

**Garza/Gonzalez & Associates**

CERTIFIED PUBLIC ACCOUNTANTS

---

**TEXAS REAL ESTATE COMMISSION**

Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

Fiscal Year 2011

207 Arden Grove  
San Antonio, TX 78215  
210/227-1389  
Fax 227-0716

TEXAS REAL ESTATE COMMISSION  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2011

TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| Internal Auditors' Report .....  | 1           |
| Introduction .....   | 2           |
| Internal Audit Objectives .....  | 3           |
| Executive Summary  |             |
| Compliance with Public Funds Investment Act                              |             |
| Background .....   | 4-5         |
| Audit Scope .....  | 5-6         |
| Information Systems  |             |
| Background .....   | 6-8         |
| Audit Scope .....  | 8-9         |
| HUB Compliance   |             |
| Background .....   | 9-10        |
| Audit Scope .....  | 10-11       |
| I. Internal Audit Plan for Fiscal Year 2011 .....                        | 11-12       |
| II. External Quality Assurance Review .....                              | 13          |
| III. List of Audits Completed by High Level Audit Objectives .....       | 13          |
| IV. Key Audit Findings/Recommendations .....                             | 14-20       |
| V. List of Consulting Engagements and Non-audit Services Completed ..... | 21          |
| VI. Organizational Chart .....   | 21          |
| VII. Report on Other Internal Audit Activities .....                     | 22          |
| VIII. Proposed Internal Audit Plan for Fiscal Year 2012 .....            | 22          |
| IX. External Audit Services Procured in 2011 .....                       | 22          |
| X. Reporting Suspected Fraud and Abuse .....                             | 22          |

To the Commission Members of the  
Texas Real Estate Commission  
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of Texas Real Estate Commission (Commission) internal control structure over the Public Funds Investment Act, Information Systems and HUB Compliance areas and its compliance with the applicable rules and regulations, and the Commission's established policies and procedures for the year ended August 31, 2011. The results of our tests disclosed that such controls were adequate and no instances of noncompliance were noted; however, we noted certain matters that are opportunities for strengthening internal controls, operating efficiency, and complying with the Commission's established policies and procedures. The report that accompanies this letter summarizes our comments and recommendations regarding these matters. We also performed a follow-up of prior year internal audits and this report reflects the implementation status of those matters, and includes all information required for the Annual Internal Audit Report.

We have discussed these comments, suggestions, and implementation status and the status of prior year recommendations with various Commission personnel, and we will be pleased to discuss them in further detail at your convenience, to perform additional study of these matters, or to assist you in implementing the recommendations.

We would like to take this opportunity to acknowledge the courtesy and assistance extended by Commission's personnel during the course of our audit.

*Garza/Gonzalez & Associates*

June 24, 2011

# TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2011

---

## 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 Commission in 1949. The Real Estate License Act (the Act) is the legislative authorization for the Commission 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 Commission is responsible for administering and enforcing the provisions contained in the Act. Chapter 221, Texas Property Code, confers authority to the Commission 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 Commission's chief administrative officer. The Commission'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 Commission consists of the standards and enforcement division; the education and licensing services division; the information services division; reception and communication services division and the staff services division (includes accounting, human resources and cashier) who report directly to the administrator. The general counsel/deputy administrator serves in an administrative and an advisory position to the administrator.

The Commission 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 Commission operations. Funds collected by the Commission are not directly utilized in operations, but instead are passed on to the State.

We were engaged to perform internal audits of the following areas identified in Commission's fiscal 2011 Internal Audit Plan:

- Compliance with the Public Funds Investment Act
- Information Systems
- HUB Compliance
- Follow-up of Prior Year Internal Audits

This report contains the results of our audit of the Compliance with Public Funds Investment Act, the Information Systems, and HUB Compliance areas, reflects the follow-up performed in the current year, and meets the Annual Internal Audit Report requirements.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2010

---

### INTERNAL AUDIT OBJECTIVES

In accordance with the **Standards for the Professional Practice of Internal Auditing**, the audit scope 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 audit scope includes:

- **Reliability and Integrity of Information** - 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, Plans, Procedures, Laws, and Regulations** - 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** - Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Economical and Efficient Use of Resources** - Appraise the economy and efficiency with which resources are employed.
- **Accomplishment of Established Objectives and Goals for Operations or Programs** - 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.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2011

---

### EXECUTIVE SUMMARY

#### Compliance with the Public Funds Investment Act

##### Background

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 monies collected from real estate inspectors. The fees are deposited in the State Treasury and earn statutory interest. Similar legislative provisions are present for the Real Estate Inspection Recovery Fund.

According to the Public Funds Investment Act (PFIA), Texas 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.

##### Investment Polices & Investment Officer

In accordance with Texas Government Code §2256.005, the Commission has established investment policies which contain the elements required by the PFIA. Investment policies are reviewed and adopted by their governing board annually. In addition, the governing board has designated an investment officer and an alternate investment officer who are responsible for the investment of funds consistent with the investment policies adopted by the Commission and with the PFIA.

## **TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2011

---

### Investment Training

The investment officers attend a PFIA investment training session at least once in a two-year period as required by Texas Government Code §2256.007. Additionally, each member of the Commission's governing board is required to attend at least one training session relating to the person's responsibilities under PFIA. The required training must be obtained within six months after taking office or assuming duties. The Commission maintains training certifications to document that investment officers and Commissioners have met the minimum training requirements established by the PFIA.

### Investment Reports

In compliance with Texas Government Code §2256.007, the investment officers prepare quarterly investment reports of investment transactions for all funds for the proceeding reporting period and describe in detail the investment position of the Commission on the date of the report. The reports are prepared jointly and signed by both investment officers. The investment reports are submitted to the governing body quarterly.

### **Audit Scope**

The objective of our audit was to perform a compliance audit of management controls on investments and the Commission's adherence to its established investment policies and its compliance with the PFIA.

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

1. Obtained and reviewed the Commissions policies and procedures for compliance with the Public Funds Investment Act (Government Code 2256) and determined that such policies and procedures were appropriate and reasonable for the Commissions investment types, goals and strategies.
2. Determined that the Commissions policies and procedures and established internal controls are sufficient to safeguard investments, ensure proper conduct by participants in the investment process, and effectively eliminate conflicts of interest over the investments of the Commission.
3. Determined that the Commissions policies and procedures limit political and personal interference in the investment decision-making process.
4. Considered the appropriateness of the Commissions investments as reflected in the policies, strategies and plans.
5. Selected a sample of two investment reports submitted to the governing board to ensure compliance with the PFIA and the Commissions investment policies.
6. Obtained the investment officers and board's investment training certifications to ensure minimum training requirements established by the PFIA have been met.

## **TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2011

---

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. 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.

### **Information Systems**

#### **Background**

##### Organizational Structure

The Information and Technology Services Department (Department) is comprised of a Director, computer operations technician, network specialist, 5 systems analysts, and 3 administrative assistants.

##### Systems

The Commission uses the Uniform Statewide Accounting System (USAS), Uniform Statewide Payroll/Personnel System (USPS), and Statewide Property Accounting (SPA) System provided by the Texas Comptroller of Public Accounts (Comptroller); a series of database programs administered by the Commission; a modified off-the-shelf licensing management system; and an imaging system administered by the vendor.

##### Passwords

Several layers of passwords are present within the Commission. The boot/network password is used to logon to all desktops and laptops, and is synchronized to logon to the network to gain access to the servers and wide area network. This password is required to contain at least 6 characters comprised of letters, numbers, and/or symbols. Every 6 months, the system will prompt the user to change their password and will not allow the same password to be used within 7 password change intervals. If a password is incorrectly entered 7 consecutive times, the user will be unable to logon to their computer for 2 hours.

A password is required to logon to the licensing management system. This password is required to be at least 6 characters comprised of letters and numbers and expires after 6 months.

Passwords are also used to logon to the imaging system. Since this system is not administered by the Commission, the password requirements are controlled by the contracted vendor.

##### User Account Setup/Termination

Upon hiring an employee, the hiring manager or purchasing agent notifies the Department of the employee's name, start date, office location, and if applicable, the name of the former employee that previously held the position. With this information, the Department creates an email account and reactivates the login ID previously used for the employee's position. In the event that a new position is established a new login ID is created. The Staff and Support Services Department is responsible for submitting a request to the Comptroller to add the employee as a user in USAS, USPS, or SPA, as applicable.

## **TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2011

---

When an employee terminates employment, his/her departmental director notifies the Department to disable the user's account(s). The Staff and Support Services Department is responsible for submitting a request to the Comptroller to remove the employee as a user from USAS, USPS, or SPA, as applicable.

### User Access

The Comptroller requires that a Semiannual Verification of Users' Security Access Levels be conducted for the state government accounting systems (USAS, USPS, SPA, etc.) to determine whether user privileges are proper. The most recent self review was completed by the Commission in April, 2011.

### Physical Security Controls

All critical hardware and related software applications are housed in a locked server room located within the Commission's offices, with access granted through the use of a numbered key code entry.

A fire extinguisher is present in the server room which could help prevent a total loss of equipment and data in the event of a fire within the server room.

All servers are connected to a battery backup device which is planned to run approximately 45 minutes in the event of a power loss. When employees are present, the battery backup allows for a manual shutdown process to be performed; however, when employees are not present (after hours), the battery backup would naturally run out of power and the servers turn off.

### Data Backup

Tape backups are performed weekly and incremental backups are done daily. The backups are transported to the Texas State Library, who picks-up the tape Tuesday of each week. The transport is documented through the use of a manual log sheet.

### Business Continuity Plan (Plan)

The Department's Plan provides detailed instructions on recovery operations, equipment and supplies needed, and recovery time objectives. It is the Commission's practice to replace servers every 5 years.

### Security Incidents

Texas Administrative Code (TAC) Rule §202.26 requires that security incidents be promptly investigated and documented. The Commission is required to provide the Texas Department of Information Resources (DIR) with monthly summary reports concerning violations of security policy that come to the Commission's attention. The monthly summary reports are due no later than nine calendar days after the end of the month. Examples of events to be reported include virus and Trojan attacks, denial of service attacks, and unauthorized use or storage of data. The Commission uses a firewall to detect and prevent attacks.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2011

---

### DIR Standards and Testing

DIR establishes information technology security standards for all state agencies and assists agencies in providing secure IT operations.

DIR conducts network security controlled penetration tests on state agencies to assess network security by attempting to identify and retrieve proprietary information and establish control of resources such as network devices and servers. During February, 2011 DIR conducted this test and the results indicated that the "Commission provides a *good* Internet perimeter security, minimizing the number of service ports open to internet users."

### Risk Assessment

TAC §202.22 requires that a security risk analysis of information resources be performed and documented. Security risk assessment, vulnerability reports, and similar information shall be documented and presented to the agency head. The Commission's risk assessment is included in the Plan.

### Training

The Director is the designated Information Resource Manager (IRM). The IRM is required to complete 18 hours of training/education and report the completion of qualified training to DIR by August 31<sup>st</sup> each fiscal year via an online tool.

DIR requires the IRM to retain proof of attendance/completion for each educational event; such as, a certificate of completion, statement by the sponsoring body, or copy of registration confirmation with actual course materials. The documentation is not submitted to DIR unless specifically requested.

### **Audit Scope**

The scope of our audit was to gain an understanding of the processes and controls over the Information Systems (IS) area to ensure that the Commission consistently applies and complies with established policies and procedures and applicable rules and regulations.

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

1. Reviewed and obtained an understanding of the applicable sections of the Texas Administrative Code (TAC).
2. Obtained and reviewed the Department's policies and procedures, conducted interviews, and collected various documents to obtain an understanding of the current practices in place over the IS area.
3. Identified key systems used by the Commission.
4. Obtained a list of current employees and imaging system and selected database users to ensure only current employees have access.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2011

---

5. Selected ten (10) employees and reviewed their network and licensing management system account to ensure adequacy based on job responsibilities.
6. Obtained a list of terminated employees as of April 30, 2011 and selected five (5) employees to ensure the Department properly terminated their access to various systems.
7. Obtained an understanding and assessed the sufficiency of the backup procedures, location, frequency, and testing.
8. Reviewed security controls in place for compliance with TAC §202.25, *Information Resources Security and Safeguarding*.
9. Identified the Information Resource Manager (IRM), obtained an understanding of DIR training requirements, and reviewed documentation to support the IRM's attendance of fiscal year 2010 training/education and through April, 2011 of fiscal year 2011, as reported to DIR.
10. Reviewed the disaster recovery plan to ensure safeguarding of data.
11. Conducted physical observations of the critical system servers to ensure proper safeguards are in place against loss.
12. Obtained an understanding of the process in place for preparing the security incident reports sent to DIR.
13. Reviewed the results and recommendations of the most recent DIR penetration test.
14. Reviewed the most recent Semiannual Verification of Users' Security Access Levels to ensure it was properly completed and submitted to the Comptroller, as required.

## HUB Compliance

### Background

In accordance with the Texas Government Code Chapter 2161, the Office of the Comptroller of Public Accounts (comptroller) is responsible for managing the Statewide Historically Underutilized Business (HUB) Program for minority- and woman-owned businesses. The purpose of the statewide HUB Program activities are designed to promote full and equal business opportunities for all businesses in state contracting in accordance with the goals specified in the State of Texas Disparity Study dated 1994.

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

The Commission is committed to making a good faith effort to increase business with Historically Underutilized Businesses (HUBs). The Commission actively encourages purchasing from HUBs to provide goods and services for the agency's operations.

## **TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2011

---

In addition to complying with the Texas Procurement and Support Services (TPASS) HUB program rules, the Commission's good faith efforts to promote HUB participation include the following:

- Utilizing HUB vendors for non-competitive spot purchases of \$5,000 or less, whenever possible;
- Soliciting a minimum of three (3) certified HUB vendors for purchases over \$5,000;
- Attending HUB related meetings and forums to network with vendors and gain new knowledge of HUB vendors;
- Encourage non-HUB vendors to sub-contract with certified HUB vendors;
- Maintaining positive working relationships with current HUB vendors;
- Implementing a HUB Mentor Protégé program

In accordance with 34 TAC Rule 20.13(d), TREC also demonstrates good faith effort under this section by submitting a supplemental letter along with its HUB Report outlining initiatives regarding procurement opportunities for HUBs.

Texas Government Code §2161.121 requires the HUB program to submit annual and semi-annual basis HUB Reports, which summarize and analyze expenditures made to certified HUBs by state agencies. The TPASS division of the Office of the Comptroller of Public Accounts is responsible for reporting the expenditures for state agencies obtained from the USAS system. The HUB reports include state agency rankings, expenditure data and supplemental reports and letters from state agencies documenting their continued effort to educate HUBs about procurement opportunities.

To comply with Texas Government Code §2161.122, TREC maintains and compiles monthly HUB report spreadsheets for the purpose of preparing the Annual and Semi-Annual Supplemental HUB Reports detailing TREC's use of historically underutilized businesses. On a semi-annual and annual basis, TREC submits the total number of HUB and non-HUB contracts awarded for the purchase of goods and services and the total number of HUBs submitting bids and/or proposals for the purchase of goods and services. TREC submits the supplemental data on-line through the HUB Contact System.

### **Audit Scope**

The scope of the audit of the HUB Compliance audit area is to determine that the Commission complies with the policies and procedures for purchases related to HUB compliance including the Commission's efforts in ensuring a "good faith effort" to promote HUB participation.

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

1. Obtained and reviewed the Commission's written policies and procedures and ascertain that they are consistent with the purpose, goals, and policies of the Texas Procurement and Support Services as it relates to HUB.
2. Interviewed Commission personnel responsible for HUB compliance to obtain an understanding of the Commission's current practices and the adequacy of accountability maintained over procurement and reporting requirements.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2011

---

3. Obtained the Semi-Annual and Annual HUB Reports and determined whether the reports were prepared and submitted on a timely manner, are accurate based on support documentation and that the HUB supplemental reports are properly supported.
4. Selected a sample of five (5) procurement actions included in the monthly reports and tested the accuracy of the information reported on the monthly reports and determined whether HUB vendors were selected as reported.

### I. Internal Audit Plan for Fiscal Year 2011

The fiscal year 2011 internal audit plan for the Commission is based on the Risk Assessment performed for the fiscal year ended 2011. The internal audit plan includes three (3) 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 2011 and conducting a follow-up of the prior year internal audit reports.

#### Risk Assessment

Based on the review of significant documents, inquiries of management and the Commission's current practices and procedures seventeen (17) audit areas have been identified in the Internal Audit Plan for fiscal year 2011. We performed an assessment of the potential audit areas using risk assessment techniques. Following are the results of the risk assessment performed:

| <b>High</b>                                | <b>Moderate</b>               | <b>Low</b>                              |
|--|-------------------------------|---|
| Information Systems                        | Purchasing and Receiving      | Cash Disbursement and Travel Processing |
| Cash Collection Fee Process/Remittance     | Residential Service Companies | Complaint/Investigation Process         |
| License Application & Registration Process | Performance Measures          | Examination Process                     |
|  | Education Program             | Reporting and Budgeting                 |
|  | Customer Communications       | Fixed Assets                            |
|  |                               | Payroll and Personnel Process           |
|  |                               | Recovery Fund                           |
|  |                               | Records Retention                       |
|  |                               | HUB Compliance                          |

**TEXAS REAL ESTATE COMMISSION**  
Annual Internal Audit Report  
Fiscal Year 2011

---

In prior years, the following internal audits were performed:

**Fiscal Year 2010**

1. Residential Service Companies
2. Fixed Assets

**Fiscal Year 2009**

1. Compliance with the Texas Public Funds Investment Act
2. License Application and Registration Process
3. Recovery Fund

**Fiscal Year 2008**

1. Compliant/Investigation Process
2. Education Program

Based on the risk assessment process an Internal Audit Plan was developed that includes the following recommended internal audits for fiscal year 2011, the proposed audit procedures are as follows:

**Fiscal Year 2011**

1. Compliance with the Texas Public Funds Investment Act
2. Information Systems
3. HUB Compliance
4. Follow-up of Prior Year Internal Audits and Other Commission Audits
5. Other Potential Internal Audit Activities  
Perform other audits as may be directed by the Commission during the fiscal year.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2011

---

### II. External Quality Assurance Review

The internal audit department's *System Review Report*, dated September 30, 2009, indicates that its system of quality control has been suitably designed and conforms with applicable professional standards in all material respects.

### III. List of Audits Completed by High Level Audit Objectives

| Report No. | Report Date | Name of Report                              | High Level Audit Objectives   |
|------------|-------------|---|---|
| 1          | 6/24/10     | Compliance with Public Funds Investment Act | <ul style="list-style-type: none"><li>Perform a compliance audit of management controls on investments and the Commission's adherence to its established investment policies and the applicable requirements of the Texas Public Funds Investment Act.</li></ul>        |
| 2          | 6/24/10     | Information Systems                         | <ul style="list-style-type: none"><li>To determine whether the processes and controls are in place over the Information Systems area and that Commission consistently complies with established policies and procedures and applicable rules and regulations.</li></ul> |
| 3          | 6/24/10     | HUB Compliance                              | <ul style="list-style-type: none"><li>To determine whether the process and controls are in place over the HUB Compliance area to ensure compliance with the applicable rules and regulations.</li></ul>   |

**TEXAS REAL ESTATE COMMISSION**  
 Annual Internal Audit Report  
 Fiscal Year 2010

**IV. Key Audit Findings/Recommendations**

| Report No. | Report Date | Name of Report      | Observations/Findings and Recommendations   | Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented | Fiscal Impact/Other Impact  |
|------------|-------------|---------------------|---|--|---|
| 2          | 6/24/11     | Information Systems | <p>1. Monthly Incident Reports</p> <p>DIR requires summary reports of security-related events be reported on a monthly basis. The Commission does not report incidents detected and prevented by the firewall, as required by DIR.</p> <p><b>Recommendation</b><br/>           We recommend the Commission ensure incidents detected and prevented by the firewall are reported in the monthly incident reports.</p> <p><b>Management's Response</b><br/>           Management agrees with the intent of the recommendation. Based upon subsequent discussion with the DIR they require that the agency reports monthly to the level of detail that technical and human resources permit. ITS will reevaluate the current procedure to expand the level of detail reported to DIR.</p> <p>2. Password Procedures</p> <p>The Commission does not have written password procedures for all systems and applications used, such as licensing management system, imaging system, etc.</p> <p><b>Recommendation</b><br/>           We recommend the Commission develop written password procedures for all systems and applications used.</p> <p><b>Management's Response</b><br/>           Management agrees with the recommendation and is working to consolidate and coordinate the password processes and formalize procedures for the various vendor products utilized by the agency.</p> <p>3. Business Continuity Plan (Plan)</p> <p>The Plan was last updated in November, 2008, prior to the replacement of the licensing management system and implementation of the imaging system.</p> <p><b>Recommendation</b><br/>           We recommend the Commission review and update the Plan to ensure the new systems are addressed.</p> <p><b>Management's Response</b><br/>           Management agrees with the recommendation and is actively performing the annual update of the Business Continuity Plan with a test in connection with the agency's move of office location.</p> |  | <p>To improve compliance with DIR requirements.</p> <p>Ensure comprehensive procedures.</p> <p>Ensure comprehensive Plan.</p> |

**TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2010

| Report No. | Report Date | Name of Report | Observations/Findings and Recommendations   | Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented | Fiscal Impact/Other Impact              |
|------------|-------------|----------------|---|--|---|
| 3          | 6/24/11     | HUB Compliance | <p>1. Semi-Annual HUB Report Data</p> <p>We tested the supporting documentation for the Semi-Annual HUB Report data period ending February 2011, however, we were unable to agree the total number of HUB bids/proposals received for four (4) out of the nine (9) ethnicity/gender categories reported on the Semi-Annual HUB Report</p> <p><b>Recommendation</b><br/>We recommend the Commission ensure accurate data is submitted for the HUB reports. We recommend the Commission develop a more effective and efficient method of compiling and maintaining the required HUB report data or enhance the method currently being utilized to include year to date totals. To ensure accuracy the report should be reviewed by management and documented through an approval process prior to submission.</p> <p><b>Management's Response</b><br/>The Commission agrees that some of the categories on the Semi-Annual HUB Report were reported inaccurately. As a result, HUB participation was underreported. At the time the Annual HUB Report is prepared after fiscal year close, those numbers will be corrected and will supersede the Semi-Annual Report. The HUB Report will now be prepared by a purchasing employee and reviewed by a manager.</p> |  | To ensure accuracy of HUB data reported |





**TEXAS REAL ESTATE COMMISSION**  
 Annual Internal Audit Report  
 Fiscal Year 2010

---

| Report No. | Report Date | Name of Report                 | Observations/Findings and Recommendations  | Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented  | Fiscal Impact/Other Impact |
|------------|-------------|--------------------------------|--|--|----------------------------|
|            |             | Follow-up of prior year audits | <p>Following is the status of recommendation made during previous fiscal years that had not been fully implemented.</p> <p>1. Record Management</p> <p>We recommend that the Commission supplement the Record Retention Schedule by preparing a listing that includes the date series, the location and a "container number" (box number, file cabinet number and/or shelf location) where the applicable records are stored. Records held for active use in the division/section area may not require location data until considered inactive or moved outside the division/section. To ensure the listing remains accurate a record inventory or survey process should be initiated. In addition, we recommend that the Commission amend the Record Retention Schedule when information changes occur or if inconsistent data is noted.</p> <p><i>Agency Response:</i><br/>           When the imaging of master files has been completed, the remaining paper files will be inventoried and listed with the date series, the location and a container number and an inventory will be conducted periodically. The Commission has updated the Records Retention Schedule twice since this audit recommendation was made, and has plans to update again in the near future. The imaging of records has resumed with the availability of funding secured by appropriation.</p> | <p><b>Incomplete/Ongoing</b></p> <p>The Commission has re-organized the central file room and is performing electronic imaging of files using updated storage process. Although the project was temporarily placed on hold due to the mandatory 5% Budget Reduction, the project has now been resumed in anticipation of the move to state office space.</p> | Improved Record Management |

**TEXAS REAL ESTATE COMMISSION**  
 Annual Internal Audit Report  
 Fiscal Year 2010

| Report No. | Report Date | Name of Report  | Observations/Findings and Recommendations   | Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented | Fiscal Impact/Other Impact  |
|------------|-------------|---|---|--|---|
|            |             | Follow-up of Other Commission Audits<br><br>(State Auditor's Office Report on Performance Measures) | 1. The Real Estate Commission Did Not Report Reliable Results for the Four Key Performance Measures Tested <ul style="list-style-type: none"> <li>a) Number of Complaints Resolved               <ul style="list-style-type: none"> <li>• Update the pre-defined automated reports generated by its licensing and enforcement system (TRELIS) to ensure that proper criteria are used to calculate the performance measure. Also, the Commission should calculate the measure result using the automated report generated by its automated system (TRELIS), rather than manually performing additional calculations.</li> </ul> </li> <li>b) Average Time for Complaint Resolution (Days) AND Percent of Documented Complaints Resolved Within Six Months               <ul style="list-style-type: none"> <li>• Ensure that the number of complaints resolved used to calculate the results for Average Time for Complaint Resolution (Days) and Percent of Documented Complaints Resolved Within Six Months matches the number reported in ABEST for the Number of Complaints Resolved.</li> <li>• Review the pre-defined automated reports to ensure the proper criteria are used to calculate performance measure. Consider producing detailed reports so that Commission staff can ensure the automated report is generating the correct results.</li> </ul> </li> </ul> | <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p>  | <p>Improved Performance Measure internal control and reporting</p> <p>Improved Performance Measure internal control and reporting</p> |

**TEXAS REAL ESTATE COMMISSION**  
 Annual Internal Audit Report  
 Fiscal Year 2010

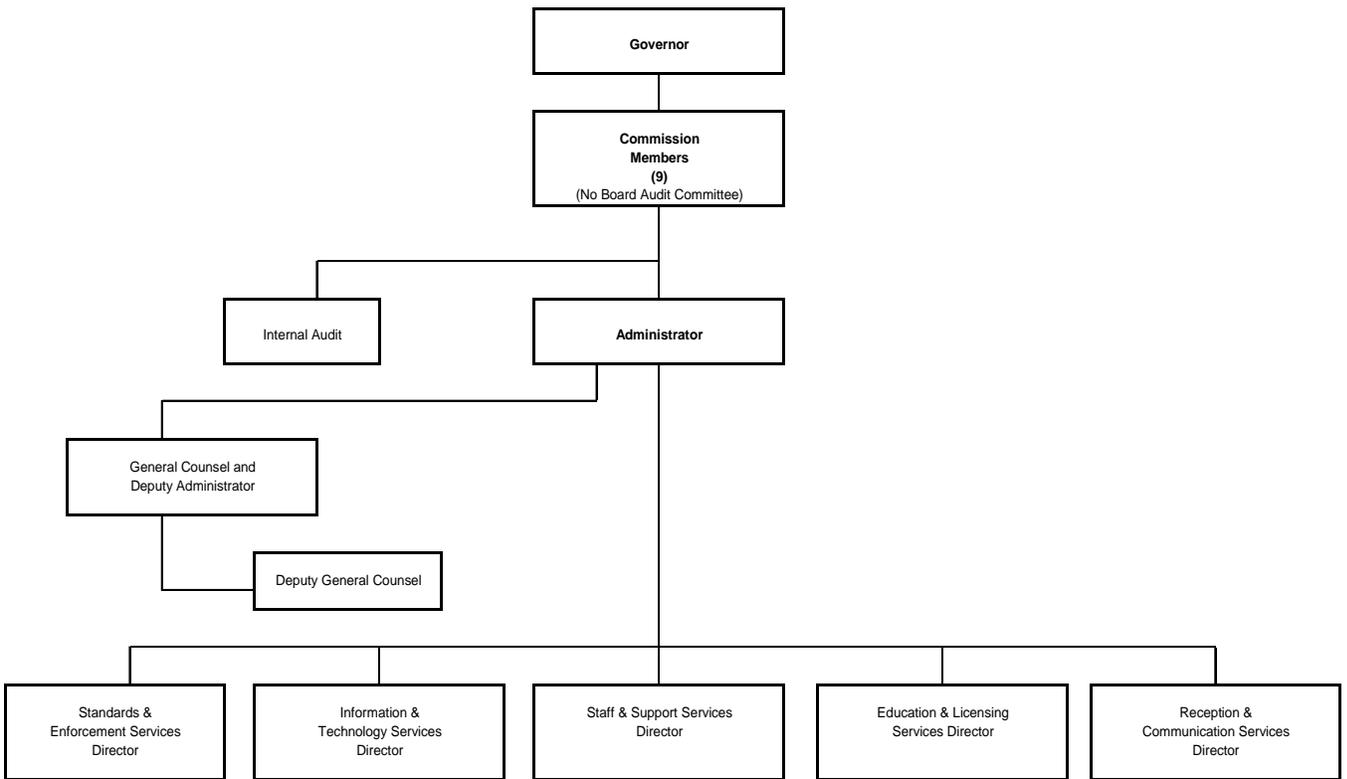
---

| Report No. | Report Date | Name of Report  | Observations/Findings and Recommendations  | Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented | Fiscal Impact/Other Impact  |
|------------|-------------|---|--|--|---|
|            |             | Follow-up of Other Commission Audits<br><br>(State Auditor's Office Report on Performance Measures) | 2. General Information Technology and Application Controls<br><br>The Commission should: <ul style="list-style-type: none"> <li>• System related upgrades and improvements               <ul style="list-style-type: none"> <li>- Improve logical access controls to TRELIS and its data.</li> <li>- Develop documentation of TRELIS, including the relevant fields, tables, and their relationships.</li> <li>- Improve the controls over key data fields in TRELIS, or develop compensating controls.</li> </ul> </li> </ul> | <b>Fully Implemented</b>   | Improved security; production environment; disaster preparedness; hazard safety and control environment |

**V. List of Consulting Engagements and Non-audit Services Completed**

None to report.

**VI. Organizational Chart**



## **TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2010

---

### **VII. Report on Other Internal Audit Activities**

None

### **VIII. Proposed Internal Audit Plan for Fiscal Year 2012**

- Cash Collection Fee Process and Remittance
- Performance Measures
- Examination Process
- Other Tasks as May Be Assigned by the Commission

### **IX. External Audit Services Procured in 2011**

The Commission procured the following external audit services:

- Annual Risk Assessment
- Current year Internal Audit Services
- Financial data analysis for Residential Service Company (RSC)

### **X. Reporting Suspected Fraud and Abuse**

The Commission has implemented the requirements of Article IX, Section 17.05 and Article XII, Section 5 (c) of the General Appropriations Act by providing information on their home page regarding how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO), posting a link to the SAO's fraud hotline, and including in their policies information on how to report suspected fraud involving state funds to the SAO. During fiscal year 2011, the Commission did not have any suspected fraud waste or abuse to report to the SAO, as required by Texas Government Code, Section 321.022.