

# **Garza/Gonzalez & Associates**

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CERTIFIED PUBLIC ACCOUNTANTS

## **TEXAS REAL ESTATE COMMISSION Austin, Texas**

### **ANNUAL INTERNAL AUDIT REPORT**

**Fiscal Year 2012**

TEXAS REAL ESTATE COMMISSION  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2012

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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 Cash Collection Fee Process/Remittance and License Application and Registration Process areas and its compliance with the applicable rules and regulations, and the Commission's established policies and procedures for the year ended August 31, 2012. 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 22, 2012

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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 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 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 and support 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.

On June 17, 2011 Senate Bill 1000 established the Commission and TALCB as self directed semi independent agencies. This designation required the Commission to annually adopt a budget, set salaries and expenditures and control the amounts of fees that they are required or permitted to collect. During the two year transition phase appropriation for fiscal year 2012 and 2013 at 50% of the Commission's 2011 appropriations will be enacted. As an SDSI agency the Commission will be required to fund (repay) those appropriations with Commission revenue.

We were engaged to perform internal audits of the following areas identified in Commission's fiscal 2012 Internal Audit Plan:

- Cash Collection Fee Process/Remittance
- License Application and Registration Process
- Follow-up of Prior Year Internal Audits

This report contains the results of our audit of the Cash Collection Fee Process/Remittance, and License Application and Registration Process areas, reflects the follow-up performed in the current year, and meets the Annual Internal Audit Report requirements.

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### 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.

## EXECUTIVE SUMMARY

### **Cash Collection Fee Process/Remittance**

#### **Background**

##### Organizational Structure

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) Team Leader
- One (1) First Assistant Cashier
- Two (2) Assistant Cashiers

Additionally other members of the Staff and Support Services Division perform some of the direct and ancillary processes for the recognition and classification of revenue received and bank reconciliation processes. These processes are necessary to ensure that the all funds are properly classified for financial reporting purposes and that all funds are properly deposited in accounts established to comply with fiduciary responsibilities of the agency. Positions within the Staff Services Division that perform revenue recognition, classification, reporting and reconciliation processes are as follow:

- Chief Accountant
- One (1) Revenue Accountant
- One (1) Revenue Processing Accountant (approximately 50% assigned to other duties)
- One (1) Accountant - Bank Reconciliations

##### Processes and Procedures

The cashiers office process two types of mail, window and regular mail.

Window mail consists of various applications filed in person by the applicant or a messenger. An employee from the Cashier Department reviews the application for completeness. The appropriate fee is collected. A receipt is written and given to each person filing an application. The person receiving window mail dates and assembles the application the same as if it had come in the mail and then places it in the tray on the 1st Assistant Cashier's desk marked "Window Mail".

Regular mail always has at least two employees from the Cashier Department present when opened. They will examine the mail when it arrives from the messenger service and verify that all the mail is for T.R.E.C. (Texas Real Estate Commission) or T.A.L.C.B. (Texas Appraiser Licensing and Certification Board). The mail is then sorted and opened. The cashier will track the amount of mail that has been received and opened, and the amount that has not yet been opened for the day. The types of funds that are accepted by TREC are check, cashier's check, or money order. No cash is accepted by the cashiers department. The instrument is then stamped and dated with a received stamp.

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### Processing of Money

The 1st Assistant Cashier batches and stamps corresponding register numbers on the instruments and monies. Batch numbers are assigned and balanced. Information is written on the batch cover sheets and the routing reports. Batches are then distributed to the appropriate departments. A log is kept showing register numbers, dates received, dates registered, and types of instruments. The following information is entered into the Versa System, batch numbers, receipt numbers, names (or license numbers), money amounts, and codes from the batched instruments. After verifying batch reports, the batches are released by the departments for deposit. The following morning the Cashier Department prints a Versa Deposit (Deposit Detail), of all items released and deposited. An Assistant Cashier pulls the batches that are listed on the Deposit Detail and agrees the batch amounts to the listing. The money is prepared for deposit through the, Texas Treasury Safekeeping Trust Company.

### Preparing Deposits

The following steps are taken when preparing a deposit:

1. Print the deposit for the Versa Cash Report Menu each morning.
2. Reports are printed from Versa Cash Report Menu daily.
  - a. Cash Deposit Report- 1 copy
  - b. Refund Report (reject list)-1 copy
  - c. All Reports should be date stamped
3. Preparing Daily Deposit:
  - a. Deposit Detail, the preparer will look for the last Deposit Voucher Number used and use the next number in sequence.
  - b. Using the Deposit Detail of Batch Number Report, she will then pull out batches from the holding tray that are to be deposited.
  - c. Using the Refund Report, she will then pull out checks from the batches that are not to be deposited. These batches are mark with an "X" when they are pulled out from these batches.
  - d. When all the refunds have been pulled a different person is to verify that the correct checks are pulled. (1st Assistant Cashier or Assistant Cashier).
  - e. Keeping all the batches in numerical order all the batches with an "X" must be re-added to have a new tape showing the total amount. Only put Batch Numbers on these Batches.
  - f. Then the totals are added from all the Batches to be deposited. These amounts should match the amounts on the total amount from the Versa Cash Report.
  - g. These batches of checks are bundled in bundles of 150. A tape of the totals from each individual batch is included. After all the bundles have been totaled a tape with the total from all the batches together should add up to the total amount of the batches total on the Versa Cash Deposit Report.
  - h. A deposit slip is prepared.
  - i. The 1st Assistant Cashier will verify the totals and the voucher number. Then the deposit is put in a bag and prepared for the Deposit to be picked up by another Staff Services employee outside of the Cashier Section to be taken to the Texas Treasury Safekeeping Trust Co.
  - j. Staff Services will get a copy of the Deposit Detail and a copy of the deposit slip.

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### Online Transactions

TREC 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. Online transactions are performed by the licensee. The licensee can go to the TREC website to perform several licensing and renewal functions. The following services are currently available online.

- Salesperson Renewal - active & inactive; MCE only; timely or expired less than six months.
- Indiv. Broker Renewal - active & inactive; timely or expired less than six months.
- Business Entity Broker Renewal - active & inactive; timely or expired less than six months.
- Professional, Real Estate or Apprentice Inspector Renewal - active & inactive.
- Easement Right-of-Way Agent (indiv. or business) Renewal.
- Salesperson initial application.
- Indiv. Broker initial application.
- Business Entity initial application.
- All of the above mentioned license type holders may also manage their contact information online.

The licensee can make a payment with a credit card. Currently TREC accepts Master Card, VISA, American Express and Discover Card. Once the licensee enters their information and validates it the transaction information is updated in Versa and the credit card information goes to a 3rd party vendor, NICUSA which is TREC's transaction processing engine. NICUSA has the overall responsibility for the Texas On-line operations. Through the Texas On-line process credit card transactions result in direct electronic deposits into the Texas Trust account designated for TREC.

### Renewals

Renewals are processed similarly, to regular mail with the addition of the following steps. Each renewal notice is checked to verify the following: that it has an unexpired deadline date, or a salesperson is not going inactive, name change or sponsor change. These all will fall into renewals with problems unless they are post marked past deadline. If the money is a check, money order, or cashier's check, it will be endorsed immediately. The four types of renewals are as follows:

- a. Retro Renewals/Sales
- b. Retro Renewals/Broker
- c. Renewals with problems/Sales
- d. Renewals with problems/Broker

### Reconciling the Texas Trust Accounts

As of September 1, 2011 TREC was designated as a self-directed semi-independent (SDSI) agency. This required that TREC utilize the Texas Treasury Safekeeping Trust Company as its banking agency. Due to the use of the Texas Trust a series of separate accounts were established in the Texas Trust to account for the various revenue sources (i.e.; TREC Agency; TREC Operations; TALCB Operations; Real Estate Recovery Trust Account; Real Estate Inspection Recovery Trust Account; Appraiser Registry Fee Account and the Texas A&M Real Estate Fee Trust Account.

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Funds received through the Texas On-line system for payment of license fees are directly deposited to the TREC Agency fund in the Texas Trust electronically. In addition, funds received for licensing fees through walk-in or mail are also deposited in the TREC Agency Fund at the Texas Trust. The funds are held in the TREC Agency Fund account at the Texas Trust until all applicable fees are identified and classified for revenue recognition purposes through the use of the Versa system.

A 'Deposit Detail' Versa Report is used to assign the funds that are directly deposited to the TREC Agency account. A series of "transfers" based on the classification are required to move amounts to the different Texas Trust accounts based on the revenue type and to comply with the fiduciary responsibilities. The Versa report is additionally used to assign revenue codes and classify the funds based on the proper revenue types for financial reporting purposes. In prior years the revenue codes were assigned through Texas on-line, Versa and USAS processes and entries to recognize and classify revenue were automatically entered through that process. In the current year because of the required use of the Texas Trust a manual process has been initiated to perform the reclassification of the revenue both for the transfer of funds from the TREC Agency Fund account to the other applicable Trust accounts and to identify and classify all revenue. The Versa system provides an "unassigned cash" report to assist in tracking items/payments which are not able to be assigned. The unassigned cash report as of August 31, 2011 and as of May 31, 2012 reported balances of \$82,126 and \$40,829, respectively. The reduction in the balance of the unassigned cash report indicates that TREC has made improvements in researching and applying and classifying cash receipts with the reallocation of duties to a full-time revenue accountant.

TREC performs bank reconciliations on a monthly basis. A staff services employee performs the bank reconciliation and it is reviewed by the Chief Accountant. The following procedures are performed during the reconciliation.

- An email of the monthly trust statements for all accounts is sent (usually) on the first week of the month.
- The reports are then saved on a common drive within the TREC information System.
- Available reports include, cash activity, transactions, holdings, and portfolio asset summary.
- The data is then entered into the reconciliations (beginning and ending balances, and deposits for the month and disbursement activity).
- Once the accounts are reconciled a copy of the reconciliation is printed signed and dated.
- The reconciliation must be reviewed and approved by the Chief Accountant.

The Staff Services employees, among other duties, are responsible for the following:

- Ensuring the on-line payments recorded in the Texas Trust agrees to the in-house licensing system, VERSA. This is accomplished by preparing daily reconciliations between the Trust and VERSA.
- Ensuring the revenue recorded in the Texas Trust and the amounts received in VERSA agree.

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Revenue Recognized through May 31, 2012 (Nine Months) as compared to the Projected Revenue (nine months) and the Prior Year Results (nine months) is as follows:

Revenue	Revenue Collected as of 5/31/2012	Annualized Projected Revenue as of 5/31/12	Variance Projected Revenue to Actual as of 5/31/12	% Variance	Annualized Projected as of 5/31/12	Variance to Actual as of 5/31/12	% Variance
License Fees	\$ 6,158,543	\$ 6,213,345	\$ 54,802	-1%	\$ 6,075,803	(\$82,740)	-1%
Miscellaneous Revenue	56,331	-	(56,331)	0%	3,098	(53,233)	-1718%
FBI Criminal History Background Fees	1,160,032	881,250	(278,782)	32%	851,948	(308,084)	-36%
TX Online	237,078	225,000	(12,078)	5%	227,274	(9,804)	-4%
E-Newsletter	149,921	145,800	(4,121)	3%	178,901	28,980	16%
Total Revenue	<u>\$ 7,761,905</u>	<u>\$ 7,465,395</u>	<u>\$ (296,510)</u>	<u>-1%</u>	<u>\$ 7,337,022</u>	<u>\$ (424,881)</u>	<u>-6%</u>

The following are the details of the significant variances:

- The increased miscellaneous revenue is due to the change in status of TREC as an SDSI which results in overages from licensee payments that are not readily identified to a fee, in prior years these amounts were retained as General Revenue for the State. These amounts are expected to be reported as unearned revenue as of August 31, 2012, unless they are identified to a proper revenue class.
- The FBI Criminal History Background Fees increased because the Texas Dept. of Public Service (DPS) initiated a processing fee of \$15 as of January 1, 2012. The fee charged by the FBI however decreased by approximately \$2.00 as of March 15, 2012, any changes in revenue for this fee is offset by the increase in the pass through fees for the services performed by the DPS and the FBI.
- There was a budgeted decrease in E-Newsletter revenue from the prior year, current year activity is consistent with the projected decrease and therefore is expected.

### Audit Scope

The scope 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 that internal controls are in place, and
- The processes and/or internal controls have been implemented and functioning as designed,

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

- Review 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 and classifying revenue.
- Select a sample of fees and payments received to ensure the receipts are adequately safeguarded; properly applied to customer accounts; are identified to the proper revenue classification and that documented controls and practices are implemented.
- Select a sample of on-line transactions and trace the transaction activity to on-line reconciliations to ensure the fees paid are properly applied to the customer account and properly classified for reporting purposes. Review the selected on-line reconciliations to ensure documented controls and practices are implemented and are properly performed.
- Select a sample of the monthly revenue reconciliations to ensure documented controls and practices are implemented.
- Selected a sample of returned checks to ensure documented controls and practices are implemented.
- To ensure reported revenues are consistent to actual operations we will perform the following:
  - Analytical comparison to budget for fiscal year 2012.
  - Analytical comparison of annualized current year revenue to prior year results.

### **License Application and Registration Process**

#### **Background**

The License Application and Registration Process audit area processes applications and license renewals for real estate salespersons and brokers; real estate and professional inspectors; and easement or right-of-way agents. An examination is required of the broker and salesperson applicants 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 five types of licenses: salesperson, broker, inspector (apprentice, real estate, and professional), application for a broker's license by business entity (LLC, Corporation, Partnerships), and Easement or Right of Way (ROW).

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As of May 31, 2012, the number of the licensees for all types processed for the period of September 1, 2011 to May 31, 2012 was 77,189, as follows:

Brokers	19,692
Salespersons	54,665
Inspectors	1,291
ERWs	1,541

The licensing function at TREC is administered through two (2) sections as follows: Licensing and Education. The Education Section 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 (Versa) by the Education Section of "Core" Education requirements and of Continuing Education requirements for the issuance and renewal of licenses.

The licensing function is automated through the use of TREC's comprehensive and coordinated licensing system entitled the Versa. Versa is a fee and history-driven system consisting of more than 700 reporting programs and interactive screens maintained by TREC. Versa 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.

Versa 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 all active, inactive, and expired licensees for use in processing original applications and renewals. The system automatically produces "curative" letters seeking missing information from licensees, renewal notices in advance of each license expiration; issues new and renewed licenses; and "expires" licenses when appropriate. Additionally Versa issues standard requests for information based on the review of licensing personnel. A wide range of reports concerning licensing matters is produced by the Versa system to help measure and manage the entire licensing process.

TREC offers online services that 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.

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

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### **Audit Scope**

The objective of our audit was to review the License Application and Registration Process and determine if:

- The Commission is in compliance with, the Provisions of the Real Estate Licensing Act, the Rules of the Texas Real Estate Commission and the applicable internal policies and procedures established to perform the License Application and Registration process.
- Processes and/or controls have been implemented and are functioning as designed to assure that the application and registration process is performed in an efficient, equitable manner and in compliance with the established policies, procedures and practices.

We performed the following procedures to achieve the objective of the audit of the License Application and Registration Process:

- Reviewed the applicable laws, regulations and Rules of the Texas Real Estate Commission including the applicable sections of the Texas Real Estate Licensing Act (Chapter 1101 & 1102 of the Texas Occupation Code).
- Obtained an understanding of the internal controls in the application of the policies and procedures of the License Application and Registration process by performing inquiries of management of the Licensing Division and other personnel as necessary.
- 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.
- 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.
- 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.
- 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.

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### I. Internal Audit Plan for Fiscal Year 2012

The fiscal year 2012 internal audit plan for the Commission is based on the Risk Assessment performed for the fiscal year ended 2012. 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 2012 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 2012. 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>
Cash Collection Fee Process/Remittance	Reporting and Budgeting	Purchasing and Receiving
License Application & Registration Process	Customer Communications	Education Program
	Payroll and Personnel Process	Examination Process
	Information Systems	Records Retention
	Cash Disbursement and Travel Processing	Fixed Assets
	Recovery Fund	Residential Service Companies
	Complaint/Investigation Process	Performance Measures
		HUB Compliance

In prior years, the following internal audits were performed:

#### **Fiscal Year 2011**

1. Compliance with the Texas Public Funds Investment Act
2. Information Systems
3. HUB Compliance

#### **Fiscal Year 2010**

1. Residential Service Companies
2. Fixed Assets

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### Fiscal Year 2009

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

Based on the risk assessment process an Internal Audit Plan was developed that includes the following recommended internal audits for fiscal year 2012, the proposed audit procedures are as follows:

### Fiscal Year 2012

1. Cash Collection Fee Process/Remittance
2. License Application and Registration Process
3. Follow-up of Prior Year Internal Audits and Other Commission Audits
4. Other Potential Internal Audit Activities  
Perform other audits as may be directed by the Commission during the fiscal year.

## II. External Quality Assurance Review

The internal audit department's most recent *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. The internal audit department is required to have its next peer review in 2012.

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

Report No.	Report Date	Name of Report	High Level Audit Objectives
1	6/22/12	Cash Collection Fee Process/Remittance	<ul style="list-style-type: none"><li>• The audit area was in compliance with applicable internal policies and procedures,</li><li>• The reports and schedules generated were adequately supported and that internal controls are in place, and</li><li>• The processes and/or internal controls have been implemented and functioning as designed,</li></ul>
2	6/22/12	License Application and Registration Process	<ul style="list-style-type: none"><li>• The Commission is in compliance with, the Provisions of the Real Estate Licensing Act, the Rules of the Texas Real Estate Commission and the applicable internal policies and procedures established to perform the License Application and Registration process.</li><li>• Processes and/or controls have been implemented and are functioning as designed to assure that the application and registration process is performed in an efficient, equitable manner and in compliance with the established policies, procedures and practices.</li></ul>

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**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
1	June 22, 2012	Cash Collection Fee Process/ Remittance	<p>1. Cash Collections</p> <p>In addition to processing cash collections for the safeguarding of funds in an efficient and timely manner TREC has the fiduciary responsibility to properly deposit in separate bank accounts funds for the following purposes:</p> <ul style="list-style-type: none"> <li>• Deposit in a separate account and transfer on a regular basis money appropriated only to support, maintain, and carry out the purposes, objectives, and duties of the Texas Real Estate Research Center;</li> <li>• Hold in trust money to carry out the purposes of the Trust Account of the Real Estate Recovery Fund.</li> <li>• Hold in trust money to carry out the purposes of the Trust Account of the Inspection Recovery Fund.</li> </ul> <p>During our testing of cash collections we noted that the credit card deposits for February 29, 2012 were not assigned because the report used to classify and transfer revenue provided through the Texas On-line and Versa process contained an edit error that delayed the report. The reports for the activity of February 28 and February 29th were not obtained until April 16, 2012. As a result the revenue for February 28, 2012 was not classified until the reports were available. In addition, due to the delay the transfer between the Trust accounts for February 29th was not performed until inquiries related to this audit were conducted.</p> <p><b>Recommendation</b> We recommend that the agency develop internal control processes which will reconcile and detect on at least a monthly basis any funds which are not assigned to the proper revenue code or transferred on a timely basis to the appropriate Texas Trust funds.</p> <p><b>Management Responses</b> The Feb. 28 &amp; 29 reports were delayed due to outages of the TX Online system. The revenue accountant made ongoing attempts for six weeks to obtain the revenue code detail from the vendor. Management acknowledges that the transfer to appropriate accounts was not made timely. An internal control has been implemented that tracks deposits to the holding account and subsequent transfers of those deposits to the appropriate accounts.</p>		Safeguarding of funds and complying with Fiduciary requirements

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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
1	June 22, 2012	Cash Collection Fee Process/ Remittance	<p>2. Unassigned Cash Report and Refund Delays</p> <p>We obtained the Unassigned Cash Report from the Versa system as of May 31, 2012. To determine the reliability of the report and to increase our understanding of the cash application and classification process we made a selection of ten (10) items from the report. Of the items selected we determined that one (1) item has been on the report since the transition from TRELIS a period of almost two (2) years, one (1) item was refunded after 73 days however the item remained on the report; four (4) items on the report for 113 to 176 days that are in the process of being refunded and two (2) items although determined to be in error that have not been removed from the report.</p> <p><b>Recommendation</b>          We recommend that TREC continue to review the report for old items and to initiate a process to perform refunds on a more timely basis. TREC should continue communication with the Versa vendor to establish a transaction to write off items that are determined to be in error on the report including items that remain in the system from TRELIS. Until that process is established TREC should separately itemize and total those items that are determined to be error so that at a minimum at each quarter the exact amount of "Unassigned Cash" (report balance less items included in error). The resulting balance can be compared to work in progress and/or to amounts that are held in the TREC Trust Account number 3054 so that a reconciled balance of unassigned cash held by TREC is determinable.</p> <p><b>Management Responses</b>          Management agrees that old items on the unassigned cash report still need to be resolved and documented. Two factors have impacted revenue processing: Conversion in FY2011 to the Versa Licensing System and 2) the inability as an SDSI agency to deposit revenue to the State Treasury and obtain detailed revenue reports from the Uniform Statewide Accounting System (USAS). Accounting staff has had to prioritize and concentrate on internal controls and on resolving the most pressing issues, all the while being aware that there would be clean-up items to be resolved when resources allowed. Changing the allocation of duties so that more staff time is dedicated to revenue analysis has allowed us to make progress but has not been completed.</p>		Safeguarding of funds and complying with Fiduciary requirements

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1	June 22, 2012	Cash Collection Fee Process/ Remittance	<p>Unassigned cash is a moving target, with continual activity throughout the day with new receipts being added and older ones dropping off after applications are worked and revenue coding is identified. It also contains refunds that are pending as well as items that are listed in error. Separate and apart from the Versa report, since September 2011, TREC has tracked and documented discrepancies on a monthly basis. Information is obtained through Versa reports generated by ITS and downloaded to Excel. Instead of reconciliation per se, TREC would rather approach this by concentrating efforts on resolving the issues that are already identified and documented, thereby reducing the volume on the Versa unassigned cash report. We also propose developing an aging report for unassigned cash. This will further assist us in identifying, documenting and resolving problems.</p>		
2	June 22, 2012	License Application and Registration Process	<p>1. Fingerprint and Background Checks Not Performed</p> <p>To determine that TREC is properly applying all the requirements for Licensing we made a selection of twenty-five (25) licensing renewal transactions from the period of September 1, 2011 to May 31, 2012 across the various TREC License types. This selection included ten (10), Easement - Right of Way Agent (ERWI) renewal transactions. We reviewed the licensing criteria and determined that three (3) of the ERWIs were not restricted from renewing their license although they had not provided the newly required fingerprint and background check requirement. The new requirement became effective on November 1, 2011.</p> <p><b>Recommendation</b></p> <p>We recommend that the agency review all ERWI's that renewed their license subsequent to November 1, 2011 to determine if fingerprints are on file; that the required background checks have been performed and that all corresponding fees have been paid. If it is determined that other ERWI's have renewed without submitting to the fingerprint and background check requirement they should be given notice and be required to complete all applicable renewal requirements.</p> <p>Additionally, TREC should establish a process that includes documented communication between the Licensing and the Information Systems divisions to document and track significant licensing requirement updates. Documentation should include the date that the edit checks are established in the system to ensure that all required documentation is requested from the licensee for on-line input and/or within the manual inputs to be performed by the Licensing Division. Approval and sign-off by the technician that creates the edit check, review approval by the IT Director and review and approval of the Licensing Director should be documented.</p>		Application of Licensing Controls and Operations

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2	June 22, 2012	License Application and Registration Process	<p><b>Management Responses</b>            We concur with the recommendation. Prior to the audit we made configurations to the system so that ERWI licenses wouldn't issue without fingerprints. The auditors brought to our attention that there were ERWI licenses that had issued without fingerprints prior to the change in configuration. We contacted these individuals, and while most of them have since been fingerprinted we have terminated licenses for those who have not met all of the requirements.</p> <p>A method will be provided so that communication can be documented to track significant licensing requirement updates. Approval and sign-off by the technician that creates the edit check and review approval by the IT Director and review and approval of the Licensing Director will be documented.</p> <p>2. Timely Processing of Licenses and Renewals</p> <p>We performed an analysis of the Report on Performance Measures for the FY 2012 2nd quarter. We noted that the time to issue license renewals and new licenses are well in excess of expected time requirements. The expectation was for new licenses to be issued within 35 days and that a renewal of a license to be performed within 1.5 days. The report on measures reports an average time to process the issuance of a new license to be 74 days and the time to process a renewal to be 44 days. Analysis of our selections for new applications resulted in an average of 57 days; analysis of our selection of renewal licenses resulted in an average of 73 days and analysis of our selection of name, active/inactive and sponsor changes resulted in an average of 72 days per transaction.</p> <p><b>Recommendation</b>            We recommend that TREC perform documented trials of each type of transaction utilized to process each license type including renewals and licensee data changes to determine which processes take an inordinate amount of time to complete. Communication and reporting of the transactions that are time consuming to process should then be made with the software developer for assistance in enhancing the data input process and improve efficiency. This will enable the agency to improve the amount of time it takes to process licenses and increase the efficiency of reporting fees received and processed.</p>		Efficiency of Operation and Effectiveness

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2	June 22, 2012	License Application and Registration Process	<p><b>Management Responses</b></p> <p>We concur with the recommendation that TREC perform documented trials of each type of transaction utilized to process each license type including renewals and licensee data changes to determine which processes take an inordinate amount of time to complete. We will initiate this process. Prior to the audit we discovered an anomaly in one of the reports used to calculate the performance measures and have requested that our software developer investigate the method of calculation. In addition, prior to the audit we performed a documented trial regarding licensee data changes which has led us to the development of the Relationship Management Tool (RMT). We are currently working with our software developer to implement this process which will greatly expedite the processing of licensee data changes.</p> <p>3. Refund Processing Delays</p> <p>We selected a number of change transactions from the period of September 1, 2010 to May 31, 2012 a two-year period. One (1) of the ten (10) transactions selected was a request to change from inactive status to active status. The licensee submitted the change from inactive status because of a notice from TREC indicating the license had expired however, our review of the data for this request included documentation from the Licensee indicating that the renewal information and the renewal payment had been submitted prior to the expiration date of the License.</p> <p>We noted that the Licensee's account had been assigned an overage of \$20, for the fee of the change transaction since the fee was not necessary due to timely payment and submission. Although this activity occurred during September 2010 the fee overage had not been refunded as of May 31, 2012. Our inquiries indicated that due to a high volume of overpayments and Licensing processing issues during the transition from TRELIS to the new Versa system many refunds of \$20 or less were not initiated unless requested by the Licensee.</p> <p>As of February 1, 2012 TREC adopted an internal policy that a refund would only be initiated by TREC if the amount is in excess of \$25.00. Additionally, that a refund would be made only upon request of the Licensee for amounts of \$5.01 to \$25.00 and that no refund would be issued for amounts less than \$5.00.</p> <p><b>Recommendation</b></p> <p>We recommend that TREC enhance the refund policy to allow for refunds of any amount to be performed if less than \$25.00 in situations where it is determined that TREC is at fault for the over payment.</p>		Improved Refund Process

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2	June 22, 2012	License Application and Registration Process	<p><b>Management Responses</b></p> <p>We concur with the recommendation. When it is determined that TREC is at fault for an overpayment and the applicant makes a written request for a refund that is less than \$25.00, the refund will be provided. Management agrees that refunds should be made in all situations where it is determined that TREC is at fault for the overpayment. The refund policy was changed in response to the volume of refunds pending and the lack of resources to process them. In processing, we have prioritized them in regard to length of time since the licensee has paid, and also given high priority to amounts \$200 or greater.</p>		

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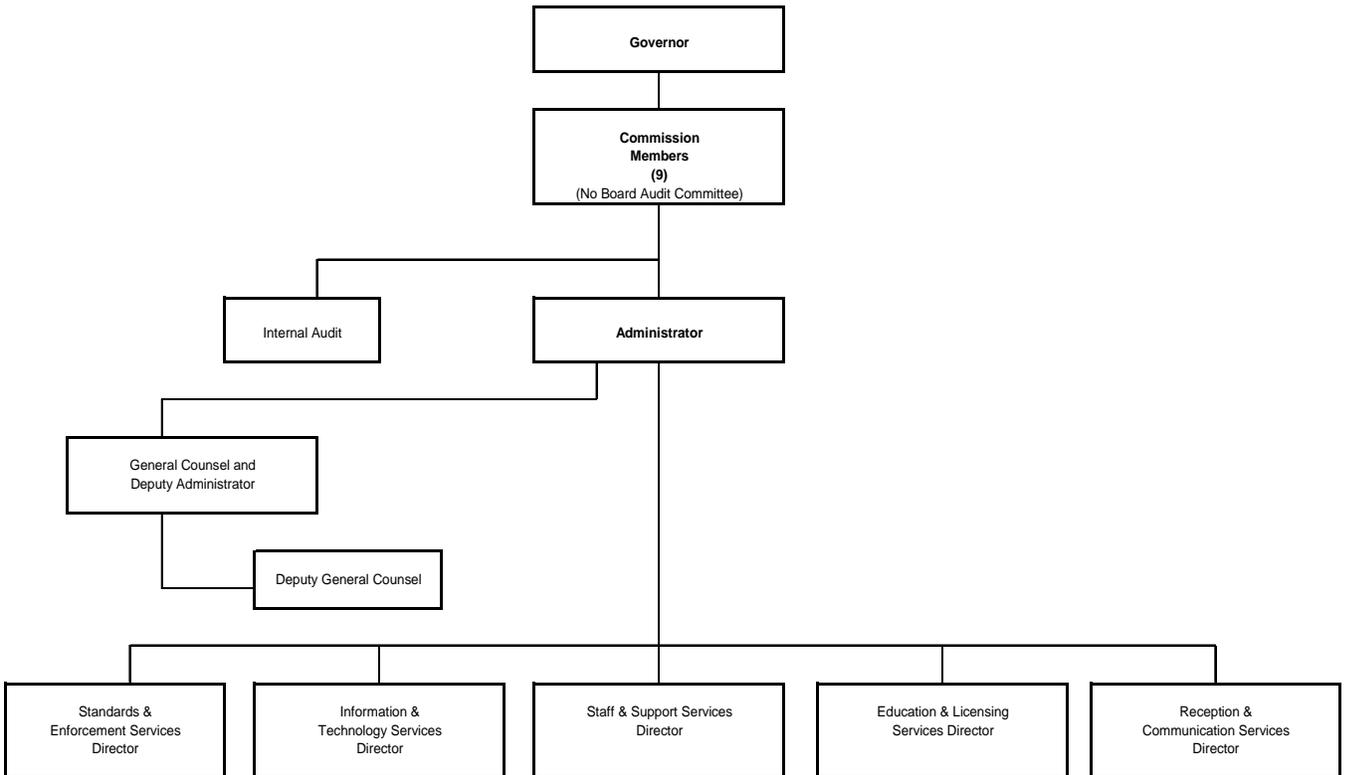
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		Information Systems	<p>Follow-up FY 2011 comments and recommendations:</p> <ol style="list-style-type: none"> <li data-bbox="537 625 1146 747">1. Monthly Incident Reports  The Commission should ensure incidents detected and prevented by the firewall are reported in the monthly incident reports, as required by DIR.</li> <li data-bbox="537 919 1146 1062">2. Password Procedures  The Commission should have written password procedures for all systems and applications used, including the new licensing management system and imaging system used by TREC.</li> <li data-bbox="537 1260 1146 1381">3. Business Continuity Plan (Plan)  The Commission should, test review and update the Business Continuity Plan to ensure the new systems (Versa and NEUBUS) are addressed.</li> </ol>	<p><b>Fully Implemented</b>  ITS reports have been expanded to include the reporting of computer viruses that are blocked by the TREC Firewall.</p> <p><b>Fully Implemented</b>  TREC has instituted password procedures for the VERSA License Managements and the NEUBUS Imaging systems.</p> <p><b>Fully Implemented</b>  The Business Continuity Plan was tested at the time TREC's offices moved in July 2011. Subsequently, the plan was updated in November 2011.</p> <p>TREC has scheduled the FY2012 BCP test to be conducted July 17, 2012. The agency is currently in the process of updating the plan and the update will be concluded after the test in July.</p>	<p>To improve compliance with DIR requirements.</p> <p>Ensure comprehensive procedures.</p> <p>Ensure comprehensive Plan.</p>



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

The internal auditor performed financial analysis of the Residential Service Company (RSC) as requested by TREC management.

**VI. Organizational Chart**



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

The internal auditor was not involved in any internal audit projects beyond those outlined in the 2012 audit plan, or in any other special projects during the year.

### **VIII. Proposed Internal Audit Plan for Fiscal Year 2013**

The risk assessment performed during the 2012 fiscal year was used to identify the following *proposed* areas that are recommended for internal audits for fiscal year 2013. The Internal Audit Plan for Fiscal Year 2013 will be developed and presented to the Commission at a meeting to be determined at a later date.

- Reporting and Budgeting
- Customer Communications
- Compliance with the Texas Public Funds Investment Act
- Other Tasks as May Be Assigned by the Commission

### **IX. External Audit Services Procured in 2012**

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 provided information on their home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. The Commission has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud. During fiscal year 2012, 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.