

TEXAS REAL ESTATE COMMISSION
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2014



TEXAS REAL ESTATE COMMISSION
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Annual Internal Audit Report
Fiscal Year 2014

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Garza/Gonzalez & Associates

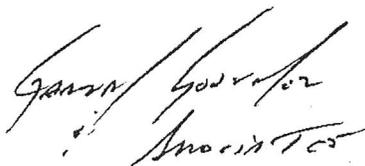
CERTIFIED PUBLIC ACCOUNTANTS

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 the Education Program Monitoring, Recovery Fund, and the Timeshare Registration areas and its compliance with the applicable rules and regulations, and the Commission's established policies and procedures for the year ended August 31, 2014. The results of our tests disclosed that such controls were adequate and no instances of noncompliance were noted. However, the report that accompanies this letter includes an observation made regarding the Timeshare Program. 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 observation 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 Commission's personnel during the course of our audit.

Handwritten signature in cursive script, appearing to read "Garza/Gonzalez Associates".

July 18, 2014

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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 has completed a two year transition appropriation phase for fiscal year 2012 and 2013 that allowed for 50% of the Commission's 2011 appropriations to be enacted. The Commission has completed its requirements related to the repayment of those appropriations with Commission revenue.

We were engaged to perform internal audits of the following areas identified in Commission's fiscal 2014 Internal Audit Plan:

- Education Program Monitoring
- Recovery Fund
- Timeshare Registration
- Follow-up of Prior Year Internal Audits

This report contains the results of our audit of the Education Program Monitoring, Recovery Fund, and the Timeshare Registration 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

Education Program Monitoring

Background

The Education Section (Section) of the Licensing and Education Division (Division) of the Texas Real Estate Commission (the Commission) is responsible for the accreditation of proprietary schools as providers of core education; approval of Mandatory Continuing Education (MCE) providers; and, approval of core and MCE instructors and courses in accordance with applicable laws and regulations provided in the Real Estate License Act, Texas Occupation Code (TOC) and Rules of the Texas Real Estate Commission (TAC) as well as established the Section's established policies and procedures.

Structure

The Section is comprised of a Permit Specialist, 3 Education Specialists, and an Education Team Lead. The Section is managed by the Education Manager who reports to the Division Director.

Computer System / Record Maintenance

The Section utilizes a computer system (VERSA) as the system of record to input, update, and maintain information on all licenses processed by the Section. Data can be generated by defined search fields such as, identification numbers, name, or license number. Significant data maintained in the VERSA system include:

- Contact Information
- License(s) Held
- License(s) effective and expiration dates
- Qualifications/requirements met by the licensee
- Checklists

In addition to the data maintained in VERSA, hard copy files are maintained for each licensee. The documents included in the files are original applications, renewals, all supporting documentation provided by the licensee, and copies of correspondence.

An entity or person interested in applying for any license has public access to instructions, application forms, and a listing of required documents via the Commission's website. All submissions to the section are to be mailed to the Commission for processing.

Applications are received in the Commission mailroom where the Cashiers open the mail and date stamp the applications and enclosed documents. The Cashiers also collect the fees enclosed and record the amount collected on the application with their initials. The funds are prepared for deposit through the cashier function while the application and documentation are separated and forwarded to the Licensing Division.

The Education Team Lead is responsible for allocating the mailed applications among the Education Specialists. The Education Specialist's review the applications and have the ability to approve an application. During review of the application if additional information is needed a request for information is prepared and sent to the applicant via letter or email.

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The following paragraphs discuss each license processed by the Section and the requirements an applicant must meet to obtain the Commission's approval and licensure.

Proprietary Schools:

In accordance with the TOC §1101.301 and TAC §535.63, an entity wishing to offer core education programs or courses of study may apply to the Commission for approval to be a proprietary school. For an initial accreditation application, each applicant is required to submit the following:

- Education Provider Application – Form ED PAPS-1. The application captures information such as name, address, business type, and criminal history.
- Real Estate School Bond – Form ED 5-2. In accordance with the TOC §1101.302, applicants are required to obtain a \$20,000 real estate school bond payable to the Commission.
- Principal Application – Form ED PA-0. Each person who owns at least 10% interest in the proprietary school is required to complete this form. The form captures information such as name, address, license and criminal history.
- Other documents:
 - List of assumed names to be used by the proprietary school.
 - Detail description of the proprietary school location including floor plan, parking provisions, and record storage.
 - Enrollment agreement, including tuition and refund policy, attendance requirements, makeup procedures, additional fees, and time limits.
 - Contingency plan in the event class is canceled due to lack of instructor, insufficient enrollment, or inclement weather.
 - List of individuals authorized to sign for the education provider.
- Current statement of financial condition and net worth for each person owning at least 10% interest in the proprietary school.
- Proposed budget and market survey indicating the anticipated enrollment for the first year of operation.

A \$400 fee is required for processing the application. Proprietary schools are approved for a four year term; however, an annual fee of \$200 is required on the anniversary date of the approval. The TAC §535.101 authorizes the Commission to collect these fees.

An Education Specialist reviews the application and utilizes a checklist to ensure the above documents, and fee is obtained from each applicant. Information provided on the application is entered into VERSA as a new application and an identification number is generated. Once the Education Specialist has determined that the entity has provided documentation of having met all the requirements and entered data into the required fields in VERSA, it is then approved on the VERSA system and a license number is generated. An approval letter is mailed to the applicant informing them of the approval, the license number, the license's effective and expiration dates, and information on the \$200 annual fee assessment.

The Section mails notifications to the licensee 90 days prior to the expiration of the Proprietary School license encouraging them to apply for re-accreditation and to submit the following required documents 30 days before expiration for continuous licensure for another four years:

- Education Provider Application – Form ED PAPS-1 (additional attachments must be current)
- Principal Application
- Core Real Estate Course Application
- Fee payment of \$400

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An Education Specialist reviews the application and uses a checklist to ensure compliance and that required documentation is obtained. If all the re-accreditation requirements are satisfied, the Education Specialist will update VERSA and extend the expiration date for another four years. A letter is then sent to the Proprietary School informing them that their license has been renewed for another four years and reaffirms the annual \$200 fee assessment.

Core Instructors:

To be an approved core instructor, a person must satisfy the Commission as to their competency in the subject matter and ability to teach effectively. In accordance with the TAC §535.67, the applicant must possess the following qualifications:

- College degree or five years professional experience in the subject area; and three years of experience in teaching or training; or
- The equivalent of the above as determined by the Commission after due consideration of the applicant's professional experience, research, authorship, or other significant endeavors in the subject area.

An applicant is required submit the Instructor Application – Form ED INE-1 and a \$150 fee. The application captures information such as (1) name; (2) address; (3) real estate or other professional license type and number, areas of specialization, state and number active years, as applicable; (4) teaching credentials; (5) license and criminal history; (6) courses seeking approval; (7) formal education; (8) teaching experience; and (9) memberships in professional organizations.

An Education Specialist reviews the application and uses a checklist to ensure the application, required documents, and the fee is obtained. Once the Education Specialist determines that the applicant has met all the requirements and entered the required fields on VERSA, the application is approved. An approval letter is mailed to the applicant informing them of the Commission's approval and the license effective and expiration dates.

Core Instructors are approved for a two year term. To maintain continuous licensure, the Instructor is encouraged to reapply and submit the Instructor Application – Form ED INE-1 and \$150 fee 30 days before the current license expires.

Core Real Estate Courses:

Acceptable core real estate courses are those courses prescribed by the TOC §1101.003 and the TAC §535.62 and TAC §535.64. Core real estate courses include:

- Agency Law
- Contracts Law
- Principles of Real Estate
- Property Management
- Real Estate Appraisal
- Real Estate Brokerage
- Real Estate Finance
- Real Estate Investment
- Real Estate Law
- Real Estate Marketing
- Real Estate Mathematics
- Promulgated Contract Forms
- Residential Inspection for Real Estate Agents

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- Proprietary schools are required to obtain approval from the Commission for each core real estate course to be offered. The proprietary school is required to submit the Course Application, Form ED CA-2, which includes the provider name, course title, hours requested, and location of course. The following documents are also required:
 - Timed course outline.
 - Textbook or other learning material to be utilized by the students.
 - Instructor's manual created in accordance with the 'Instructor Manual Guidelines for Core Real Estate and Real Estate Related Courses'.
 - Final examination and answer key. The final examination must contain at least 60 questions.
 - Student handouts that will be given to the students.
 - Course evaluation form, if other than the 'Evaluation Form ED CIE-0.
 - Sample of the Course Completion Certificate.
 - Permission letter to use or reproduce the materials from the author or original provider, if applicable.

A proprietary school may use a core real estate course that has been approved by the Commission under a different provider. Under this situation, the applicant is required to submit the Course Application, Form ED CA-2; timed course outline; final examination and answer key; course evaluation form; sample of the course completion certificate; and, permission letter to use or reproduce the materials from the author or original provider.

In accordance with §535.101, the fee for core real estate courses is calculated:

$\$50 + (\$20 \times \text{total number of hours requested})$

The total number of hours requested represents each classroom hour of credit the applicant proposes to give for the course. A detail of these hours is provided in the required Time Course Outline.

An Education Specialist reviews the application and uses a checklist for each core real estate course to ensure the course meets the requirements of the TOC 1101.003 and the TAC §535.62 and §535.64. Once the Education Specialist determines that all the requirements have been met and the required fields on VERSA have been entered, the application is approved. An approval letter is mailed to the applicant informing them of the Commission's approval and the licenses effective and expiration date.

A Core Real Estate Course license is valid for a four year term. To maintain continuous licensure, the Provider of these Core Real Estate Courses is encouraged to renew licensure for these courses for another four year term. This is typically performed concurrently with the re-accreditation of a Proprietary School process.

MCE Providers:

To be approved as an MCE provider, a person must satisfy the Commission as to the person's ability to administer with honesty, trustworthiness and integrity a course of continuing education in MCE subjects registered with the Commission. In accordance with the TOC §1101.455 and TAC §535.71, an entity wishing to offer MCE programs or courses of study may apply to the Commission for approval to be a MCE provider. Each applicant is required to submit the following:

- MCE Provider Application – MCE Form PA-0. The application captures information such as name, address, and business type.

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- MCE Principal Information Form – MCE Form PIF-0. Each person with at least 10% ownership is required to complete this form. The form captures information such as name, address, license history, education and business background.
- Other documents:
 - List of assumed names to be used by the MCE provider.
 - A current Franchise Tax Account Status from the Texas Comptroller (if the Corporation is chartered in Texas)
 - A Certificate of Fact from the Texas Secretary of State Office (if corporation is chartered in a different State)
 - Sample of advertisement to be used by the MCE provider.
 - Refund policy

A \$400 fee is required for processing the application.

An Education Specialist reviews the application and utilizes a checklist to ensure the above forms, documents, and fee is obtained from each applicant. Once the Education Specialist has entered the required fields into VERSA and determined that the entity has provided all the required documentation, the application is approved. An approval letter is mailed to the applicant informing them of the approval, and the license effective and expiration date.

MCE providers are approved for a two year term. To maintain continuous licensure they must renew and re-submit the same documentation and \$400 fee 30 days before the current license expires.

MCE Instructors:

In accordance with the TAC §535.71, a person wishing to be an instructor of any MCE course is required to apply to the Commission for approval. To be approved as an MCE instructor, an applicant must satisfy the Commission as to the applicant's honesty, trustworthiness and integrity.

An applicant is required to submit the MCE Instructor Application – Form MCE IA-2 and a \$150 fee. The application captures information such as name, address, real estate license number and expiration date, and license and criminal history.

An Education Specialist is responsible for ensuring the application is complete and the required fee is obtained. The Education Specialist approves the application in VERSA and an approval letter is mailed to the applicant informing them of the Commission's approval. MCE instructors are approved for a two year term.

To maintain continuous licensure they must renew and re-submit the same documentation and \$150 fee 30 days before the current license expires.

MCE Courses:

MCE providers are required to obtain approval to offer a course for MCE elective credit. The MCE provider is required to submit the MCE Course Application, Form MCE CA-2, which includes the provider's name and number, course title, brief statement that describes the course objectives and how the subject matter relates to activities for which a real estate license is required, starting date of course, number of MCE classroom hours requested, number of days the class will meet, and course fee. A permission letter to use or reproduce the materials from the author or original provider is required.

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In accordance with §535.101, the fee to process a core real estate course application is calculated:

\$50 + (\$10 x total number of hours requested)

The total number of hours requested represents each classroom hour of credit the applicant proposes to give for the course.

The Education Specialist uses a checklist to ensure the application is complete; required documents are obtained and the fee is collected. Once the Education Specialist has entered the required fields in VERSA and determined that all the requirements have been met, the application is approved. An approval letter is then mailed to the applicant informing them of the Commission's approval and the expiration date.

MCE Courses are approved for a two year term. To maintain continuous licensure they must renew and re-submit the same documentation and the fee 30 days before the current license expires.

For the period of September 1, 2013 to May 31, 2014, the Commission approved the following applications:

<u>Application Type</u>	<u>Number Approved</u>
Proprietary Schools	1
Proprietary Schools Renewed	1
MCE Providers	40
MCE Providers Renewed	60
Instructors	253
Instructors Renewed	234
Core Courses	21
MCE Courses	860

The Sunset Commission recommended the Commission make available to the public the pass/fail rates of Core Education Providers accordingly the pass/fail rates of Core Education Providers are published on the Commissions website.

Audit Scope

The objective of our audit was to gain an understanding of the Education Program's process to determine whether the applicable statutes, rules, policies, and procedures are consistently applied.

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

- Obtained and reviewed the Organizational Structure of the Education Program area.
- Reviewed and obtained an understanding of the applicable provisions of the Texas Real Estate Act, Texas Occupation Code (TOC) and the Rules of the Texas Real Estate Commission (TAC).
- Reviewed the Education Section's written policies and procedures, collected available documentation, and conducted interviews to document formal/informal processes and controls.

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- Obtained a listing of the following applications processed from September 1, 2013 to May 31, 2014 and randomly selected a sample of applications to determine that the rules, regulations, policies and procedures for processing the applications were consistently applied and the required documentation and application fees were collected.

<u>Type of Application</u>	<u>Sample Size Tested</u>
Proprietary School Applications	1
Proprietary School Renewals	1
Core & MCE Instructors	10
Core & MCE Instructor Renewals	10
Core Courses	5
MCE Providers	5
MCE Provider Renewals	5
MCE Courses	10

Recovery Fund (Real Estate and Inspection Funds)

Background

The Real Estate Recovery fund was established on May 19, 1975 by an amendment to the Real Estate License Act. The Commission was directed to use the fund for reimbursing aggrieved persons who suffer monetary damages by reason of certain acts committed by a duly licensed real estate broker or salesperson, or by an unlicensed employee or agent of a broker or salesperson.

The Real Estate Inspection Recovery Fund provides remedy for consumers holding an unsatisfied judgment against a real estate inspector.

A \$10.00 Recovery Fund fee is collected from each new applicant for a license in addition to the regular License filing fee. If at any time the balance remaining in the Real Estate Recovery Fund 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 Fund 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.

A Real Estate Inspection Recovery Fund fee, not to exceed \$200, is collected prior to the issuance of an inspector's license. If at any time the balance remaining in the Real Estate Inspectors Recovery Fund is less than \$300,000, each inspector will be required to pay a fee of \$75, or a pro rata share of the amount necessary to bring the fund to \$450,000 whichever is less at the time of the next renewal. 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 Fund may be invested and reinvested in the same manner as funds of the Employees Retirement System of Texas. All investment transactions for both funds are conducted through the Texas State Treasury Operations of the Comptroller of Public Accounts.

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The Administrative Division through the office of the General Counsel is responsible for undertaking legal review of recovery fund claims. The claims are reviewed to determine if all statutory requirements for payment have been satisfied, provided the requirements have been met the claim may be submitted to the members of the Commission for consideration. The Attorney General of the State of Texas represents the Commission in opposition of any claims and is apprised of claims under review. The members of the Commission may authorize payment or instruct staff to oppose the claim. Payment is limited to the aggregate of \$50,000 per transaction and to \$100,000 for any one licensee or registrant from the Real Estate Recovery Fund. Similarly, each claim is limited to the aggregate of \$12,500; additionally payments for any one licensed inspector may not exceed \$30,000 from the Real Estate Inspectors Recovery Fund.

Audit Scope

The objective of our audit was to determine that the Commission operates the recovery funds in a manner consistent with the laws and regulations and the applicable policies and procedures of the Commission and in a fair and equitable manner.

The audit procedures performed to achieve the objective of our audit included the following:

- Reviewed the Commission's policies, procedures, and current practices to ensure that the recovery funds are administered according to the applicable laws, rules and regulations.
- Performed a review of selected applications for recovery to determine that identified policies, procedures and current practices of the Commission are properly and consistently applied.
- Performed a review to determine that established internal controls and administrative practices are implemented and consistently applied.
- Performed an analysis of the activity and balances of the recovery funds to determine that the funds are properly and consistently managed with respect to applicable laws and regulations.

Timeshares Registration

Background

The Timeshare Program (Program) of the Texas Real Estate Commission (Commission) is responsible the registration of timeshare plans in the state of Texas in accordance with the Texas Timeshare Act, Chapter 221, Texas Property Code (TPC) and 22 Texas Administrative Code (TAC) §543.

Organizational Structure

Program staff are members of the Commission's Standards & Enforcement Services Division (SES Division). In addition to administering the Program, they perform other duties within the SES Division. The Program staff is comprised of two attorneys, a legal assistant, and an administrative assistant. One of the two attorneys is the Team Leader. The Team Leader reports to the SES Division Director.

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Computer Systems

VERSA is a computer system used by the Program staff to enter, update and maintain information regarding the status of a registered timeshare plan. Data that is entered and maintained in VERSA include:

- Contact Information
- Fees assessed and paid
- Effective and Expiration Dates
- Transaction Checklists

In lieu of submitting hard copies of the required documentation to the Commission, applicants have the option to electronically upload, submit and maintain the required documents on the ARELLO Timeshare Registry (ATR). The ATR was designed to serve as a centralized data repository for timeshare plan registrations. When an applicant uses the ATR, only the application and the fee payment are required to be submitted directly to the Commission.

Registration Information for Public

The required forms and instructions on how to register or amend/renew a registered timeshare plan are available to the public via the Commission website. Additionally, the Program's contact information as well as information on how to file a complaint with the Commission is also available online.

Using the information and forms available online, a developer may choose to mail their entire application or mail just the application and fee payment to the Commission and upload the additional required documentation on the ATR.

Types of Applications

The following are the types of timeshare plan applications processed:

- Registration of a new timeshare plan
- Abbreviated registration of a new timeshare plan**
- Renew a registered timeshare plan
- Amend a registered timeshare plan
- Presale Authorization for a timeshare plan***

** Used in lieu of a registration of a new timeshare plan in instances where the timeshare plan is registered in another jurisdiction that has similar or stricter requirements than Texas. The Commission will accept abbreviated registration applications from developers who have registered timeshares in the following jurisdictions: Arizona, Bahamas, California, Colorado, Florida, Hawaii, Illinois, Louisiana, New York, South Carolina, and Washington.

***Used to obtain authorization from Commission to conduct presales of timeshare interests in Texas and usually submitted concurrently with any application listed above.

Application Intake

Applications are processed in the mailroom where it is date stamped upon receipt. When money is enclosed with an application, the mailroom cashiers perform the following:

- Stamp an ID number on the check and on the application.
- Initial the application and record the amount of money collected.
- Create a batch statement listing the ID numbers and amount of money received for the Program.

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The money remains with the mailroom cashiers and is processed for deposit. The batch statement and the applications are gathered and delivered to the Program Team Leader. The Team Leader will assign new applications between herself and the other attorney and forward renewals to the legal assistant. A first review is performed which should be completed within 3 days of its receipt. The first review is to determine if the filing will be accepted for further processing.

This first review for new applications consists of:

- Ensuring that the correct required application form was used
- Determining that the application form appears complete and is signed
- Fee assessment is recalculated and compared to the amount collected to ensure accuracy

If significant deficiencies are noted in this first review, the filing will be returned with a letter informing the applicant of the deficiencies. For insignificant deficiencies, the attorney or legal assistant holds onto the application and contacts the applicant to resolve the deficiency. For example; if the fee calculated and paid was incorrect, the attorney will contact the applicant for the additional funds.

Once the first review is completed and deficiencies, if any, have been resolved, the attorney or legal assistant will document "filing accepted", their initials, and date on the application. They will also indicate on the batch statement that the filing has been accepted.

When all the applications in a batch have passed the first review, the applications and batch statement are gathered and forwarded to the Administrative Assistant (AA). The AA enters the application information and accepts the filing fee payment in VERSA. The stamped ID number from the mailroom is used as an identifying number for the payment. Once processed into VERSA the applications are returned to the assigned attorney or legal assistant for review and processing.

An amendment to a timeshare plan is processed in the same manner.

Processing an Application

To ensure that the developer meets requirements outlined in Chapter 221 of the TPC and §534 of the 22 TAC and that the required documents are obtained, the Program attorneys and legal assistant utilize a detailed checklist.

The Sales Contract and the Disclosure Statement are reviewed in detail. For compliance with the Texas Timeshare Act, specific language must be used in the sales contract required for consumer protection. Additionally the disclosure statements must meet specific guidelines to ensure that purchasers are fully informed of the transaction.

Upon completing the review a deficiency letter is normally sent to the applicant to request missing documents and/or to communicate required revisions.

Once all the requirements have been satisfied and the checklist is completed, the timeshare plan is registered on the VERSA System. The attorney who processed and approved the application prepares and sends a letter to the timeshare plan developer informing them of the registration approval and the effective two year period of the registration.

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Fees

22 TAC §543.3 authorizes the following fees to be collected:

- A filing fee for a new registration application or abbreviated application can be at minimum \$500 and a maximum of \$3,500. The fee is dependent on the number of timeshare interests to be registered. The fee is computed as follows:
 1. Number of accommodations in timeshare plan X Number of interests in each accommodation X 2 = A
 2. If A is \$500 or less; the fee is \$500.
 3. If A is \$3,500 or more; the fee is \$3,500.
- A filing fee renewal of a registered timeshare plan is \$100. A \$25 per month late fee is assessed if the renewal is more than 60 days late.
- A filing fee to amend a registered timeshare plan can be at minimum \$100 and a maximum of \$2,000. The fee may change, depending on the number of additional timeshare interests to be registered, if any. The fee is computed as follows:
 1. Number of additional accommodations in timeshare plan X Number of interests in each accommodation X 2 = B
 2. If B is \$100 or less; the fee is \$100.
 3. If B is \$2,000 or more; the fee is \$2,000.

A filing fee for a presale authorization for a timeshare plan is \$100.

Audit Scope

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

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

- Obtained and reviewed the Timeshare Program's organizational structure.
- Obtained, reviewed and gained an understanding of the Texas Timeshare Act, Chapter 221 of the Texas Property Code, and Chapter 534 of the 22 Texas Administrative Code which govern the Timeshare Program.
- Obtained an understanding of the Timeshare Program's formal and informal practices by reviewing established policies and procedures and conducting interviews with key personnel.
- Obtained a listing of applications to register a new timeshare plan that were processed from September 1, 2013 – May 31, 2014 and haphazardly selected a sample to test the following attributes:
 - Ensure that the required documents were obtained.
 - Ensure the collection of the filing fee.
 - Ensure that the laws, regulations, policies and procedure for processing the new timeshare plan registrations were consistently applied.

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- Obtained a listing of applications to renew registered timeshare plans that were processed from September 1, 2013 – May 31, 2014 and randomly selected a sample to test the following attributes:
 - Ensure that the required documents were obtained.
 - Ensure the collection of the filing fee.
 - Ensure that the laws, regulations, policies and procedure for processing the new timeshare plan registrations were consistently applied.

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I. Internal Audit Plan for Fiscal Year 2014

The fiscal year 2014 internal audit plan for the Commission is based on the Risk Assessment performed for the fiscal year ended 2014. 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 2014.

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 2014. 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
Education Program Monitoring	Cash Collection Fee Process/Remittance	Residential Service Companies
Examination Process	License Application and Registration Process	Customer Communications
Complaint/Investigation Process	Payroll and Personnel Process	Records Retention
Recovery Fund	Purchasing and Receiving	HUB-Compliance
Timeshare Registration	Fixed Assets	Performance Measures
	Cash Disbursement and Travel Processing	
	Information Systems	
	Reporting and Budgeting	

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In prior years, the following internal audits were performed:

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

Fiscal Year 2011

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

Based on the risk assessment process an Internal Audit Plan was developed that includes the following recommended internal audits for fiscal year 2014, the proposed audit procedures are as follows:

Fiscal Year 2014

1. Education Program Monitoring
2. Recovery Fund
3. Timeshare Registration
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 25, 2014	Education Program Monitoring	The objective of our audit was to gain an understanding of the Education Program's process to determine whether the applicable statutes, rules, policies, and procedures are consistently applied.
2	July 25, 2014	Recovery Fund	The objective of our audit was to determine that the Commission operates the recovery funds in a manner consistent with the laws and regulations and the applicable policies and procedures of the Commission and in a fair and equitable manner.
3	July 25, 2014	Timeshare Registration	The objective of our audit was to gain an understanding of the Timeshare Program 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 (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	July 25, 2014	Education Program Monitoring	None.		
2	July 25, 2014	Recovery Fund	None.		
3	July 25, 2014	Timeshare Registration	<p><u>Observation</u></p> <p>Publication of Annual Requirements</p> <p>Per §221.074 of the Texas Timeshare Act, managing entities (developers) who have registered timeshares with the Commission must annually perform the following:</p> <ul style="list-style-type: none"> • Make written accounting of the operation of the timeshare properties available to each purchaser who requests an accounting no later than five months after last day of each fiscal year. The statement shall fairly and accurately represent the collection and expenditure of assessments and include: <ul style="list-style-type: none"> ○ A balance sheet ○ An income and expense statement ○ The current budget for the timeshare property ○ The name, address, and telephone number of a designated representative of the maintaining entity. • Have an independent audit of the financial statements of the timeshare plan or timeshare properties performed by a certified public accountant or accounting firm. <p>Recommendation</p> <p>To enhance the public's awareness, the Commission should consider publishing these annual requirements on the Commission website.</p> <p>Management's Response</p> <p>The Commission will consider publishing these annual requirements on the Commission website.</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
1	June 13, 2013	Public Funds Investment Act	<p>Follow-up FY 2013 comments and recommendations:</p> <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. Commission members and investment officers should obtain/attend public funds investment act training in the required time as required by Sec. 2256.007 Government Code.</p>	Fully Implemented	Compliance with the PFI
2	June 13, 2013	Complaints/ Investigation Process	<p>1. Staff Reports</p> <p>The SES division request and retain the source data (case listings) used to prepare the E-1 'Case Status' and the E-2 'Open Case Aging Report' 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>	Fully Implemented	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. 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>	Substantially Implemented	Safeguarding of funds and complying with Fiduciary requirements
	June 22, 2012	License Application and Registration Process	<p>2. 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 and Education 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>	Fully Implemented	Application of Licensing Controls and Operations

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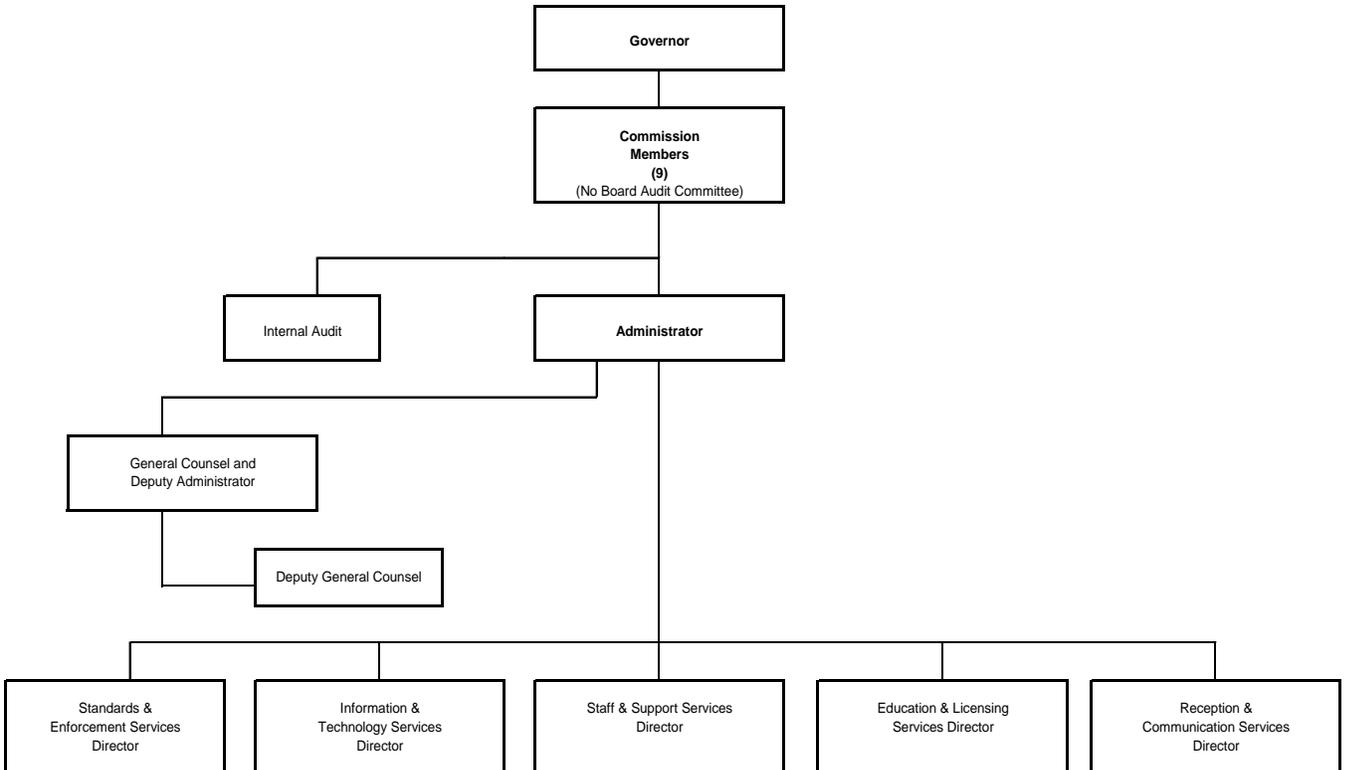
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V. List of Consulting Engagements and Non-audit Services Completed

None to report.

VI. Organizational Chart



VII. Report on Other Internal Audit Activities

Nothing to report.

VIII. Proposed Internal Audit Plan for Fiscal Year 2015

- Examination
- Customer Communications
- Public Funds Investment Act
- Other Tasks as May Be Assigned by the Commission

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IX. External Audit Services Procured in 2014

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 (83rd 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 2015 audit plan, as provided by Texas Government Code, Section 2102.008
- A fiscal year 2014 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.