

TEXAS REAL ESTATE COMMISSION
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2013



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Annual Internal Audit Report
Fiscal Year 2013

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Garza/Gonzalez & Associates

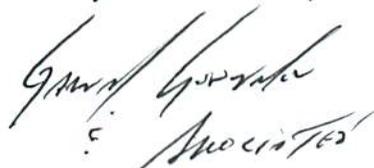
CERTIFIED PUBLIC ACCOUNTANTS

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 Compliance with the Texas Public Funds Investment Act and the Complaint/Investigation 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, 2013. The results of our tests disclosed that such controls were adequate; however, we noted one instance of non-compliance and certain other 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.



June 13, 2013

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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. The Commission is completing a two year transition phase appropriation for fiscal year 2012 and 2013 which allowed for 50% of the Commission's 2011 appropriations to be enacted. As an SDSI agency the Commission has ensured that it is in the position to fund (repay) those appropriations with Commission revenue as required.

We were engaged to perform internal audits of the following areas identified in Commission's fiscal 2013 Internal Audit Plan:

- Compliance with the Texas Public Funds Investment Act
- Complaint/Investigation Process
- Follow-up of Prior Year Internal Audits

This report contains the results of our audit of Compliance with the Texas Public Funds Investment Act, and the Complaint/Investigation 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 **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of the audit area's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes the following objectives:

- **Reliability and Integrity of Financial and Operational 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, Procedures, Laws, Regulations, and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts 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.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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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 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 Texas Treasury Safekeeping Trust Company. In addition, the Real Estate Inspection Recovery Fund is maintained with monies collected from real estate inspectors. The fees are deposited in the Texas Treasury Safekeeping Trust Company and earns 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 Policies & 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 the Commission annually. In addition, the Commission has designated an investment officer and an alternate investment officer who is responsible for the investment of funds consistent with the investment policies adopted by the Commission and with the PFIA.

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Investment Training

The investment officers attend a PFIA investment training session a minimum of 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 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 Commission quarterly.

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 an immaterial instance of noncompliance with the requirements listed above that is disclosed in Section IV Key Audit Findings and Recommendations. The "Summary of Investments Schedule" included on page 17 details investments held as of August 31, 2012 that were included in the Annual Financial Report.

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.

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

1. Obtained and reviewed the Commission's 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 Commission's investment types, goals and strategies.
2. Determined that the Commission's policies and procedures and established internal controls were 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 Commission's policies and procedures limit political and personal interference in the investment decision-making process.
4. Considered the appropriateness of the Commission's investments as reflected in the policies, strategies, and plans.

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5. Selected a sample of two investment reports submitted to the governing board to ensure compliance with the PFIA and the Commission's 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.

Complaint/Investigation Process

Background

Investigation and Complaint Resolution Processes

The Standards and Enforcement Services Division (SES) is responsible for providing firm, fair, and consistent enforcement of the Real Estate License Act, the Texas Timeshare Act, and the Residential Service Company Act (the Acts) and Chapter 1102 of the Texas Occupations Code (Inspectors). The SES division is managed by a director who supervises 8 Attorneys, 7 Legal Assistants, 1 Chief Investigator & Manager and 7 Investigators and 1 Program Supervisor and 3 Administrative Assistants. The SES division is charged with detection and prevention of violations of the Real Estate License Act (the Act). This includes investigating complaints and initiating appropriate administrative action against firms or individuals that violate provisions of the Act. The SES division may also conduct investigations involving unlicensed individuals performing activities related to the Act. The outcome of the investigation of unlicensed individuals may result in a "cease and desist order"; the case may be referred to the local district attorney or the case may be closed for no merit. The SES division performs background investigations based on the initial license application and/or upon license renewal when referred for investigation by the Licensing, Education and Cashier Division through the criminal history inquiry and/or fingerprint process. Moral Character Determinations (MCDs) are conducted to determine the honesty, trustworthiness and integrity of licensing applicants.

The Commission's authority is limited to taking disciplinary action against those regulated under its programs. Texas law (Section 1101.204 (b)(1), Texas Occupations Code) prohibits the Commission from giving private legal advice or opinions or otherwise acting as an attorney in the practice of law. The Commission does not generally have authority to require a licensee to pay damages to another person. In relation to the SES Division it is not necessary for the public to file a complaint with the Commission to proceed with a civil suit or file for recovery from the Real Estate Recovery Trust Account or the Real Estate Inspection Recovery Fund.

The Commission's law requires that a complaint submitted by a complainant be signed and written. To assist in meeting this legal requirement, the Commission provides a complaint form on its website. The complaint is not considered complete unless it is signed; accordingly the Commission does not accept anonymous complaints. Many complaints are closed because of a lack of jurisdiction or evidence regarding the alleged violation, in these cases the complainant is informed of the status of the complaint and a request for additional information is made when determined to be necessary to continue or conclude an investigation. The completed complaint form may be emailed, mailed, or faxed to the Commission. The SES receptionist will then enter the complaint into the Versa system, generate a case number and scan the documents provided, and will then send a 'Complaint Acknowledgement' Letter or email to the person filing the complaint. The SES receptionist will review the complaint to ensure that it is signed and then assign the case to the proper SES personnel. If the complaint is not signed it is returned to the sender along with 'Return Complaint Letter'.

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The legal assistant (LA) performs the initial formal review of all complaints and takes appropriate action within 8 days of receipt of the complaint by the Commission. The Legal Assistant makes a determination regarding whether the Commission has jurisdiction and the type of case to process, completes the opening sheet, and prepares an opening letter. Once the case is opened and the appropriate actions are taken, it is reviewed and approved by an attorney, which is indicated by the attorney's initials and the date of the review on the 'Opening Sheet'. The complaint can be processed by a Legal Assistant, Attorney, and the Investigator, depending on the nature of the complaint. The investigators purpose is to perform an investigation of the consumer complaints, perform information verification and analysis, and provide support to the Attorney for hearings, among other necessary tasks. As the complaint process and/or investigation progresses the complainants and the licensees are informed of the progress of the case on a periodic basis.

When investigations are completed the investigation report is forwarded to the assigned attorney and a decision whether to pursue disciplinary action is made. Once the outcome of the case is determined the SES division will send out a status letter detailing the result of the complaint process. Informal settlement discussions between the licensee and the SES staff attorney may result in an agreed order in lieu of a hearing (or other disposition) to conclude the matter. If the complaint is not resolved, a hearing may be conducted according to the Administrative Procedures Act.

Audit Scope

The objective of our audit was to review the Complaint/Investigation 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 Complaint/Investigation process.
- Processes and/or controls have been implemented and are functioning as designed to assure that the investigation and enforcement process is performed in an efficient, equitable manner and in compliance with the established policies, procedures and practices

The planned procedures to achieve the objective of the audit of the Complaint/Investigation Process include the following:

1. Obtain and review the pertinent rules, regulations and policies applicable to the complaint/investigation process.
2. Obtain an understanding of the internal controls in the application of the policies and procedures of the Complaint/Investigation Process.
3. Determine that the processes and controls have been implemented and are functioning as designed to ensure that the investigation and enforcement process is performed efficiently, and in compliance with the established policies, procedures, and practices.
4. Obtain a log of all complaints submitted and determine if the cases were appropriately classified and assigned on an equitable and consistent basis.

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5. Select a sample of case files and determine if the Commission applied the appropriate policies and procedures for complaints received and the related investigations by reviewing the appropriate supporting documentation.
6. Review and analyze the report process and the types and styles of reports as produced and provided by the Commission's information system for the complaint/investigation process.
7. Perform an analysis of investigation and complaint statistics for the current and prior years to determine whether the statistical data is accurate, and properly supported.

I. Internal Audit Plan for Fiscal Year 2013

The fiscal year 2013 internal audit plan for the Commission is based on the Risk Assessment performed for the fiscal year ended 2013. 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 2013 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 2013. We performed an assessment of the potential audit areas using risk assessment techniques. Following are the results of the risk assessment performed:

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

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In prior years, the following internal audits were performed:

Fiscal Year 2012

1. Cash Collection Fee Process/ Remittance
2. License Application and Registration Process

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

Based on the risk assessment process an Internal Audit Plan was developed that includes the following recommended internal audits for fiscal year 2013, the proposed audit procedures are as follows:

Fiscal Year 2013

1. Complaints/Investigation Process
2. Compliance with the Texas Public Funds Investment Act
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.

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II. External Quality Assurance Review

The internal audit department's *System Review Report*, dated October 26, 2012, 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	6/13/13	Compliance with the Texas Public Funds Investment Act	<ul style="list-style-type: none">Perform a compliance audit of management controls on investments and the Commission's adherence to its established investment policies.
2	6/13/13	Complaints/ Investigation Process	<ul style="list-style-type: none">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 Complaint/Investigation process.Determine if processes and/or controls have been implemented and are functioning as designed to assure that the investigation and enforcement process is performed in an efficient, equitable manner and in compliance with the established policies, procedures, and practices.

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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 13, 2013	Public Funds Investment Act	<p>1. Training</p> <p>Sec. 2256.007 Government Code, states that each member of the governing board of a state agency and its investment officer shall attend one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties. Per our Public Funds Investment Act testing, we noted that one Commission member and the Director of Support Services did not attend required training within six months after taking office or assuming duties.</p> <p>We recommend that Commission members and investment officers attend public funds investment act training in the required time as required by Sec. 2256.007 Government Code.</p> <p>Management's Response</p> <p>Newly appointed TREC Commission members are provided a copy of a CD "Protecting Public Funds: The responsibilities of Governing Boards Under the Public Funds Investment Act" when they attend their orientation.</p> <p>The Commission member referred to in this finding and the Director of Staff and Support Services attended orientation on the same day (November 1, 2012). As the Investment Officer, it is the responsibility of the Director of Staff and Support to provide the copy of the CD to the Commission member. Since this was the Director's first day, she was not aware of that responsibility and therefore, the Commission member did not receive the required training. The Commission member has since received a copy of the CD for the required training.</p> <p>The Director of Staff and Support Services registered to attend the PFIA training scheduled for February 11, 2013, but the TREC Commission Meeting was also scheduled for the same day, so the PFIA training was rescheduled for the next available training on August 16, 2013.</p> <p>Management acknowledges that the required training was not attended or obtained in the required time period. An internal control has been implemented to require that new Commission members "new hire" packets includes the PFIA CD to review and a certification form to sign.</p>		Compliance with the PFIA

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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
2	June 13, 2013	Complaints/ Investigation Process	<p>1. Staff Reports</p> <p>The SES Department submits two (2) Staff Reports to the Commission on a monthly basis. The reports submitted are the E-1 'Case Status' and the E-2 'Open Case Aging Report'. During our testing we noted that the data is subject to change as cases are closed and reopened therefore the department due to system limitations is unable to recreate the report "as of" the report date. Furthermore, we noted that the SES division does not receive the source data used to prepare the summary reports and does not have a process to ensure the information is accurate.</p> <p>We recommend that the SES division request and retain the source data (case listings) used to prepare the E-1 and E-2 reports, to ensure that the summary level totals are accurate and that the Commission can recreate the reports at any time or at a minimum retain the source data as support for the summary totals reported.</p> <p>Management's Response</p> <p>The ITS Division will provide to the SES Division the detailed source data (case listings) used to prepare the E-1 and E-2 reports. SES will retain this data to ensure that information presented in the E-1 and E-2 reports is accurate.</p>		Improved reporting, accuracy, and support.

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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
	June 22, 2012	Cash Collection Fee Process/ Remittance	<p>Follow-up FY 2012 comments and recommendations:</p> <p>1. Cash Collections</p> <p>The Commission's internal control processes should include a reconciliation process that will detect 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 fund account as required.</p> <p>2. Unassigned Cash Report and Refund Delays</p> <p>The Commission should continue to review the unassigned cash report for old items and initiate a process to perform refunds on a more timely basis. The Commission 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 the Commission should separately itemize and total those items that are determined to be in error so that at a minimum at each quarter the exact amount of "Unassigned Cash" (report balance less items included in error) can be determined. The resulting balance can be compared to work in progress and/or amounts that are held in the Commission Trust Account number 3054 and result in reconciled balance of unassigned cash.</p>	<p>Fully Implemented</p> <p>Substantially Implemented</p> <p>The Commission has implemented a reconciliation process and is pending final comparison with the Unassigned Cash Report. Differences if any are not expected to be significant.</p>	<p>Safeguarding of funds and complying with Fiduciary requirements</p> <p>Safeguarding of funds and complying with Fiduciary requirements</p>
	June 22, 2012	License Application and Registration Process	<p>3. Fingerprint and Background Checks Not Performed</p> <p>The Commission should 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, the Commission 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 and approval by the IT Director and review and approval of the Licensing Director should also be documented.</p>	<p>Substantially Implemented</p> <p>The Commission has reviewed and researched licensees that renewed during the period to ensure that fingerprint and background checks were performed. The controls over the information System updates are in the process of being reviewed and updated to ensure that documentation is obtained in relation to testing and approval of licensing requirement updates.</p>	<p>Application of Licensing Controls and Operations</p>

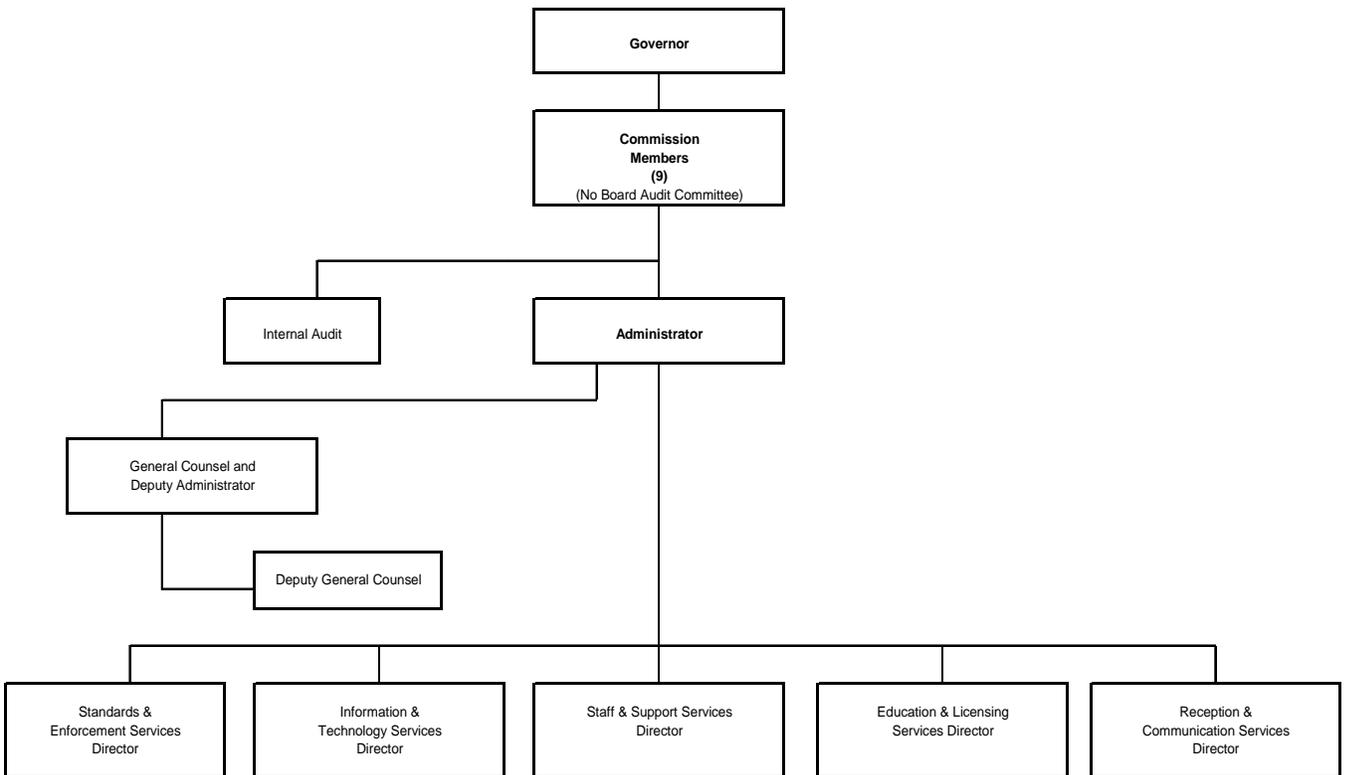
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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
		Records Management	<p>4. Timely Processing of Licenses and Renewals</p> <p>Due to extended effort in processing certain time transactions the Commission should perform documented time-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 commission transactions to improve the amount of time it takes to process license transactions and increase the efficiency of reporting fees received and processed.</p> <p>5. Refund Processing Delays</p> <p>The Commission should 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 the Commission is at fault for the overpayment.</p> <p>Follow-up FY 2007 comments and recommendations:</p> <p>1. Record Management</p> <p>The Commission should 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>Fully Implemented</p> <p>The Commission has implemented an on-line Relationship Management Tool (RMT) that provides for licensee data changes to be performed on-line. This has effectively reduced the back-log of license processing tasks within the Division.</p> <p>Fully Implemented</p> <p>The Commission has established a policy that allows for the refund of any amount when it is determined that the Commission is at fault for the overpayment.</p> <p>Fully Implemented</p> <p>The Commission has organized the central file room at its new location and continues to perform electronic imaging of files using the updated storage process.</p>	<p>Efficiency of Operation and Effectiveness</p> <p>Improved Refund Process</p> <p>Improved Record Management</p>

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

None to report.

VI. Organizational Chart



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VII. Report on Other Internal Audit Activities

None

VIII. Proposed Internal Audit Plan for Fiscal Year 2014

- Reporting and Budgeting
- Residential Service Companies and Timeshare Regulation
- Other Tasks as May Be Assigned by the Commission

IX. External Audit Services Procured in 2013

The Commission procured the following external audit services:

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

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.

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Summary of Investments

	August 31, 2012 Book Value	August 31, 2012 Market Value
Equity Securities:	\$ -	\$ -
U.S. Common Stock	-	-
Equity Mutual Funds	-	-
Other Equity Securities (list)	-	-
Total Equities	-	-
 Other Investments:		
Real Estate	-	-
Private Equity	-	-
Annuities	-	-
Collective Endowment Funds	-	-
Commodities	-	-
Collectibles	-	-
Other (list)	-	-
Total Other Investments	-	-
 Debt Investments >1 year:		
U.S. Government	735,375	720,648
U.S. Government Agency	-	-
Mortgage Pass Throughs	-	-
C.M.O.s	-	-
Interest Only Strips	-	-
Principal Only Strips	-	-
Inverse Floaters	-	-
Stated Maturities longer than 10 years	-	-
PFIA Compliant C.M.O.s	-	-
Other Asset-Backed Bonds	-	-
Foreign Issued Obligations	-	-
Municipal Obligations	-	-
Corporate Obligations	-	-
Highly Rated (AAA/AA)	-	-
Investment Grade (A/BBB)	-	-
NR/High Yield (<BBB)	-	-
G.I.C's	-	-
Bond Mutual Funds	-	-
Other (list)	-	-
Total Debt >1 year	735,375	720,648
 Short Term Investments:		
U.S. Government	537,938	511,774
U.S. Government Agency	-	-
C.D.'s/B.A.'s	-	-
A1/P1 Commercial Paper	-	-
Repurchase Agreements	-	-
TexPool	-	-
Other Money Market Funds & Pools	-	-
Bank Deposits	-	-
Cash Held at Texas Safekeeping Trust	1,594,760	1,594,760
Other (list)	-	-
Total Short Term Debt	2,132,698	2,106,534
 TOTAL INVESTMENTS:	\$ 2,868,073	\$ 2,827,182