.
  - An armored car service picks up the funds and delivers the deposit to the State Treasury Division, State Comptroller's Office.

- Processing and collecting returned checks
  - Returned checks are received from the State Treasury Division, State Comptroller's Office.
  - The returned check information is entered in the Commission's information system and a 'Returned Check Processing Report' is completed. The information reported includes the check amount, register number, deposit date and the date returned.
  - A certified letter is sent to the applicant/licensee and sponsor, if applicable, stating that the check has been returned and a fee of $25 has been assessed. The letter provides a deadline for the applicant/licensee to remit payment.
  - If payment is not received by the deadline, the case is turned over to the Enforcement Division who may set-up a hearing date to initiate further action as necessary.

The Commission participates in Texas On-Line, a state sponsored web-based service, to provide access to licensees and prospective licensees for renewals and applications for licenses. The Accounting Department, among other duties, is responsible for the following:

- Ensuring the on-line payments recorded in the Uniform Statewide Accounting System (USAS) agrees to the in-house licensing system, TRELIS. This is accomplished by preparing daily reconciliations between USAS and TRELIS.

- Ensuring the revenue recorded in USAS and the amounts received in TRELIS agree. This is accomplished by preparing monthly revenue reconciliation of the Commission's revenues.

The process results in collections in excess of $17.0 million annually. Approximately 41% is used to fund Texas general revenue needs through broker occupation fees, 15% to fund the Real Estate Center at Texas A&M, 2% to Texas on-line and the remaining 42% for Commission funding of which only 24% is appropriated to the Commission for expenditures.

Customer Communications

The Customer Communications Audit Area (Communications) is responsible for the external communication to the Commission's licensees and the public. Communications handles requests for information and inquiries from general phone calls and responds to electronic mail (e-mail) on behalf of the Commission. Costs are funded through Strategy Number 3 "Provide education to licensees and the public." Of the $574,847 available approximately $300,000 is expended for Communications on an annual basis. Personnel report to the Assistant Administrator, these positions consist of a Communications Program Manager and eight (8) additional positions as follows:

- Administrative Assistant IV – (2)
- Administrative Assistant III – (4)
- Administrative Assistant II – (2)

The Communications Program Manager is responsible for assigning duties to the personnel in the Department, scheduling personnel and responding to e-mail inquiries and Customer Service Survey questions posted on the Commission's web-site. The program Manager assists with complex inquiries, performs research and communicates with other Commission departments to ensure accurate and proper responses.

The Communications Department requires a response to e-mail inquiries within 48 hours (two business days). To meet this requirement assistance is provided by the Administrative Assistant IVs as needed due to vacation and other leave time. Personnel assigned to Communications are generally staffed from outside the Commission to an entry-level position. Training consists of on the job training primarily performed by the Administrative Assistant IV positions. In addition, once allowed to handle phone calls the Administrative Assistant IVs and the Program Manager remain available to assist the newer employees. The System in place permits the Communications Manager to monitor calls and phone activity on an as needed basis. In addition phone use reports are generated to show the phone usage by employee and by phone trunk line.

Materials and information used to answer both phone and e-mail inquiries are generally derived from the Commission website. The website provides the primary sources of information to respond to inquiries such as the

- Texas Real Estate License Act
- The Rules of the Real Estate Commission
- Residential Service Company Act
- Texas Timeshare Act

Additionally, many inquiries are responded with other materials, forms and listings provided on the Commission Website and as forwarded in e-mail responses, as follows:

- Continuing education providers and accredited schools
- Real estate courses (core and real estate related)
- Core Real Estate License Education Providers

- MCE Providers By City
- Legal Update and Ethics MCE Course Provider Listings
- Inspector courses
- Instructor Listing and resources
- Education requirements
- Form listing for Core Education Provider & Instructor
- Core Education Forms
- Licensee access provided for MCE Credits
- MCE Exemption Info
- Form listings for MCE Students
- Searches enabled for Salespersons, Brokers and other Licensees
- Licensee requirements

The website along with the adoption of the Texas Real Estate Commission Rules and similar publications provides for a single source of information that can be maintained in one location and updated as necessary to provide the most updated, complete single source of information to licensees and the public. The electronic resource also provides a source of information which is always accessible without assistance.

In addition to the phone use reports which are compiled from the telephone system and captured and reported by the Call Accounting System, the call information captured is used to view activity by operator and by communication trunk line. Reports are compiled monthly to serve as a basis for reporting the Commission's key performance measure for the Communication area and to document the increasing volume of calls. Monitoring of operator activity is additionally performed on an ad-hoc basis using the program manager telephone console on an as needed basis.

The Telephone Call Accounting System reports are also used to compile the reporting of the Key Performance Measure, *3-1-1 - Licensee Consumer Education – Number of Calls Received on a Quarterly Basis*. The report consists of a summary of calls received by phone trunk line listing the trunk, number of calls, time on line and the average time on line. This report provides a count of all calls by month received at the Commission. The monthly amounts are accumulated and reported quarterly. The Commission has consistently exceeded the performance measure goal and has reported progress towards exceeding the annual call goal of 450,000.

Two other significant reports compiled or responded to by the Communication Department are the Monthly E-mail Response Report and the Customer Survey Inquiry report. For the period of September 1, 2005 through May 31, 2006 Communication responded to more than 8,964 e-mail inquiries. The Customer Survey Inquiry Report is an intranet (available to Commission personnel only) report accessible to the Communication Program Manager listing comments and inquiries provided by users of the web site customer survey function. The inquiries received through the Customer Survey Inquiry report are responded to and included in the total number of e-mails answered. The comments and inquiries are reviewed monthly by TREC administrators.

TEXAS REAL ESTATE COMMISSION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2006

I. Internal Audit Plan for Fiscal Year 2006

The fiscal year 2006 internal audit plan for the Commission is based on the Risk Assessment performed for the fiscal year ended 2006. The internal audit plan includes two (2) audits to be performed during the fiscal year and other internal audit activities as assigned by the Commissioners. The internal audit plan also includes preparation of the Annual Internal Audit Report for fiscal year 2006.

Risk Assessment

For the nineteen (19) audit areas identified in the Internal Audit Plan for fiscal year 2006, we performed an assessment of the potential audit areas using risk assessment techniques.

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

- Information Systems
- Cash Collection Fee Process / Remittance
- License Application and Registration Process
- Complaint / Investigation Process

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

- Payroll and Personnel Process
- Reporting and Budgeting
- Customer Communications
- Cash Disbursement and Travel Processing
- Administrative Hearing Process
- Residential Service Companies

In the prior three years, the following internal audits were performed:

Fiscal Year 2005

1. Performed a Comprehensive Risk Assessment and Developed a six (6) Year Audit Plan.

2. Compliance with the Texas Public Funds Investment Act

3. License Application and Registration Process

Fiscal Year 2004

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

Fiscal Year 2003

1. Compliance with the Texas Public Funds Investment Act
2. Education Program Monitoring
3. Performance Measures; and
4. HUB – Compliance

TEXAS REAL ESTATE COMMISSION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2006

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.

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

Cash Collection Fee Process/Remittance
The objective of our audit was to gain an understanding of the Cash Collection Fee Process/Remittance processes and controls to determine if:

- The audit area was in compliance with applicable internal policies and procedures,
- The reports and schedules generated were adequately supported and controls were in place, and
- The processes and/or controls have been implemented and functioning as designed,

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

a) Reviewed the Commission's policies, procedures, and current practices to obtain an understanding of the process for collecting and remitting payments, processing and collecting returned checks, reconciling payments received on-line, and reconciling revenue.

b) Selected a sample of register numbers from regular and renewal mail to ensure the receipts were adequately safeguarded, properly applied and documented controls and practices were implemented.

c) Selected a sample of daily on-line reconciliations to ensure documented controls and practices were implemented, and selected a sample of on-line transactions from the reconciliations to ensure the fees paid were properly applied.

d) Selected a sample of the monthly revenue reconciliations to ensure documented controls and practices were implemented.

e) Selected a sample of returned checks to ensure documented controls and practices were implemented.

Customer Communications

The objective of our audit will be to obtain an understanding of the activities, processes, goals and objectives of Customer Communications to determine whether the audit area has:

- Defined operations and activities to be performed,
- Developed processes for performing the assigned activities,
- Established controls to assure process results and goals are accurate and properly reported.

The audit procedures will include as follows:

a) Obtained and reviewed and inquired of the Commissions internal policies and procedures related to and for the operations of the Communications audit area

b) Performed observations, inquiries and tested a selection of phone call logs maintained for a selected number of days to determine that the practices and procedures of the Communications audit area were performed

c) Performed observations, inquiries and tested a selection of e-mail responses to customer inquiries performed by the Communications audit area for a selected number of days

d) Reviewed and performed inquiries for significant reports prepared by the Communications audit area for accuracy of the information and to evaluate the methods used to obtain, classify and report results.

e) Reviewed and tested the accumulation and reporting of the goals and objectives and assessed the accomplishment in relation to meeting the goals and objectives.

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	6/16/2006	Cash Collection Fee Process Remittance	X	X	X	X	X
1	6/16/2006	Customer Communications	X	X	X		X

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	6/16/06	Cash Collection Fee Process/ Remittance	No findings and recommendations, relating to the Cash Collection Fee Process / Remittance Audit Area		
1	6/16/06	Customer Communications	1. <u>Maintenance of Phone Logs</u> We selected and tested the maintenance of 29 telephone logs for various dates and operators. Of the phone logs selected, (3) three phone logs were not available for our review. **Recommendations** We recommend that the Commission establish a monthly review to determine that the phone logs were adequately completed and are available for each day and each operator should a review of the telephone log activity become necessary. Each employee should continue to separately maintain the telephone logs as required. **Management Response** TREC concurs with the recommendation. 2. <u>Monthly E-Mail Total Report</u> The Monthly E-mail Total report prepared by the Customer Communications Audit Area does not include all e-mail responses. E-mail responses of personnel other than the program manager have been inadvertently left out of the reported monthly totals. **Recommendations** We recommend that Customer Communications modify the process for accumulating and reporting the monthly e-mail totals to include all e-mail responses performed. **Management Response** TREC concurs with the recommendation.		Improve performance and compliance with the Policies and Procedures for Customer Communication Strengthen Policies and Procedures over the Customer Communication Area reporting process.

TEXAS REAL ESTATE COMMISSION
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2006

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	Follow-up of Prior Year Recommendations	Follow-up on Prior Year Recommendations: <u>Renewal Application Approval Process</u> 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". **Recommendation** Modification of the renewal applications is needed to provide for the applicants' signatures submitted to the Commission through the mail or by walk-in delivery is recommended since the renewal application includes the provision of a permanent address and response to criminal convictions. Renewal applications submitted on-line do not require a signature; however certain security controls to submit an on-line renewal are applied.	TREC does not plan to implement the recommendation since there have been no known incidences of licenses that have been fraudulently obtained or other enforcement issues related to obtaining a renewal license.	Strengthen Policies and Procedures over the Licensing process.
			<u>Late Renewal Application Process</u> The Commission releases licenses for "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. **Recommendation** The release/issuance of licenses should be restricted until the DPS reports/records are received and reviewed for all "late" renewal applications to ensure that "late" renewal applicants are clear of criminal offenses and that only applicants meeting all requirements are licensed or renewed.	TREC does not plan to implement the recommendation since late renewal applications in excess of one year of their expiration date are not issued until the DPS report is clear. In addition, TREC applies appropriate enforcement action as necessary for DPS reports received after a license is issued	Strengthen Policies and Procedures over the Licensing process.

TEXAS REAL ESTATE COMMISSION
Austin, Texas

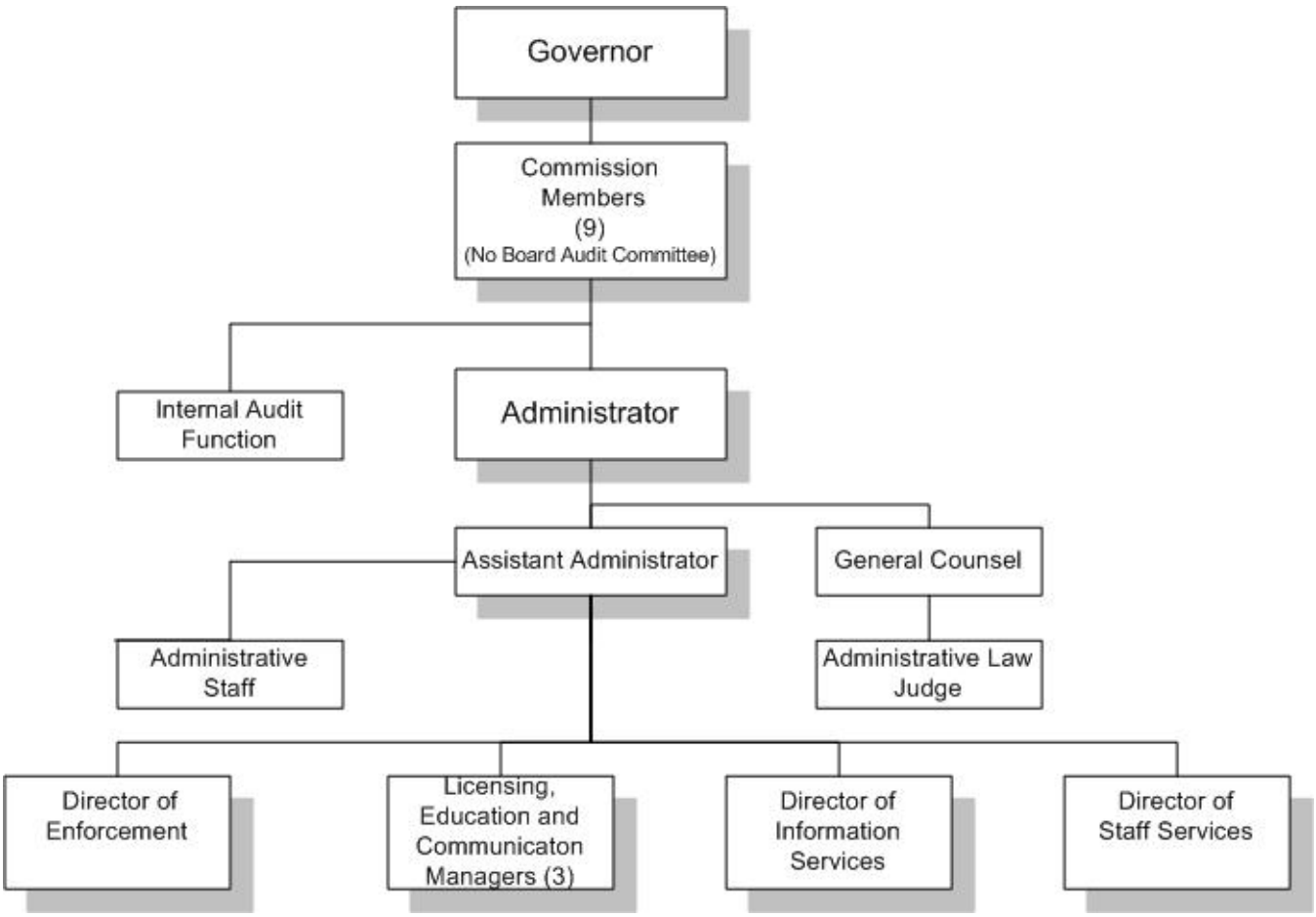
Annual Internal Audit Report
Fiscal Year 2006

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	8/13/05	Follow-up of Prior Year	Follow-up on Prior Year Recommendations: (Continued) <u>Application Processing</u> Certain support documentation and/or licensing procedures were not performed or documented as follows: • 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. **Recommendation** Reviews and/or self audits of licensing transactions performed that include review for completeness, proper filing and that completion of education requirements as indicated on the TREC information system are supported by documentation is recommended. Additionally TREC should consider a system that would provide an electronic image of such documentation to improve the efficiency and accuracy of filing required support data.	TREC implemented self-audits / reviews however TREC does not plan to implement electronic imaging since funding requests have not been approved.	Strengthen Policies and Procedures over the Licensing process.

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

None to Report

VII. Organizational Chart



VIII. Report on Other Internal Audit Activities

None

IX. Proposed Internal Audit Plan for Fiscal Year 2007

- Compliance with the Texas Public Funds Investment Act
- Complaint / Investigation Process
- Performance Measures
- Other Tasks as May Be Assigned by the Commission

X. External Audit Services Procured in 2006

The Agency procured the following external audit services:

- Annual Risk Assessment Service
- Current year Internal Audit Services
- Financial data analysis of the RSC's for the Residential Service Company Act Requirements.