

TEXAS REAL ESTATE COMMISSION

Report of Internal Auditors

For Fiscal Year 1999

August 31, 1999

To the Audit Committee
of the Texas Real Estate Commission:

In accordance with the Internal Audit Charter and the direction of the Audit Committee, we have reviewed Texas Real Estate Commission's (the Commission) compliance with the Texas Public Funds Investment Act and prepared a comprehensive five-year internal audit plan. During our review, we were given full access to accounting records, supporting documents and other information that we requested.

Background

Compliance with Texas Public Funds Investment Act

The Texas Public Funds Investment Act was passed by the State Legislature during the 1995 legislative session. This Act is a revision of the original Public Funds Investment Act of 1987 (Act) and took effect September 1, 1995. The Act again was revised, and those revisions took effect September 1, 1998. The focus of this revised legislation is on controls over the investment trading organizations affiliated with state and local governments responsible for these funds, accountability by requiring a review of quarterly investment reports by an auditor, and education by requiring investment officers to attend classes on their responsibilities relating to investing public moneys. Some of the more significant provisions contained in the Act concern investment policies, designation of investment officer(s), investment reporting, and investment training. Our review centered on the Commission's compliance with the Act for purposes of reporting any issues of non-compliance to the Office of the State Auditor.

Five-Year Internal Audit Plan

In accordance with the Internal Audit Charter, we facilitated a comprehensive risk assessment of the Commission in order to prepare a five-year internal audit plan. Our process included reviewing financial and strategic plans, surveying commission members, and making inquiries of key staff regarding risks and controls. Their reported assessments culminated in a separate report to be approved by the Commission.

Objectives And Scope

The objective of our review is to determine: (1) adequacy and effectiveness of internal control procedures; (2) compliance with stated statutes, policies, and procedures; (3) reliability and integrity of information; and (4) utilization of information systems and controls.

Management is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of such a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are properly recorded.

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Internal Audit Recommendations

We noted no significant recommendations for the divisions/systems reviewed that are required to be reported in our annual report to the State Auditor for fiscal year 1999.

Status of Prior Year Internal Audit Recommendations

The Commission implemented our recommendation suggested in our 1998 Internal Audit Report related to enforcing its physical security policies over the information systems.

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This report is intended solely for the information and use of the Audit Committee, management, State Auditor of Texas, and others within the Commission.

Very truly yours,

KPMG LLP