

**TEXAS REAL ESTATE COMMISSION**  
Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

Fiscal Year 2016



TEXAS REAL ESTATE COMMISSION  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2016

TABLE OF CONTENTS

	<u>Page</u>
Internal Auditors' Report .....	1
Introduction .....	2
Internal Audit Objectives .....	3
Executive Summary	
License Application and Registration Process	
Background .....	4-5
Audit Scope .....	5-6
Reporting and Budgeting	
Background .....	6-12
Audit Scope .....	12-13
I. Internal Audit Plan for Fiscal Year 2016 .....	14-15
II. External Quality Assurance Review .....	16
III. List of Audits Completed by High Level Audit Objectives .....	16
IV. Key Audit Findings/Recommendations .....	17-20
V. Consulting and Non-audit Services Completed .....	21
VI. Organizational Chart .....	21
VII. Report on Other Internal Audit Activities .....	21
VIII. Proposed Internal Audit Plan for Fiscal Year 2017 .....	21
IX. External Audit Services Procured in 2016 .....	22
X. Reporting Suspected Fraud and Abuse .....	22
XI. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on TREC's Website .....	22

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

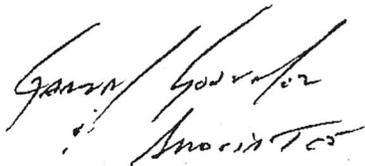
To the Commission Members of the  
Texas Real Estate Commission  
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the Texas Real Estate Commission (the Commission) internal control structure over the License Application and Registration Process, and the Reporting and Budgeting areas, and compliance with the applicable rules and regulations, and the Commission's established policies and procedures for the 9 months ended May 31, 2016.

The results of our tests disclosed that such controls were adequate and no instances of noncompliance were noted. 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.

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

July 1, 2016

# TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2016

---

## 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 Executive Director 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 and technology 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 executive director. The general counsel/deputy executive director serves in an administrative and an advisory position to the executive director.

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 2016 Internal Audit Plan:

- License Application and Registration Process
- Reporting and Budgeting
- Follow-up of Prior Year Internal Audits

This report contains the results of our audit of the License Application and Registration Process, and the Reporting and Budgeting areas; reflects the follow-up performed in the current year, and meets the Annual Internal Audit Report requirements.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2016

---

### 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.

# TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2016

---

## EXECUTIVE SUMMARY

### License Application and Registration Process

#### Background

The License Application and Registration Process area (the area) processes applications and license renewals for real estate brokers and sales agents; real estate inspectors; and easement or right-of-way agents. The area is comprised of six (6) Licensing Specialists, two (2) Team Leads, and a Licensing Manager. The Licensing Manager reports to the Education & Licensing Services (ELS) Division Director.

The Texas Occupations Code (TOC) §1101 and 1102 outlines specific requirements an applicant must meet to obtain and renew a real estate brokers or sales agent license and real estate inspectors, respectively. In general, new applicants are required to file an application prescribed by the Commission, pay the required application fee(s), pass a criminal history background check, satisfy specific education and/or experience requirements, and successfully pass an examination. A licensee must submit a renewal application prescribed by the Commission, pay the required renewal fee(s), and satisfy continuing education requirements to maintain a current license.

The objective of the Area is to determine that applicants for licensure meet the established legal requirements for license issuance. The Area includes the following major activities:

- Processing applications and renewals
- Processing information changes
- Entering education credits
- Maintaining records on former licensees.
- Issuing the following license types: salesperson, broker, inspector (apprentice, real estate, and professional), application for a broker's license by business entity (LLC, Corporation, Partnerships), and Easement or Right of Way (ROW).

As of the May 31, 2016 staff report, the Area processed the following number of license applications:

Brokers (Individual & Organizations)	2,237
Sales Agents	17,302
Inspectors	728
ERWs (Individual & Organizations)	203

The licensing function at the Commission is administered through two (2) sections as follows: Licensing and Education. The Education Section has been the subject of internal audits in prior years over education program monitoring and the proprietary school program approval process. For the purpose of this internal audit we will include testing of the evaluation performed and data entered into the Licensing System (Versa) by Area personnel and of Continuing Education requirements for the issuance and renewal of licenses.

## **TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2016

---

The licensing function is automated through the use of Commission's comprehensive and coordinated licensing system Versa. Versa is a fee and history-driven system consisting of multiple reporting programs and interactive screens. Versa provides a complete licensing system beginning with information on applicants for licenses, integration of education records for candidates, incorporation of examination results, determination of eligibility for licensure, certification that the minimum requirements have been met, and the production of a license which is subsequently mailed to the licensee.

Versa is used to track financial and historical events occurring for each applicant and licensee, maintenance of continuing education records, produces an accurate licensee data base, and ensures up to date computerized data for all active, inactive, and expired licensees for use in processing original applications and renewals. The system automatically produces "curative" letters seeking missing information from licensees, renewal notices in advance of each license expiration, issues Exam Eligibility notification letters to applicants; issues new and renewed licenses; and "expires" licenses when appropriate. A wide range of reports concerning licensing matters is produced by the Versa system to help measure and manage the licensing process.

The Commission offers online services that include original application and renewal for brokers and salespersons including Corporate and Limited Liability Companies and for the renewal of Professional Inspectors, Real Estate Inspectors, Apprentice Inspectors, Easement ROW Business and Easement ROW Individual licenses.

The processing of licenses and renewals online reduce the occurrence and /or eliminates the following manual processes:

- Serving walk-in customers who pay via check or money order in Cashier
- Receiving and opening mail in Cashier
- Processing checks and money orders in Cashier
- Processing renewal and application batches in Licensing
- Processing "exceptions" such as incorrect, unsigned, or returned checks (the system edits prevent incorrect data)
- The online application is considered a valid record.

### **Audit Scope**

The objective of our audit was to gain an understanding of the License Application and Registration Process area (the Area) to determine compliance applicable statutes, rules, policies, and procedures. The procedures performed to achieve the objective of our audit were as follows:

- 1) Reviewed applicable laws and regulations outlined in Chapters 1101 and 1102 of the Texas Occupations Code (TOC), the Commission rules, and the Texas Real Estate Licensing Act (the Act).
- 2) Obtained and reviewed established policies and procedures applicable to the area; and, conducted interviews with area personnel to obtain an understanding of the area's formal internal controls and processes.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2016

---

- 3) Obtained and reviewed detailed job descriptions of the area personnel to obtain an understanding of activities and duties involved in the area.
- 4) Reviewed key performance measures as prepared by the Commission to obtain an understanding of the goals and objectives that affect the area and to ensure data compiled is accurate and properly supported.
- 5) Obtained a listing of new license applications filed with the Commission beginning September 1, 2015 – May 31, 2016 and haphazardly selected 20 applications to test the following attributes:
  - a. Ensure submission of a complete new application as prescribed by the Commission.
  - b. Ensure applicant was at least 18 years of age.
  - c. Ensure accurate assessment and collection of the applicable fee(s).
  - d. Ensure the applicant passed a Background Check.
  - e. Ensure proper residency, if applicable.
  - f. Ensure the applicant is a U.S. citizen or legal alien.
  - g. Ensure the applicable education requirements were satisfied.
  - h. Ensure the applicable experience requirements were satisfied, if applicable.
  - i. Ensure the applicant successfully passed the applicable examination.
  - j. Ensure the applicant has not defaulted on any Student Loans, if applicable.
  - k. Ensure the applicant filed a Sponsorship form, if applicable.
  - l. Ensure the applicant provided proof of financial responsibility, if applicable.
  - m. Ensure the applicant provided proof of current insurance, if applicable.
- 6) Obtained a listing of renewal license applications filed with the Commission beginning September 1, 2015 – May 31, 2016 and haphazardly selected 20 applications to test the following attributes:
  - a. Ensure submission of a complete renewal application as prescribed by the Commission.
  - b. Ensure accurate assessment and collection of the applicable fee(s).
  - c. Ensure the applicant passed a Background Check.
  - d. Ensure the applicable continuing education requirements were satisfied.
  - e. Ensure the applicant filed a Sponsorship form, if applicable.
  - f. Ensure the applicant provided proof of financial responsibility, if applicable.
  - g. Ensure the applicant provided proof of current insurance, if applicable.
- 7) Obtained a listing of change control transactions processed by the area beginning September 1, 2015 – May 31, 2016 and haphazardly selected 25 transactions to test the following attributes:
  - a. Ensure accurate assessment and collection of the applicable fee(s).
  - b. Ensure the change requested is in effect and properly reflected in the Versa licensing system.
  - c. Ensure the change could be traced to a specific individual (employee/web user).

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2016

---

### Reporting and Budgeting

#### Background

Functions of the Reporting and Budgeting area (the Area) are performed by the following personnel of the Staff & Support Services (SSS) Division: two (2) accountants, a Chief Accountant, a Budget Analyst, and the Division Director.

#### Annual Budget

In February of every year, the Commission Chair appoints three Commissioners to the Budget Committee. The Budget Committee is charged with the responsibility of providing direction and oversight of the preparation of the annual budget. On an annual basis the SSS Division presents the subsequent fiscal year's budget at the August quarterly Commissioners' meeting. Once adopted by the Commissioners the new budget is put into effect at the beginning of the fiscal year, September 1<sup>st</sup>.

The projected agency activity and historical data over the course of the prior 5 years is taken into consideration when preparing the annual budget. Revenue projections are made to cover the projected current expenditures, in addition to the maintenance of an operating reserve of not less than 3 or more than 4 months of operating expenses. This process may lead to fee increases or decreases.

The draft budget undergoes multiple reviews by the Budget Committee, agency staff, and Commissioners for feedback or recommendations prior to adoption. At the discretion of the Budget Committee Chair, a special meeting may be called to address any major issues that arise related to the development of the draft budget.

The annual budget is monitored on a monthly basis by the Budget Analyst and Division Director. The Budget Status Report is presented in the quarterly Commissioners meetings. Final decisions and amendments related to the budget are to be approved by the Commission.

#### Monthly Staff Reports

The Monthly Staff Reports contain agency-wide reports that are presented to the Commissioners, these reports are also published on the Commission website. The following Monthly Staff Reports are prepared and reported by the Area.

#### *Budget Status Report (BSR)*

The BSR presents a comparison between the annual budget revenues and expenditures and the year-to-date actual revenues and expenditures, by category, as of month-end. The monthly BSR is prepared within two weeks subsequent to month-end. The Budget Analyst uses revenue reports from the Versa Licensing system and accounts payable voucher spreadsheets to update internal spreadsheets that support the BSR. The BSR and supporting documentation is reviewed and approved by the Division Director.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2016

---

### *Investment Reports*

Three Investment Reports are presented in the Monthly Staff Reports as follows:

- Texas Real Estate Commission Operating Account No. 3055 Investments - Current Securities;
- Real Estate Recovery Trust Account No. 3058 Investments - Current Securities; and,
- Real Estate Inspection Recovery Fund No. 0889 (3059).

On a monthly basis, an Accountant performs a reconciliation for all investment accounts using Investment Statements, USAS (state agency accounting system), and other deposit or transfer supporting documentation. This reconciliation and documentation is used to prepare the Investments Reports. The Investment Reports and supporting documentation is reviewed and approved by the Chief Accountant and the Division Director (Commission's Investment Officers).

### Annual Financial Report (AFR)

The Texas Government Code (TGC) §2101.011(b) requires state agencies to submit an annual financial report regarding the agency's use of appropriated money to the following individuals/offices:

- Governor;
- Comptroller;
- Legislative Reference Library;
- State Auditor; and,
- Legislative Budget Board

TGC §2101.011(c) – (d) requires that the AFR include a detailed statement of all assets, liabilities, fund balances, revenues and expenditures in accordance with GAAP or GASB as directed by the Comptroller's Office. The Comptroller's Office website provides guidance on the preparation of the AFR, and is used as a resource by the Division Director to ensure that all reporting requirements are met. The financial statements and footnote disclosures in the AFR are supported by data from the following systems/databases:

- USAS (state agency accounting system)
- USPS (state agency payroll system)
- State Property Accounting System.
- Versa Licensing System.
- AP Voucher Spreadsheets.
- Other internal schedules and spreadsheets.

The AFR is due October 1<sup>st</sup> of every year.

The Division Director is responsible for preparing the AFR. The AFR is prepared with the assistance of the Chief Accountant, Budget Analyst, Accountants and other SSS Division personnel.

### Self-Directed Semi-Independent (SDSI) Report

The Texas Occupations Code (TOC) §1105.005(b) requires the Commission to prepare and submit, before the beginning of each regular session of the legislature, a report describing all of the agency's activities in the previous biennium. The report is submitted to the Legislature and the Governor. The report must include:

- An audit as required by Section 1105.004;
- A financial report of the previous fiscal year, including reports on the financial condition and results of operations;

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2016

---

- A description of all changes in fees imposed on regulated persons;
- A report on changes in the regulatory jurisdiction of the agency; and
- A list of all new rules adopted or repealed.

TOC §1105.005(c) requires the Commission to submit, not later than November 1 of each year, to the Governor, the Committee of each House of the Legislature that has jurisdiction over appropriations, and the Legislative Budget Board a report that contains:

- The salary for all agency personnel and the total amount of per diem expenses and travel expenses paid for all agency employees;
- The total amount of per diem expenses and travel expenses paid for each member of the agency;
- The agency's operating plan and the annual budgets of the commission and the board; and
- A detailed report of all revenue received and all expenses incurred by the agency in the previous 12 months.

The annual SDSI Report requires the same financial information as that of the AFR; accordingly, data is extracted from the AFR and formatted according to the SDSI reporting requirements. The Division Director is responsible for the preparation of both SDSI reports. The Chief Accountant, Budget Analyst, Accountants and other SSS Division personnel assist in the preparation of the SDSI reports.

### Fees

The Commission fees may be revised on an annual basis to meet objectives of the annual budget preparation process. Below is an analysis of fees assessed in fiscal year 2016 and fiscal year 2013 (the year of the last audit performed by the SAO). For purposes of this fee analysis certain fees reported for a one-year license period on the SAO report have been converted to the actual two-year license period charged by the Commission.

**TEXAS REAL ESTATE COMMISSION**  
**Annual Internal Audit Report**  
**Fiscal Year 2016**

Real Estate Commission Fees					
Fee	Fees at The End of the Fiscal Year			Change in Fee From Fiscal Year 2013 to Fiscal Year 2016	
	2013	2016		Dollar Change	Percent Change
<b>Title 22, Texas Administrative Code, Section 535.101, Fees - Real Estate Brokers and Salespersons</b>					
Original application for a real estate broker license, which includes a fee for transcript evaluation	\$ 119.00	\$ 150.00	A	\$ 31.00	26%
Renewal of a real estate broker license (2 years)	\$ 78.00	\$ 72.00	A	\$ (6.00)	-8%
Original application for a real estate salesperson license, which includes a fee for transcript evaluation	\$ 119.00	\$ 150.00	A	\$ 31.00	26%
Renewal of a real estate salesperson license (2 years)	\$ 78.00	\$ 72.00	A	\$ (6.00)	-8%
License examination	\$ 61.00	\$ 54.00		\$ (7.00)	-11%
Request for, or renewal of, a license for each additional office or place of business for a period of two years	\$ 50.00	\$ 50.00		\$ -	0%
Request an inactive broker license be returned to active status	\$ 50.00	\$ 50.00		\$ -	0%
Request for a license for a change of place of business, change of a licensee name, or to establish a relationship with a sponsoring broker	\$ 20.00	\$ 20.00		\$ -	0%
Application for accreditation of a qualifying education program under Texas Occupations Code, Section 1101.301	\$ 400.00	\$ 400.00		\$ -	0%
One-year operation of a qualifying real estate education program under Texas Occupations Code, Section 1101.301	\$ 200.00	\$ 200.00		\$ -	0%
FY 2013 Criteria - Core Courses (\$50 plus \$20 per classroom hour approved by the Real Estate Commission for each qualifying education course for a period of four years) FY 2016 Criteria - Qualifying Courses (\$50 base fee plus the following: \$10 per credit hour for content and exam review; \$10 per credit hour for classroom delivery design and presentation review; \$20 per credit hour for distance education delivery design and presentation review)	Fee Amount Varies	Fee Amount Varies		N/A	N/A
Application for accreditation as a continuing education (CE) provider for a period of two years under Texas Occupations Code, Section 1101.303	\$ 400.00	\$ 400.00		\$ -	0%
CE Course Applications and Course Application Supplements (\$50 base fee plus the following: \$5 per credit hour for content and exam review; \$5 per credit hour for classroom delivery design and presentation review; \$10 per credit hour for distance education delivery design and presentation review).	Fee Amount Varies	Fee Amount Varies		N/A	N/A
CE deferral fee	\$ 200.00	\$ 200.00		\$ -	0%
Certificate of license history, active licensure, or sponsorship	\$ 40.00	\$ 40.00		\$ -	0%
Moral character determination	\$ 50.00	\$ 50.00		\$ -	0%
Instructor application for a two-year period for real estate qualifying or CE courses, or both	\$ 150.00	\$ 150.00		\$ -	0%
Late renewal of a real estate broker license for a person whose license has been expired 90 or fewer days (2 years)	\$ 117.00	\$ 108.00	B	\$ (9.00)	-8%
Late renewal of a real estate salesperson license for a person whose license has been expired 90 or fewer days (2 years)	\$ 117.00	\$ 108.00	B	\$ (9.00)	-8%
Late renewal of a real estate broker license for a person whose license has been expired more than 90 days but fewer than 6 months (2 years)	\$ 156.00	\$ 144.00	B	\$ (12.00)	-8%
Late renewal of a real estate salesperson license for a person whose license has been expired more than 90 days but fewer than 6 months (2 years)	\$ 156.00	\$ 144.00	B	\$ (12.00)	-8%
CE Deferral Fee, due if renewing ACTIVE without completing CE at the time the renewal fee is paid -provides a 60 day extension to complete CE (License will be placed in INACTIVE status if the CE is not completed within the 60 day extension.)	N/A	\$ 200.00		N/A	N/A
Late reporting fee of \$250 to reactivate a license under Texas Occupations Code, Section 535.92(g) (relating to renewal, time for filing, and satisfaction of CE requirements)	\$ 250.00	\$ 250.00		\$ -	0%
Application, renewal, change request, or other record on paper that a person may otherwise file with the Real Estate Commission electronically by accessing the Real Estate Commission's Web site, entering the required information online, and paying the appropriate fee	\$ 20.00	\$ 20.00		\$ -	0%
Processing a check or other equivalent instrument returned by a bank or depository as dishonored for insufficient funds	\$ 30.00	\$ 30.00		\$ -	0%

**TEXAS REAL ESTATE COMMISSION**  
**Annual Internal Audit Report**  
**Fiscal Year 2016**

Real Estate Commission Fees				
Fee	Fees at The End of the Fiscal Year		Change in Fee From Fiscal Year 2013 to Fiscal Year 2016	
	2013	2016	Dollar Change	Percent Change
<b>Title 22, Texas Administrative Code, Section 535.210, Fees - Real Estate Inspectors</b>				
Original application for a license as an apprentice inspector	\$ 84.00	\$ 60.00	\$ (24.00)	-29%
Original application for a license as a real estate inspector, which includes a fee for transcript evaluation	\$ 89.00	\$ 100.00	\$ 11.00	12%
Original application for a license as a professional inspector, which includes a fee for transcript evaluation	\$ 104.00	\$ 120.00	\$ 16.00	15%
Renewal of the license of an apprentice inspector	\$ 54.00	\$ 30.00	\$ (24.00)	-44%
Renewal of the license of a real estate inspector	\$ 64.00	\$ 50.00	\$ (14.00)	-22%
Renewal of the license of a professional inspector	\$ 64.00	\$ 60.00	\$ (4.00)	-6%
License examination	\$ 61.00	\$ 60.00	\$ (1.00)	-2%
Requesting a change of a licensee name, or to establish a relationship with a sponsoring professional inspector	\$ 20.00	\$ 20.00	\$ -	0%
Request an inactive professional inspector license be returned to active status	\$ 50.00	\$ 50.00	\$ -	0%
Certificate of license history, active licensure, or sponsorship	\$ 40.00	\$ 40.00	\$ -	0%
Application for accreditation of a qualifying inspector education program for a period of four years under Texas Occupations Code, Chapter 1101	\$ 400.00	\$ 400.00	\$ -	0%
One-year operation of a qualifying education program under Texas Occupations Code, Chapter 1101	\$ 200.00	\$ 200.00	\$ -	0%
FY 2013 Requirements - \$50 plus \$10 per classroom hour approved by the Real Estate Commission for each core inspector education course for a period of four years FY 2016 Requirements - Qualifying Courses (\$50 base fee plus the following: \$5 per credit hour for content and exam review; \$5 per credit hour for classroom delivery design and presentation review; \$10 per credit hour for distance education deliver design and presentation review.)	Fee Amount Varies	Fee Amount Varies	N/A	N/A
\$400 for filing an application for accreditation as an inspector continuing education (CE) provider for a period of two years under Texas Occupations Code, Section 1102.205	\$ 400.00	\$ 400.00	\$ -	0%
FY 2013 Requirements - \$50 plus \$10 per classroom hour approved by the Real Estate Commission for each ICE course for a period of two years FY 2016 Requirements - CE Course Applications (\$50 base fee plus the following: \$2.50 per credit hour for content and exam review; \$2.50 per credit hour for classroom delivery design and presentation review; \$5.00 per credit hour for distance education delivery design and presentation review.)	Fee Amount Varies	Fee Amount Varies	N/A	N/A
Application for approval as an instructor for a two-year period for qualifying or CE courses, or both (Inspector)	\$ 50.00	\$ 50.00	\$ -	0%
Moral character determination	\$ 50.00	\$ 50.00	\$ -	0%
Application, renewal, change request, or other record on paper that a person may otherwise file with the Real Estate Commission electronically by accessing the Real Estate Commission's Web site, entering the required information online, and paying the appropriate fee	\$ 20.00	\$ 20.00	\$ -	0%
Processing a check or other equivalent instrument returned by a bank or depository as dishonored for insufficient funds	\$ 30.00	\$ 30.00	\$ -	0%
<b>Title 22, Texas Administrative Code, Section 535.404, Fees - Easement or Right-of-way Agents</b>				
Application for registration for a two-year period	\$ 200.00	\$ 200.00	\$ -	0%
Renewal of a registration for a two-year period	\$ 200.00	\$ 200.00	\$ -	0%
<b>Title 22, Texas Administrative Code, Section 539.231, Fees - Residential Service Companies</b>				
Application for a license	\$ 3,500.00	\$ 3,500.00	\$ -	0%
Filing an annual report	\$ 3,500.00	\$ 3,500.00	\$ -	0%
Evidence of coverage	\$ 250.00	\$ 250.00	\$ -	0%
Schedule of charges	\$ 250.00	\$ 250.00	\$ -	0%
<b>Title 22, Texas Administrative Code, Section 543.3, Fees - Timeshare Act</b>				
Original registration, fee determined by number of interests: \$500-\$3,500	Fee Amount Varies	Fee Amount Varies	N/A	N/A
Amendment application, fee determined by number of interests: \$100-\$2,000	Fee Amount Varies	Fee Amount Varies	N/A	N/A

**TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2016

Footnote	Explanation					
<b>A</b>	The fee reported on the table does not include all applicable fees and charges.					
	Application Type	Fee	A&M per TOC \$1101.54	Recovery Fund	On-Line Fee	<b>Total</b>
	Original Broker	\$ 150.00	\$ 140.00	\$ 10.00	\$ 5.00	<b>\$ 305.00</b>
	Renew al Broker	\$ 72.00	\$ 140.00	\$ -	\$ 5.00	<b>\$ 217.00</b>
	Original Salesperson	\$ 150.00	\$ 40.00	\$ 10.00	\$ 5.00	<b>\$ 205.00</b>
	Renew al Salesperson	\$ 72.00	\$ 40.00	\$ -	\$ 4.00	<b>\$ 116.00</b>
<b>B</b>	The fee reported on the table does not include all applicable fees and charges.					
	Application Type	Fee	A&M per TOC \$1101.54	Recovery Fund	On-Line Fee	<b>Total</b>
	Late Renew al Broker	\$ 108.00	\$ 140.00	\$ -	\$ 5.00	<b>\$ 253.00</b>
	Late Renew al Salesperson	\$ 108.00	\$ 40.00	\$ -	\$ 4.00	<b>\$ 152.00</b>
	Late Renew al > 90 Days Broker	\$ 144.00	\$ 140.00	\$ -	\$ 5.00	<b>\$ 289.00</b>
	Late Renew al > 90 Days Salesperson	\$ 144.00	\$ 40.00	\$ -	\$ 4.00	<b>\$ 188.00</b>
<b>C</b>	Inspectors must pass a National and a Texas State Inspector Examination effective January 1, 2013. The total cost for the examination in FY 2016 is \$220. When a candidate successfully completes the National Examination the fee is reduced to the cost of the State examination of \$60.					
	National Exam January 1, 2013	Examination Fee w as \$230				
		Passed State	\$ 230.00			
		Passed National	\$ 61.00			
	Pearson View - FY 2016	Examination Fee w as \$220				
		Passed State	\$ 220.00			
	Passed National	\$ 60.00				
<b>D</b>	The fee reported on the table does not include all applicable fees and charges.					
	Application Type	Fee	A&M per TOC \$1101.54	Recovery Fund	On-Line Fee	<b>Total</b>
	Original ERW	\$ 200.00	\$ 40.00	\$ 50.00	\$ 5.00	<b>\$ 295.00</b>
	Renew al ERW	\$ 200.00	\$ 40.00	\$ 50.00	\$ 5.00	<b>\$ 295.00</b>

**Audit Scope**

The objective of our audit was to gain an understanding of the Reporting and Budgeting area (the area) to determine compliance with applicable statutes, rules, policies, and procedures. The procedures performed to achieve the objective of our audit were as follows:

1. Reviewed the applicable laws and regulations related to financial reporting to the Legislature; such as, Chapter 2101 of the Texas Government Code (TGC) and Chapter 1105 of the Texas Occupations Code (TOC).
2. Reviewed applicable policies and procedures and conducted interviews with personnel to obtain an understanding of the area's internal controls and formal processes.

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2016

---

3. Reviewed the Commission's process for setting fees and assessing penalties.
4. Performed an analysis of the Commissions fees in FY2016 versus FY2013.
5. Obtained and reviewed the 2015 Annual Financial Report (AFR) to test the following attributes:
  - a. Ensure the AFR was submitted on or before October 1, 2015.
  - b. Ensure the AFR was prepared in accordance with §2101.011 of the Texas Government Code.
  - c. Ensure financial data is properly supported.
  - d. Ensure AFR reporting requirement changes for fiscal year 2015 (per the Texas Comptroller's Office website) were fully implemented and reflected in the 2015 AFR.
6. Obtained and reviewed the 2015 Self-Directed Semi-Independent (SDSI) Report to test the following attributes:
  - a. Ensure the SDSI Report was submitted on or before November 1, 2015.
  - b. Ensure the SDSI Report was prepared in accordance with §1105.005 of the Texas Occupations Code.
  - c. Ensure financial data is properly supported.
7. Performed procedures to follow up on findings and recommendations reported in the State Auditors Audit Report on the Real Estate Commission: A Self-Directed Semi-Independent Agency, dated September 2014.
8. Randomly selected a sample of (3) Monthly Staff Reports containing the Budget Status Report and Investment Reports to test the following attributes:
  - a. Budget Status Report
    - i. Trace Budget Status Report to the respective month's *Revenue Projection by Category* worksheet and *Estimated Expenditures Summary* worksheet.
    - ii. Ensure revenues included in the *Revenue Projection by Category* worksheet are properly supported.
    - iii. Ensure expenditures included in the *Estimated Expenditures Summary* worksheet are properly supported.
    - iv. Ensure the Budget Status Report is initialed and dated by the SSS Division Director indicating their review and approval.
  - b. Investment Reports
    - i. Ensure investment values reported agree to the Texas Trust Investment Statements.
    - ii. Ensure investment activity is properly supported.
    - iii. Ensure Investment Report is signed by Investment Officers (Chief Accountant and the SSS Division Director).

**TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2016

---

**I. Internal Audit Plan for Fiscal Year 2016**

The fiscal year 2016 internal audit plan for the Commission is based on the Risk Assessment performed for the fiscal year ended 2016. The internal audit plan includes two (2) audits to be performed during the fiscal year and other internal audit activities as assigned by the Commissioners. The internal audit plan also includes preparation of the Annual Internal Audit Report for fiscal year 2016.

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 2016. We performed an assessment of the potential audit areas using risk assessment techniques. Following are the results of the risk assessment performed:

<b>HIGH RISK</b>	<b>MODERATE RISK</b>	<b>LOW RISK</b>
Reporting and Budgeting	Recovery Fund	Education Program Monitoring
License Application and Registration Process	Payroll and Personnel Process	Timeshare Registration
Complaint/Investigation Process	Purchasing and Receiving	Performance Measures
Information Systems	Cash Disbursement and Travel Processing	Records Management
Examination Process		HUB Compliance
Cash Collection Fee Process/Remittance		Customer Communications
Fixed Assets		
Residential Service Companies		

## **TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2016

---

In prior years, the following internal audits were performed:

### **Fiscal Year 2015**

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

### **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

Based on the risk assessment process an Internal Audit Plan was developed that includes the following recommended internal audits for fiscal year 2016, as follows:

### **Fiscal Year 2016**

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

## TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

Fiscal Year 2016

---

### II. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated October 7, 2015, indicates that its system of quality control has been suitably designed and conforms to 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 1, 2016	License Application and Registration Process	The objective of our audit was to determine compliance; with the applicable statutes, rules, policies, and procedures.
2	July 1, 2016	Reporting and Budgeting	The objective of our audit was to determine compliance; with the applicable statutes, rules, policies, and procedures.

**TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2016

---

**IV. Key Audit Findings/Recommendations**

<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>Observations/Findings and Recommendations</b>	<b>Current Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)</b>	<b>Fiscal Impact/Other Impact</b>
1	July 1, 2016	License Application and Registration Process	None.		
2	July 1, 2016	Reporting and Budgeting	None.		

**TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2016

**V. 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
2	July 9, 2015	Examination Process	<p>Follow-up FY 2015 comments and recommendations:</p> <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." On an annual basis the Commission should request an organizational chart from Pearson VUE 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>1. <u>SSAE 16 Report</u> On an annual basis a SSAE 16 report is performed by an independent auditor over the 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. The Commission should perform an evaluation of the effect to administration of the Commission examinations based on the control objectives which were not met. In addition, on at least an annual basis, the Commission should 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>• Annual independent audit report</li> <li>• SSAE 16 report</li> </ul>	<p><b>Implemented</b> The Commission receives a listing of personnel from Pearson VUE on an annual basis. Changes to personnel have been limited.</p> <p><b>Implemented</b> The Commission is receiving the SSAE 16 report on an annual basis. The report includes Pearson VUE management response to all comments. The comments noted do not appear to affect the Pearson VUE process as it relates to the Commission examinations. The Annual Independent Audit Report is not needed to assess contract performance since the audit report consolidates the major operation of the entity.</p>	<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**

Annual Internal Audit Report

Fiscal Year 2016

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
2	July 9, 2015	Examination Process	<p>2. <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 and the draft procedures do not include the titles of assigned personnel. The Commission should review and finalize the revenue reconciliation procedures and include them in the Staff &amp; Support Services policies and procedures manual.</p> <p>3. <u>Revenue Reconciliation</u>                      There were differences noted between the calculated number of examinations taken (monthly payment remitted to the Commission 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>The Commission should obtain from Pearson VUE 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><b>Implemented</b>                      The Commission has written procedures for revenue reconciliation for Examinations. These procedures will require an update when the Commission establishes a process to electronically match applicant payments to the applicant examination.</p> <p><b>Implementation Delayed</b>                      The Commission plans to implement a reconciliation process to electronically match applicant payments to the applicant examination. An electronic match is necessary since the Commission is also due funds when an applicant does not show for a scheduled examination.</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>

**TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2016

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
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. The Commission's records retention policy requires that general correspondence be retained for 2 years.</p> <p>2. <u>Staff Reports</u>                      The Communication Division staff reports the total calls offered for the month in the staff reports presented to the Commission. However the reported calls does not provide clear understanding of the Division performance since the number of calls reported includes calls that were not answered by a representative.</p> <p>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>The staff reports should include the total amount of calls answered, deflected, and abandoned in the monthly staff reports.</p>	<p><b>Partially Implemented</b>                      The Commission has adopted Office 365 E3 as its e-mail server which stores e-mails on a cloud service automatically, however a policy to ensure that customer service representatives do not permanently delete e-mails or otherwise requires that e-mails be retained in accordance with the record retention policy has not been established.</p> <p><b>Other Response</b>                      A new report was implemented to list the average hold time and average length of time it takes to complete calls that enter the queue. This data has been included in the monthly Staff Reports during fiscal year 2016.</p>	<p>To comply with records retention policy.</p> <p>To improve reporting on the Division's performance.</p>

# TEXAS REAL ESTATE COMMISSION

Annual Internal Audit Report

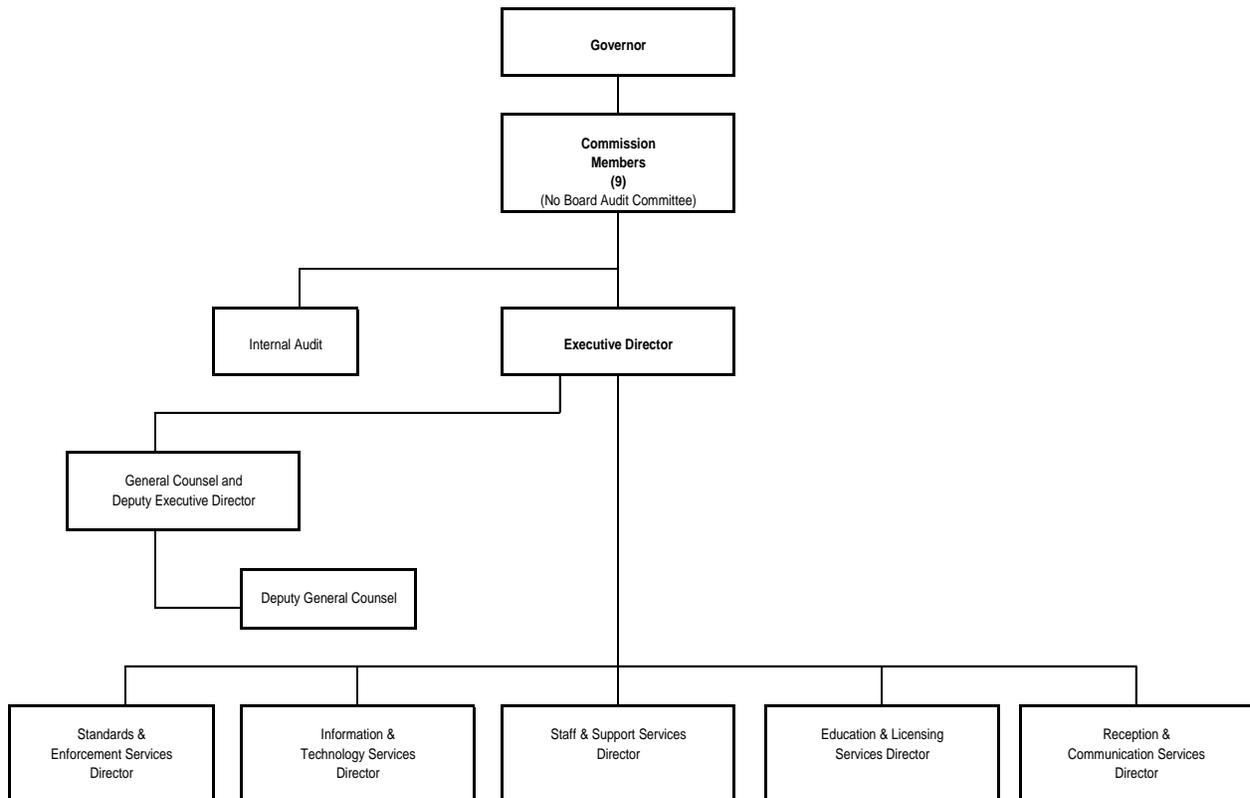
Fiscal Year 2016

---

## VI. 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.

## VII. Organizational Chart



## VIII. Report on Other Internal Audit Activities

Nothing to report.

## VIII. Proposed Internal Audit Plan for Fiscal Year 2017

- Public Funds Investment Act
- Residential Service Companies
- Other Tasks as May Be Assigned by the Commission

## **TEXAS REAL ESTATE COMMISSION**

Annual Internal Audit Report

Fiscal Year 2016

---

### **IX. External Audit Services Procured in 2016**

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 2017 audit plan, as provided by Texas Government Code, Section 2102.008
- A fiscal year 2016 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.