

**TEXAS REAL ESTATE COMMISSION**  
Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

Fiscal Year 2015



TEXAS REAL ESTATE COMMISSION  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2015

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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 the Texas Real Estate Commission (the Commission) internal control structure over Compliance with the Public Funds Investment Act, the Examination Process, and the Customer Communications areas and compliance with the applicable rules and regulations, and the Commission's established policies and procedures for the 9 months ended May 31, 2015.

The results of our tests disclosed that such controls were adequate and no instances of noncompliance were noted; however, we noted certain matters, which are included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements, the Commission's established policies and procedures and certain opportunities for improving performance and the provision of customer service. 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 the observations; comments and recommendations 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.

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

July 9, 2015

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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.

We were engaged to perform internal audits of the following areas identified in the Commission's fiscal year 2015 Internal Audit Plan:

- Compliance with the Texas Public Funds Investment Act
- Examination Process
- Customer Communications
- Follow-up of Prior Year Internal Audits

This report contains the results of our audit of the Compliance with the Texas Public Funds Investment Act, Examination Process, and the Customer Communications 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**

The Real Estate Recovery Trust Account 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 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 earn statutory interest or are invested in accordance with the investment policy. 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. The investment officer and the alternate investment officer are 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 the 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 monthly 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 no instances of noncompliance with the requirements listed above. The "Summary of Investments Schedule" included on page 25 details investments held as of August 31, 2014 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 the policies and procedures were appropriate and reasonable for the Commission's investment types, goals, and strategies.
2. Determined that the policies, 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 personal and political interference in the investment decision-making process.

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4. Considered the appropriateness of the Commission's investments as reflected in the policies, strategies, and plans.
5. Haphazardly selected a sample of three 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 certificates to ensure minimum training requirements established by the PFIA have been met.
7. Obtained a listing of all securities transactions during the period September 1, 2014 to June 20, 2015 and haphazardly selected four transactions to test for the following attributes:
  - a. Registration was in the name of the agency.
  - b. Transaction was properly approved by the Administrator.
  - c. Supported by proper documentation.
  - d. Transaction data (amount, account number, name of security, issue, maturity dates, and interest rates) agreed to documentation.
  - e. All computed amounts were calculated accurately.
  - f. Securities were properly posted to ledger.
  - g. Sold or redeemed securities were allocated to the proper funds.
  - h. Investments complied with applicable state laws or trust indenture restrictions.
8. Verified the beginning balances in the investment accounts agreed to the 2014 AFR.
9. Obtained an understanding of the monthly securities reconciliation process and selected two monthly security reconciliations performed in fiscal year 2015 to ensure their accuracy and completeness.

### Examination Process

#### Background

The Commission examinations for licensure are administered in accordance with subchapters included in Chapters 1101-1102 of the Texas Occupation Code (TOC); and, section 535.57 and 535.209 of the Commission Rules.

#### Contractor & Contract Term

TOC §1101.403 authorizes the Commission to enter into an agreement with a testing service entity to administer the Commission's licensing examinations. In April 2014, after considering three bid proposals, the Commission entered into a Contract with Pearson VUE (PV) to administer the Commission's licensing examinations. The contract was signed and executed on April 9, 2014. The development of the license examinations was initiated under this contract beginning September 1, 2014. The Contract term is two years through August 31, 2016.

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### Organizational Chart

The Examination Process Area (the Area) is included within the Education & Licensing Services (ELS) Division. The ELS Division Director, Education Manager, and Exam Liaison handle exam administration or exam related issues dealing with exam candidates. The examination process is performed with the assistance of License Permit Specialists who review the application for satisfactory education and experience requirements prior to approving the applicant for examination. The recognition of revenue is performed with the assistance of the Staff & Support Services (SSS) Division Chief Accountant, and an Accountant II. The Area personnel work with their PV point of contact (PV Program Manager) to ensure compliance with the Contract.

### Authorized Key Personnel

PV is required to assign qualified personnel for the administration and operation to this Contract. The assigned personnel are to be authorized by the Commission. Exhibit C of the Contract provided a list of PV's key personnel. The Contract requires that PV provide written notice to the Commission of proposed changes in key personnel involved in providing services under the Contract.

### Insurance and Other Security

The Contract required PV to provide the Commission, within five business days of executing the Contract, current certificates of insurance for Workers Compensation & Employers Liability and Commercial General Liability coverage in accordance with statutory limits. Furthermore, the Contract requires that coverage be provided by companies licensed in the state of Texas, with an "A" rating from A.M. Best, and authorization to provide the corresponding coverage.

### Annual Examination Review

On an annual basis, typically around June of every year, the Committee of Subject Matter Experts (SMEs) meet to review, update, and/or develop new examination questions. The SMEs are comprised of Commission employees, PV employees and real estate professionals. Each proposed examination question is reviewed and approved by the SMEs before it is put into the "test" phase for examinations. After the "test" phase, PV will gather and report statistics to the PV psychometricians. Based on psychometric analysis, if the question performed well, the question will become part of the examination.

### Applicant Eligibility for Examination

Once an ELS Division License Permit Specialist has reviewed an application, and obtained documentation to support satisfaction of the education and experience requirements, they will update the applicant's profile on the Versa licensing system and approve the applicant for examination. Upon approval for examination, Versa will automatically send an Exam Eligibility Letter, via email, to the applicant. The letter informs the applicant of their eligibility to take the examination and provides instructions on how to register at one of the 23 PV testing centers in Texas. Upon each nightly processing, Versa will automatically include a listing of approved applicants in a secure file transfer protocol (SFTP) file transmitted to PV for use in identification of approved applicants for examination.

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### Examination Results

TOC §1101.404 requires that examination results be communicated to the applicant no later than the 30<sup>th</sup> day after the date of examination. PV ensures compliance with this law by grading examinations immediately after the examination has been taken. The applicant is informed of their grade (pass or fail) before they leave the PV testing center.

### Transmission of Examination Data

Examination data is transmitted to and from the Commission on a nightly basis via a shared server between the Commission and PV. The examination data is compiled onto SFTP files and imported and exported from the shared server. Every night, PV will import an SFTP file onto the shared server containing a list of applicants who have taken the examination on the respective day and their results. The following morning, the Commission's IT Department will format, and upload the file into Versa to update the applicants' profiles with the examination results of the previous day.

Each day the Commission provides an SFTP file for export to PV. The SFTP file contains applicant profiles which have satisfied all the licensure education and experience requirements; and are therefore, eligible for examination. The IT Department will receive a confirmation email informing them of PV's acceptance of the SFTP file.

When errors are detected, an error report is generated detailing such errors. The IT Department performs correspondence with the PV Project Manager to clear errors detected.

### Inspector License Examination Restrictions

Per TOC §1102.155 (b) an Inspector applicant who fails the examination three consecutive times may not apply for reexamination. To comply with this law, PV and the Commission maintain system records of each applicant's examination history. Given this available data, both systems have built-in system controls that will disallow an Inspector applicant to register for examination after the three consecutive failed attempts. To resume the examination process, an applicant must perform additional qualification requirements.

### Reporting

The Commission requires PV to provide an Examination Activity Report on a monthly basis. The Examination Activity Report contains the number of examinations taken in the respective month and year-to-date, statistical data regarding first time attempts, and passing rates. The PV Project Manager emails this report to the ELS Division Director within the first 10 days of the subsequent month. The ELS Director reviews the report to track examination result trends and statistical data. This report is available on the Commission website for public viewing. The ELS Director forwards a copy of the report to the SSS Division Accountant II to assist in the PV examination revenue reconciliation process.

Additional reports listed in the Contract are available and may be provided to the Commission upon request.

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### Revenue Reconciliation Process

PV is required to remit to the Commission \$10 per examination administered. Each month, the PV Project Manager reports the monthly revenue breakdown for the Commission and the TALCB examinations. The Accountant II utilizes a spreadsheet to determine the number of examinations taken in a month. The calculated number of examinations is compared to the number of examinations as reported on the Examination Activity Report. Differences noted monthly are typically attributed to applicants paying for an examination in one month and taking the examination in a subsequent month.

Payment is remitted by check from PV on a monthly basis and is deposited into the Commission's account with the Texas Treasury Safekeeping Trust Company.

As of April 30, 2015, the Commission has received \$229,480 for examinations administered by PV during fiscal year 2015.

### **Audit Scope**

The objective of our audit was to gain an understanding of the Examination Process to determine compliance with the Contract between the Commission and Pearson VUE (PV); applicable statutes, rules, policies, and procedures. The procedures performed to achieve the objective of our audit were as follows:

1. Obtained and reviewed established policies and procedures; applicable laws and regulations; and conducted interviews to obtain an understanding of the processes and current practices in place over the Examination Process.
2. Obtained and reviewed the Contract between the Commission and PV and performed procedures to ensure requirements outlined in the Contract have been satisfied. Examples of Contract requirements include:
  - a. Authorization of PV Key Personnel
  - b. Receipt of PV Certificate of Insurance
  - c. Monthly Reporting Requirements
  - d. Submission of PV's Voluntary Product Accessibility Template (VPAT) to the DIR for compliance review with the State of Texas Accessibility requirements.
  - e. Monthly remittance of revenue from PV to the Commission

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3. Obtained all monthly PV revenue reconciliations for the fiscal year through April, 2015. We selected one reconciliation and performed the following:
  - a. Re-performed the reconciliation and agreed dollar amounts reported and the number of examinations administered to the source documents.
  - b. Traced funds remitted from PV to the Commission's Depository account and its entry into the Deposit worksheet. This spreadsheet tracks and categorizes all revenue as support for the annual revenue as reported by the Commission.
4. Selected one day within the fiscal year (May 13, 2015). We obtained the SFTP file imported by PV for that day. The file contained a listing of applicants with the exam results for the day. From this listing we randomly selected 25 applicants and tested the following attributes:
  - a. Ensured the exam result, Pass or Fail, was reflected correctly on the applicant's profile on the Commission's licensing system, Versa.
  - b. Ensured that the exam date agrees to the date tested.
5. Obtained a listing of Inspector License applications opened in March 2015 to May 2015. From this listing, we selected all 26 applications that had been approved for licensure. For each licensed Inspector, we performed a review of their exam history page on the Versa licensing system to ensure the number of exam attempts did not exceed 3 in accordance with the Texas Occupation Code Sec. 1102.155.
6. Obtained PV's 2014 annual audit report and 2014 SSAE16 report. We performed a review of the independent auditor's opinion, and the findings & recommendations.

## Customer Communications

### Background

#### Organizational Structure

The Customer Communications area is under the Reception and Communication Services Division (Division). The Division is comprised of a Director, who reports directly to the Administrator, a Communications Coordinator, 2 team leads, and 10 customer service representative positions.

The Division is the agency's centralized customer service department, and is responsible for the external communication with the agency's licensees and with the public by providing information and responses to inquiries received by telephone, e-mail, and/or in person. The Division is also responsible for responding to open records requests and handling customer survey responses for the agency.

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### Training

New staff members are provided with 4 weeks of on-the-job training. During this time, staff members will listen in on calls and are instructed on how to navigate through the computer systems. All staff is kept up to date on Commission and TALCB laws, rules, policies, and procedures. Each staff member also has access to internet and the agency's licensing database to assist the public with their inquiries.

### Phone Calls

The Division's policies and procedures indicates that phone calls are considered the Division's staff main priority and should be handled professionally by offering exceptional customer service and providing accurate information. The customer service representatives answer all local lines for the Commission and TALCB. Currently, there are 14 local lines with a maximum of 30 calls to be held in the queue to be answered. The telephone system utilized by the Division is the Centergy system. The telephone system is currently going through an upgrade which should be completed in early August.

It is the Division's goal to be able to handle calls and queries completely rather than transferring the call to another Division. If a call becomes escalated, the customer service representative can transfer the call to the team lead to resolve the matter. If needed, the team lead can transfer the call to the Director to handle the call in the appropriate manner.

Staff members maintain manual phone logs where they log the number of calls they received that day and the reason for the call. The Division relies on the manual phone logs to document counts when the phone system count is not operating. On a monthly basis, the Director collects the daily manual logs and creates a monthly log for the Division.

The Centergy system counts the number of calls received, answered, abandoned, and deflected. The system also documents the average time the call is kept in queue and the average length of a call. Monthly and daily reports can be generated from the system. Monthly reports document the following:

- Total Calls Offered – Total calls received;
- Total Calls Answered – Totals calls answered by a customer service representative;
- Total Calls Abandoned – Total number of calls in which the customer disconnects before a customer service representative answers; and,
- Total Call Deflected – Total number of calls deferred (31<sup>st</sup> caller).

Per the Centergy System monthly reports during FY 2015, as of May 31, 2015, there were a total of:

- 162,770 Calls Offered,
- 106,787 Calls Answered,
- 37,149 Calls Abandoned, and,
- 16,637 Calls Deflected.

### E-mails

In addition to responding to phone calls, the Division staff is also responsible for responding to customer e-mails sent to the [information@trec.texas.gov](mailto:information@trec.texas.gov) e-mail address. It is the Division's policy that e-mails must be answered in the order received within 2 business days of receiving the e-mail. The team lead has access to the inbox and is able to distribute e-mails to staff members. The Receptionist is responsible for responding to the majority of the e-mails in lieu of answering phone calls. Staff members who work the early and late shift will also receive and respond to e-mails during downtime.

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The staff members log the number of e-mails answered on a manual log. On a monthly basis, the Director will compile the manual logs to create a monthly log.

As of May 31, 2015, there were a total of 54,745 emails responded to during the fiscal year.

### Walk-ins

The walk-in reception area is staffed Monday through Friday from 8:00 a.m. to 5:00 p.m. to provide assistance and answer general inquiries by the public. The Receptionist also maintains a manual log to count the number of walk-ins for each day. On a monthly basis, the Director will compile the daily manual logs to create a monthly log.

As of May 31, 2015, there were a total of 2,394 walk-ins assisted during the fiscal year.

### Open Records Requests

Beginning February 2014, the Division became responsible for responding to open records requests. An inbox was set up to receive these requests. In accordance with Section 552.221 of the Public Information Act, the Division ensures open record requests are responded to within 10 business days. The Director is primarily responsible for responding to open record requests. In her absence the Communications Coordinator and one team lead will take over this responsibility.

Open records request forms are provided on the Commission website for the public. However, the form does not have to be used as long as the request is documented in writing. The written request can be sent to the agency by e-mail, fax, or dropped off at the agency's office.

The Director will log each request in a monthly open records request tracking log. The Director will then respond to the requestor stating that their request has been received and will be forwarded to the appropriate personnel who can provide the requested information. The request is forwarded to the appropriate Commission personnel. The Division Director will follow-up to ensure information is provided within 10 business days.

As of May 31, 2015, there have been 350 open records requests submitted during the fiscal year.

### Reports

On a monthly basis, the Director prepares the Customer Service Statistics report to be included in the monthly Staff Report presented to the Commissioners. This report documents the number of incoming calls, walk-ins, and e-mails received by the Division. This report is prepared using the monthly Centergy reports and monthly manual logs.

In addition, the Director prepares the Report on Measures report on a quarterly basis. This report summarizes the monthly Customer Service Statistics by quarter, and presents the outcome measures for objective 03-01 of the 2015-2019 Strategic Plan. The outcome measures are as follows:

- The Percent of Calls Answered in Less than 10 Minutes.
- The Percent of Emails Responded to Within 2 Working Days.

The report is prepared using the monthly Customer Service Statistics and the monthly Centergy reports.

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### **Audit Scope**

The objective of our audit was to gain an understanding of the Customer Communications processes to determine whether the applicable statutes, rules, policies, and procedures of the Commission are consistently applied.

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

1. Obtained and reviewed the Commission's written policies and procedures related to and for the operations of the customer communications audit area, collected available documentation, and conducted interviews to document the formal and informal processes and controls.
2. Reviewed and obtained an understanding of the Public Information Act, as applicable to the customer communications area.
3. Observed a sample of customer calls to obtain an understanding of the standard phone call process.
4. Haphazardly selected 20 days from the period of September 1, 2014 – May 31, 2015 and selected 2 emails responded to during each of the selected days. In addition, selected 10 emails responded to by the receptionist to test the following attributes:
  - a. E-mail was responded to within 2 business days; and,
  - b. Adequate information was provided.
5. Randomly selected 25 open records requests submitted during the period of September 1, 2014 – May 31, 2015 to ensure compliance with the Public Information Act and TREC's Open Records Policy.
6. Haphazardly selected the Staff Reports for the months of November 2014, January 2015, and March 2015 and agreed the number of phones calls reported to the monthly Centergy reports and the number of e-mails and walk-ins to the monthly manual logs.
7. Compared the monthly manual phones logs to the Centergy reports for the months of September 1, 2014 – May 31, 2015 to ensure amounts are comparable.
8. Obtained the 3<sup>rd</sup> quarter Report on Measures and agreed amounts reported to the supporting documentation.
9. Obtained and reviewed the Customer Service Survey comments submitted from the period of September 1, 2014 – May 31, 2015.

### **I. Internal Audit Plan for Fiscal Year 2015**

The fiscal year 2015 internal audit plan for the Commission is based on the Risk Assessment performed for the fiscal year ended 2015. 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 2015.

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Risk Assessment

Based on the review of significant documents, inquiries of management and the Commission’s current practices and procedures eighteen (18) audit areas have been identified in the Internal Audit Plan for fiscal year 2015. 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	Purchasing and Receiving	Complaint/Investigation Process
Examination Process	License Application and Registration Process	Residential Service Companies
Payroll and Personnel Process	Reporting and Budgeting	Education Program Monitoring
	Recovery Fund	Records Retention
	Fixed Assets	HUB-Compliance
	Cash Disbursement and Travel Processing	Customer Communications
	Information Systems	Performance Measures
	Timeshare Registration	

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In prior years, the following internal audits were performed:

### **Fiscal Year 2014**

1. Education Program Monitoring
2. Recovery Fund
3. Timeshare Registration

### **Fiscal Year 2013**

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

### **Fiscal Year 2012**

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

Based on the risk assessment process an Internal Audit Plan was developed that includes the following recommended internal audits for fiscal year 2015, the proposed audit procedures are as follows:

### **Fiscal Year 2015**

1. Compliance with the Public Funds Investment Act
2. Examination Process
3. Customer Communications
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.

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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	July 9, 2015	Compliance with the Texas Public Funds Investment Act	Perform a compliance audit of management controls on investments and the Commissions adherence to its established investment policies.
2	July 9, 2015	Examination Process	The objective of our audit was to determine compliance of the Contract between the Commission and Pearson VUE (PV); applicable statutes, rules, policies, and procedures.
3	July 9, 2015	Customer Communications	The objective of our audit was to gain an understanding of the Customer Communications area processes to determine whether the applicable statutes, rules, policies, and procedures are consistently applied.

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**IV. Key Audit Findings/Recommendations**

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)	Fiscal Impact/Other Impact
1	July 9, 2015	Pubic Funds Investment Act	None.		
2	July 9, 2015	Examination Process	<p><u>Observations</u></p> <p>1. <u>Authorized Key Personnel</u> Per the Contract with Pearson VUE, "Contractor shall provide to the Agency prior written notice of any proposed changes in key personnel involved in providing services under this Contract."</p> <p><b>Recommendation</b> We recommend that the Commission request an organizational chart at fiscal year-end each year, and review it for changes to key personnel. Such a review will provide the Commission assurance of Pearson VUE's compliance with the Contract regarding changes in authorized key personnel.</p> <p><b>Management Response</b> Management acknowledges the auditor's recommendation for requesting an organization chart from Pearson VUE at fiscal year-end to review for changes to key personnel. ELS staff have requested an updated organizational chart to be provided by Pearson Vue in accordance with this recommendation.</p> <p>2. <u>SSAE 16 Report</u> The Commission relies on examination performance data provided by Pearson VUE. On an annual basis a SSAE 16 report is performed by an independent auditor. The focus of the report is internal control objectives of the Service Organizations (Pearson VUE) to determine that the controls are properly designed, placed in operation and are operating as designed. In our review of Pearson VUE's 2014 SSAE 16 report, we noted that the independent auditor noted certain control objectives that were not met.</p> <p><b>Recommendation</b> We recommend that the Commission coordinate with their Pearson VUE point of contact to obtain an understanding of the control objectives not met and make an evaluation of the effect to administration of the Commission examinations. We also recommend that the Commission on at least an annual basis, request from Pearson VUE the following reports and review the auditor's opinion, findings, and recommendations and evaluate the effect on the Commission examinations, if any:</p> <ul style="list-style-type: none"> <li>• Independent annual audit report</li> <li>• SSAE 16 report</li> </ul>		<p>To ensure contract provisions are followed.</p> <p>To enhance the understanding and performance of the internal controls of the contractor.</p>

**TEXAS REAL ESTATE COMMISSION**

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Fiscal Year 2015

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2	July 9, 2015	Examination Process	<p><b>Management Response</b>                      Management acknowledges the auditor's recommendation to coordinate with the appropriate Pearson VUE point of contact to gain an understanding of the control objectives not met based on the organization's independent annual audit report and the SSAE 16 report. Management will request these reports and evaluate the potential effect on exam administration on at least an annual basis.</p> <p>3. <u>Procedures for Revenue Reconciliation of Examinations</u>                      Our review of the written procedures over revenue reconciliation indicated that the procedures appear to be in draft form. In addition, the written procedures do not include the titles of assigned personnel.</p> <p><b>Recommendation</b>                      We recommend the Commission review and finalize the revenue reconciliation procedures and include them in the Staff &amp; Support Services policies and procedures manual.</p> <p><b>Management Response</b>                      Management acknowledges the auditor's recommendations to review and finalize the reconciliation procedures. We have updated the procedures with the titles of the assigned personnel and placed the final draft of the procedures on the Staff and Support Services common drive in our Procedures and Policies folder.</p> <p>4. <u>Revenue Reconciliation</u>                      We reviewed the monthly revenue reconciliations for each month from September 2014 to April 2015. We noted differences between the calculated number of examinations taken (monthly payment remitted to TREC divided by \$10) and the number of examinations taken reported on the monthly Examination Activity report, provided to the Commission. Pearson VUE has indicated that the differences are due to examinations being paid for in one month; however, the applicant takes the exam in a subsequent month.</p> <p><b>Recommendation</b>                      We recommend that the Commission determine if Pearson VUE has the ability to generate examination reports that:</p> <ol style="list-style-type: none"> <li>1. Include a listing of candidates who paid for the exam each month; and,</li> <li>2. Include a list of candidates who take the exam each month.</li> </ol> <p>By obtaining and reconciling such reports, the Commission will strengthen its reconciliation process over examination revenues.</p>		<p>To ensure policies and procedures are complete, accurate, and up-to-date.</p> <p>To provide supporting documentation for differences in revenue.</p>

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2	July 9, 2015	Examination Process	<p><b>Management Response</b>                      Management acknowledges the auditor's recommendation to reconcile a monthly report of candidates who have paid for the exam with a monthly report of candidates who have taken the exam. Management will request that these reports be provided by Pearson VUE so that we may reconcile examination processes with associated revenues.</p>		
3	July 9, 2015	Customer Communications	<p>1. <u>E-mails</u>                      The Division's policy is to respond to customer's emails within 2 business days. To ensure compliance with this policy, we selected 8 staff members' e-mails for 20 selected days. However, testing could not be performed for 2 staff members. One staff member is no longer employed with the Commission and her emails could no longer be accessed. The other staff member's e-mails could not be provided due to technical difficulties. Per the Commission's records retention policy, general correspondence should be retained for 2 years.</p> <p><b>Recommendation</b>                      We recommend the Commission comply with the records retention policy and retain staff's e-mails for 2 years.</p> <p><b>Management Response</b>                      Management acknowledges the auditor's recommendation for retaining staff's emails for 2 years, as required by our records retention policy. We will provide additional training and ensure that staff is following the retention guidelines for retaining their emails for the appropriate amount of time to be in compliance. We will also discuss with the ITS Department the need to have continued access to former employees emails for the duration of the retention guidelines.</p> <p>2. <u>Staff Reports</u>                      To determine the accuracy of the Communication Division staff reports we selected and tested 3 monthly staff reports. We noted that the Division only reports the total calls offered for the month. The reported calls does not provide clear understanding of the Division performance since the number or calls reported includes calls that were not answered by a representative.</p> <p>We understand that the number of calls "offered" includes calls that were:</p> <ul style="list-style-type: none"> <li>• deflected;</li> <li>• abandoned; and</li> <li>• answered</li> </ul> <p><b>Recommendation</b>                      We recommend the Division also include the total amount of calls answered, deflected, and abandoned in the monthly staff reports.</p>		<p>To comply with records retention policy.</p> <p>To improve reporting on the Division's performance.</p>

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3	July 9, 2015	Customer Communications	<p><b>Management Response</b>                      Management acknowledges the auditor's recommendation for adjusting our report to include the total amount of calls answered, deflected, and abandoned. We will review the call logs and information to determine the usefulness of tracking the information as recommended. This will require additional discussion to determine if this is beneficial to the agency since we cannot determine the reason for the deflected and abandoned calls.</p> <p>3. <u>Performance Measure – Percent of calls answered in less than 10 minutes</u>                      Objective 03-01 of the 2015-2019 Strategic Plan requires the reporting of the "Percent of Calls Answered in Less than 10 Minutes." In testing objective 03-01 we noted the performance measure may be overstated and does not reflect a complete and accurate computation.</p> <p>The performance measure is currently calculated as follows:</p> $\frac{\text{Total Calls Accepted in Queue}}{\text{Total Calls Offered}} \times 100$ <p>This method of computation does not incorporate the actual "Number of Answered Calls" since the numerator includes calls that are abandoned (person ends call before call is answered) and all other calls that enter the queue. The performance measure results were reported at 79% for the third quarter of 2015.</p> <p><b>Recommendation</b>                      We recommend that the Commission adopt a definition and method of calculation to more accurately reflect the actual performance level.</p> <p><b>Management Response</b>                      Management acknowledges the auditor's recommendation for adopting a definition and method to more accurately calculate the performance level. The agency will develop a performance measure definition and calculation method based on the data available in the Centergy reports that more accurately reflects the performance level.</p>		Improve reporting of actual performance.

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3	July 9, 2015	Customer Communications	<p><u>Observations</u></p> <p>1. <u>Report of Customer Service</u>                      The Commission produces a Report on Customer Service which provides the results of customer service surveys. This report is in the Strategic Plan. Based on our review and inquiry we noted that these results can be generated on a monthly basis, however, this report is not requested or provided on a monthly basis for review of the Division.</p> <p><b>Recommendation</b>                      We recommend the Division request the customer service survey results on a monthly basis to assess the results regarding the quality and timeliness of customer service as provided by their Division.</p> <p><b>Management Response</b>                      Management acknowledges the auditor's recommendation for requesting monthly customer survey results. We will insert a column into the C1 report to indicate how many customer service surveys were received and the method of response, either by email or phone.</p> <p>2. <u>Customer Calls</u>                      Based on our discussions with staff and observations we noted that customer service representatives are not required to give a standard greeting and/or a standard closing for each phone call.</p> <p><b>Recommendation</b>                      We recommend the Division develop and utilize:</p> <ul style="list-style-type: none"> <li>• A standard greeting where the representative greets the customer, states their name, and asks how they can assist them; and,</li> <li>• A standard closing where the representative asks the customer if there is any additional assistance needed and thanks them for calling to formally close the call.</li> </ul> <p><b>Management Response</b>                      Management acknowledges the auditor's recommendation to develop and utilize a standard greeting and closing remarks. We will prepare a greeting and closing for our customer service representatives to use.</p>		<p>To improve the customer service provided to the public.</p> <p>Improved customer service.</p>

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3	July 9, 2015	Customer Communications	<p>3. <u>Quality Control Monitoring</u>            Through our observations and inquiry we noted that monitoring of customer service calls is done by the team leads when a customer service representative is in training and when it appears a representative needs assistance if a call is getting escalated. However, the Division does not have a set requirement on when and how often monitoring should be performed.</p> <p><b>Recommendation</b>            We recommend the Division conduct customer service quality control monitoring on an ongoing basis to ensure the customer service representatives are providing excellent customer service. The Division should establish parameters for each representative based on experience level to ensure that customer service is performed at a high level.</p> <p><b>Management Response</b>            Management acknowledges the auditor's recommendation. Escalated calls are only one reason for monitoring calls but we do monitor calls throughout the day. The monitoring is done by one of the team leads, the Communications Coordinator and the Division Director. The calls are also visually monitored through the Centergy Software. We will have discussions to determine the parameters for each staff member and to implement a policy to monitor each staff member during each quarter to ensure the level of customer service being provided is of the highest quality.</p>		Improve supervision and monitoring of customer service.

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)	Fiscal Impact/Other Impact
	June 22, 2012	Cash Collection Fee Process/ Remittance	<p>Follow-up FY 2012 comments and recommendations:</p> <ol style="list-style-type: none"> <li>Unassigned Cash Report and Refund Delays</li> </ol> <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><b>Implemented</b></p> <p>TREC utilizes multiple reports to track and reconcile payments received and deposited. The unassigned cash report is a tool used to verify reconciliations on a monthly basis.</p>	<p>Safeguarding of funds and complying with Fiduciary requirements</p>

# TEXAS REAL ESTATE COMMISSION

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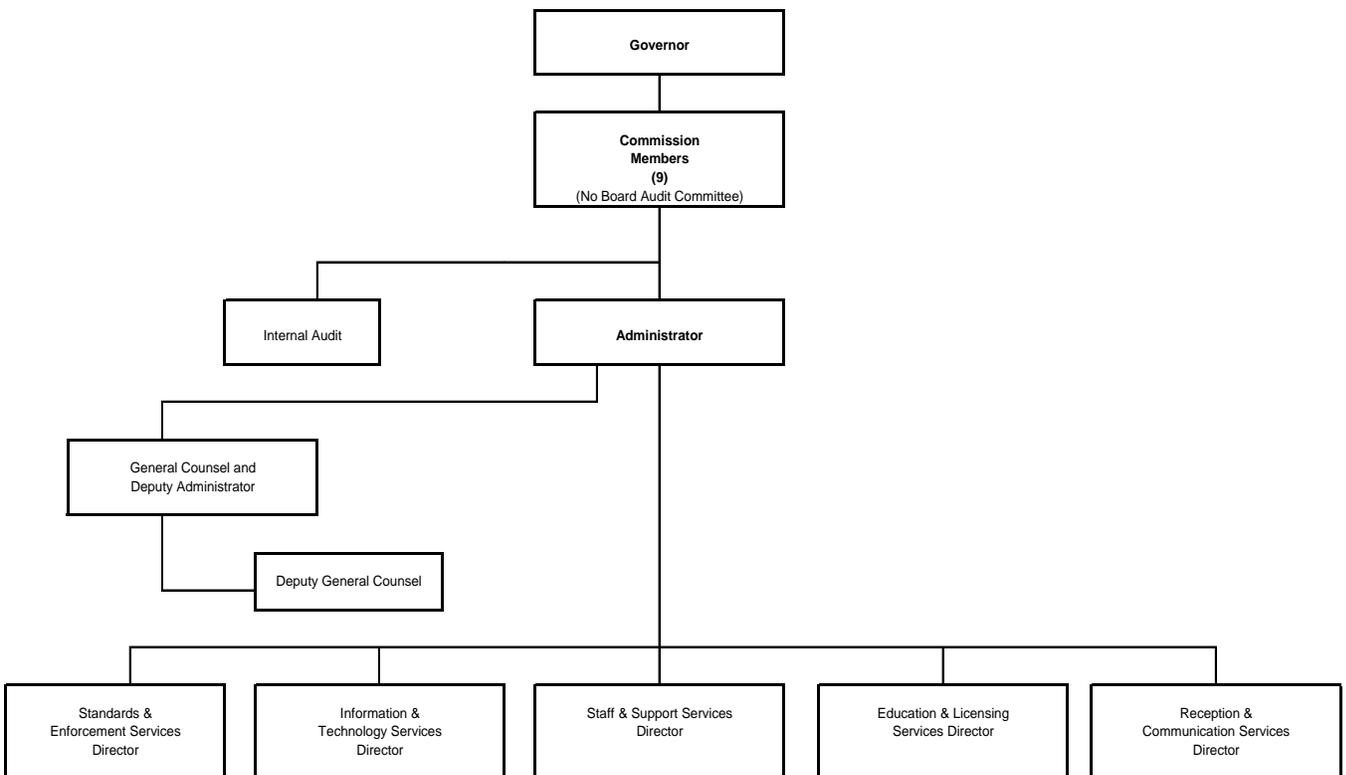
Fiscal Year 2015

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## V. Consulting and Non-audit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards December 2011 Revision*, Sections 3.33-3.55.

## VI. Organizational Chart



## VII. Report on Other Internal Audit Activities

Nothing to report.

## VIII. Proposed Internal Audit Plan for Fiscal Year 2016

- Cash Collection Fees Process / Remittance
- HUB Compliance
- Performance Measures
- Other Tasks as May Be Assigned by the Commission

## **TEXAS REAL ESTATE COMMISSION**

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Fiscal Year 2015

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### **IX. External Audit Services Procured in 2015**

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 complies with Section 7.09 Fraud Reporting General Appropriation Act (83<sup>rd</sup> Legislative, Conference Committee Report), Article IX by providing information on their home page regarding how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) and posting a link to the SAO's fraud hotline. In addition, the Commission includes in their policies information on how to report suspected fraud involving state funds to the SAO related to the Texas Government Code, Section 321.022 Coordination of Investigations.

### **XI. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on TREC's Website.**

To comply with the provisions of House Bill 16, within 30 days of approval by the Commission, TREC will post the following information on its website:

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2102.008
- A fiscal year 2015 internal audit annual report, as required by Texas Government Code, Section 2102.009

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal audit as well as the summary of the action taken by TREC to address these concerns.

# TEXAS REAL ESTATE COMMISSION

## Summary of Investments

	August 31, 2014 Book Value	August 31, 2014 Market Value
<b>Equity Securities:</b>	\$ -	\$ -
U.S. Common Stock	-	-
Equity Mutual Funds	-	-
Other Equity Securities (list)	-	-
<b>Total Equities</b>	-	-
 <b>Other Investments:</b>		
Real Estate	-	-
Private Equity	-	-
Annuities	-	-
Collective Endowment Funds	-	-
Commodities	-	-
Collectibles	-	-
Other (list)	-	-
<b>Total Other Investments</b>	-	-
 <b>Debt Investments &gt;1 year:</b>		
U.S. Government	99,903	99,918
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)	-	-
<b>Total Debt &gt;1 year</b>	<b>99,903</b>	<b>99,918</b>
 <b>Short Term Investments:</b>		-
U.S. Government	1,113,834	1,107,319
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	1,460,428	1,460,428
Other (list)	-	-
<b>Total Short Term Debt</b>	<b>2,574,262</b>	<b>2,567,747</b>
 <b>TOTAL INVESTMENTS:</b>	<b>\$ 2,674,165</b>	<b>\$ 2,667,666</b>