



TEXAS REAL ESTATE COMMISSION INTERNAL AUDIT SERVICES

AUDIT #21-001 PUBLIC FUNDS INVESTMENT ACT COMPLIANCE AUDIT

October 20, 2020

As Prepared by
McConnell & Jones LLP



This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.



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McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

October 20, 2020

Dear Chair, Commissioners and Board Members:

Attached is internal audit report #21-001 Public Funds Investment Act Compliance Audit. This audit was performed as part of the approved FY 2021 Annual Internal Audit Plan and was required by Texas Government Code Chapter 2256 Public Funds Investment.

We assessed the Texas Real Estate Commission's (TREC) compliance with Texas Government Code Chapter 2256 and determined that the agency is compliant with all requirements. Additionally, management's internal controls for investment processes and reporting are effective and working as designed.

Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Odysseus Lanier, CPA

Partner

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Audit Report Highlights Public Funds Investment Act Compliance

Why Was This Review Conducted?

This audit was performed as part of the approved FY 2020 Annual Internal Audit Plan.

Audit Objectives and Scope

The purpose of this audit was to:

1. Assess the Texas Real Estate Commission’s (TREC) compliance with the Public Funds Investment Act requirements.
2. Verify that what is recorded on the agency’s financial system and reported to the Commissioners and Board agree to the investment statements.

The audit scope period was September 1, 2018 – July 31, 2020.

Audit Focus

1. Investment policy.
2. Investment balances.
3. Investment recording and reporting.
4. Investment officer training.



We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.

Audit Conclusions

Overall, the agency’s internal controls over investment activities are effective and ensure compliance with the PFIA and internal investment policy. The agency invests their funds through the Texas Treasury Safekeeping Trust Company (TTSTC) and takes a conservative approach to investment vehicles. As of July 31, 2020, total of \$24,794,107 was invested in securities and overnight repurchase agreements.

Internal Control Rating

Effective.

What Did We recommend?

1. We had no findings. Therefore, no recommendations are made.

NUMBER OF FINDINGS BY RISK RATING

| High | Medium | Low | Total |
|------|--------|-----|-------|
| 0 | 0 | 0 | 0 |

1.0 INTRODUCTION

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Real Estate Commission (TREC) performed an internal audit of TREC's compliance with Texas Government Code Chapter 2256 Public Funds Investment, commonly referred to as the Public Funds Investment Act (PFIA).

Government Code Chapter 2256 Section 2256.005 Investment Policies, Investment Strategies; Investment Officer subsection (n) requires that at least once every two years a state agency arranges for a compliance audit of management controls on investments and adherence to the agency's established investment policies to be performed by their internal auditor or a private auditor. The audit resulting audit reports must be reported to the state auditor no later than January 1st of each even numbered year.

TREC does invest public funds and therefore is required to comply with Texas Government Code Chapter 2256 Public Funds Investment. These funds are invested through the Texas Treasury Safekeeping Trust Company (TTSTC or Texas Trust).

We performed this audit in compliance with PFIA timing requirements and as part of the approved FY 2021 Annual Internal Audit Plan. This audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit

TREC INVESTMENT BALANCES

TREC invests funds through the Texas Treasury Safekeeping Trust Company. As of July 31, 2020 \$24,794,107 was invested in securities and repurchase agreements for seven active accounts; \$20,122,615 in securities and \$4,671,493 in overnight repurchase (cash repo).

The following is each account's ending market value, including cash repo, as of July 31, 2020:

*TREC Operating Account
\$18,671,702.04*

*TALCB Operating Account
\$1,877,534.49*

*TREC Real Estate Fee Trust Account
\$26,484.99*

*Real Estate Recovery Trust Account
\$3,543,343.42*

*Real Estate Inspection Recovery Fund
\$615,103.25*

*Appraisal Registry Account
\$22,379.41*

*TALCB Administrative Penalties
\$37,560.10*

*Criminal History Fee Account
(Inactive Account)*

objective and scope, our assessment based on our audit objectives and the audit approach.

Objectives and Scope

The purpose of this audit was to assess TREC's compliance with the PFIA's specific requirements. In doing so, we also evaluated management controls in place to ensure that the agency's funds are invested according to their investment policy and that the investment reports are accurately compiled and distributed in a timely manner.

Texas Government Code Chapter 2256 Public Funds Investment sections applicable to TREC are:

- Section 2256.005 Investment Policies, Investment Strategies; Investment Officer
- Sec. 2256.007 Investment Training; State Agency Board Members and Officers
- Section 2256.023 Internal Management Reports

The scope period was September 1, 2018 through July 31, 2020.

Conclusion

The Texas Real Estate Commission is in compliance with all applicable requirements of Texas Government Code Chapter 2256 Public Funds Investment. Additionally, management's internal controls for investment activities and reporting are effective and working as designed. **Figure 1** describes the internal control rating.

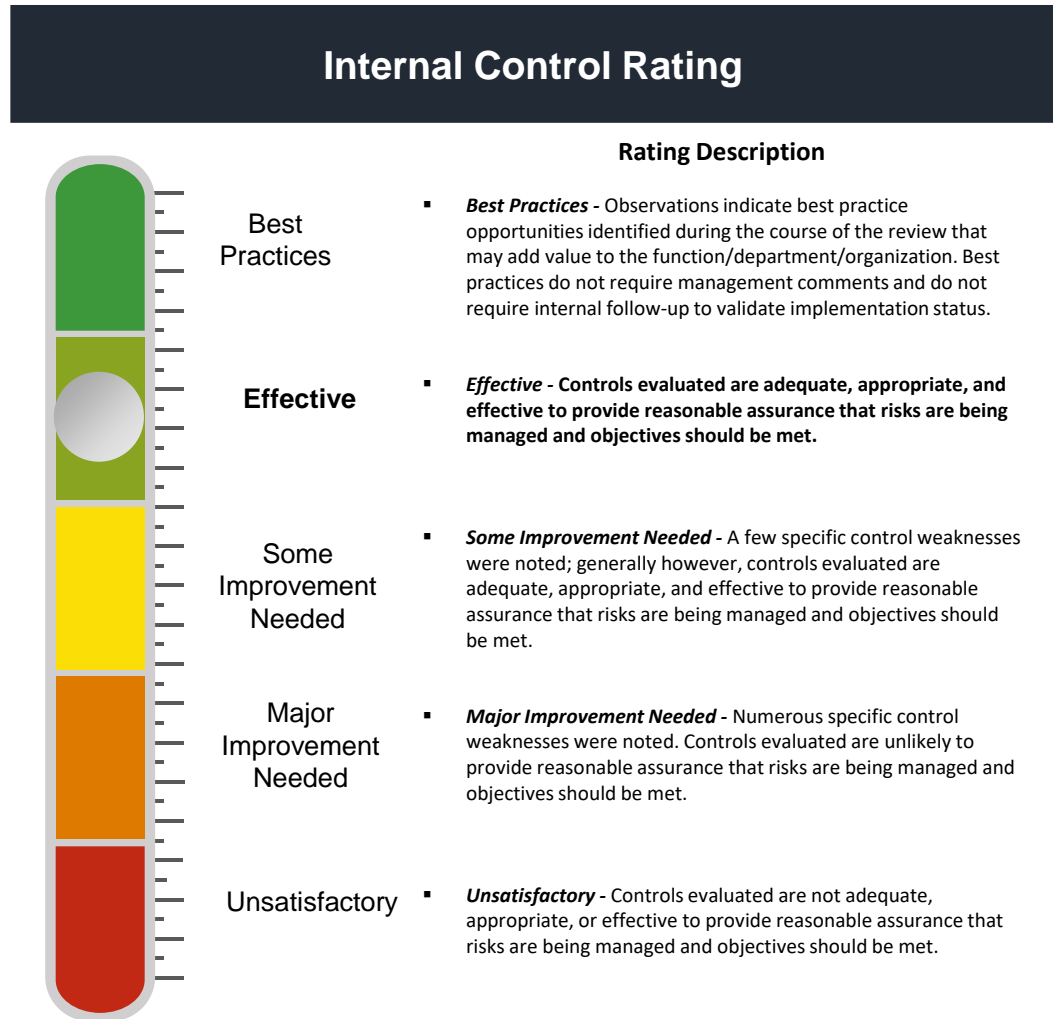


Figure 1 Internal control rating description.

2.0 PFIA COMPLIANCE AUDIT DETAILS

The Texas Real Estate Commission maintains seven separate accounts in which reserve funds are placed in short-term investments through the Texas Treasury Safekeeping Trust Company. These funds are:

- Texas Real Estate Commission Operating Account
- TALCB Appraiser Licensing & Certification Board Operating Account
- TREC Real Estate Fee Trust Account
- Real Estate Recovery Trust Account
- Real Estate Inspection Recovery Fund
- Appraisal Registry account

- TALCB Appraiser Licensing & Certification Board Administrative Penalties
- Criminal History Fee Account

TREC’s investment strategy for these funds is to maintain a ladder approach to the investment portfolio’s management. This approach provides for a relatively even distribution of securities maturing each year to facilitate cash flow and investment decisions and also helps to control interest rate exposure.







A. Investment Policy

The PFIA requires state agencies that invest public funds to have a written investment policy that is reviewed at least once per year by the governing body. Section 2256.005 Investment Policies, Investment Strategies; Investment Officer lists specific topics that must be included in the agency’s investment policy.

Audit procedures applied to determine compliance with these requirements included:

- Reviewed TREC’s investment policy and compared it to requirements listed in Section 2256.005.

Figure IP1 compares Section 2256.005 requirements to TREC’s investment policy.

| Texas Government Code Sec. 2256.005 Section | PFIA Investment Policy Requirements | TREC Investment Policy Meets Requirement |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| (b)(2) | Primarily emphasize safety of principal and liquidity. |  |
| (b)(3) | Address investment diversification, yield, and maturity and the quality and capability of investment management. |  |
| (b)(4)(A) | Include a list of the types of authorized investments in which the investing entity's funds may be invested. |  |
| (b)(4)(B) | Include the maximum allowable stated maturity of any individual investment owned by the entity. |  |
| (b)(4)(C) | Include for pooled fund groups, the maximum dollar weighted average maturity allowed based on the stated maturity date for the portfolio. | N/A TREC does not invest in pooled fund groups. |
| (b)(4)(D) | Include methods to monitor the market price of investments acquired with public funds. |  |
| (b)(4)(E) | Include a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. |  |
| (b)(4)(F) | Include procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021 . | N/A TREC uses TTSTC for investments. TTSTC monitors rating changes. |





| Texas Government Code Sec. 2256.005 Section | PFIA Investment Policy Requirements | TREC Investment Policy Meets Requirement |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| (d) | <p>As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:</p> <p>(1) understanding of the suitability of the investment to the financial requirements of the entity; (2) preservation and safety of principal; (3) liquidity; (4) marketability of the investment if the need arises to liquidate the investment before maturity; (5) diversification of the investment portfolio; and (6) yield.</p> |  |
| (e) | <p>The governing body of an investing entity shall review its investment policy and investment strategies not less than annually</p> |  |
| (e) | <p>The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.</p> |  |
| (f) | <p>Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity.</p> |  |

Figure IP1 Section 2256.005 requirements and TREC’s compliance.

Legend:



Internal controls are effective and TREC is in compliance with requirement; no observations noted.



TREC is not in compliance with requirements; observation noted and discussed in this report.

Conclusion

TREC is in compliance with Section 2256.005 Investment Policies, Investment Strategies; Investment Officer.

Recommendation

No recommendations are made for this compliance requirement.

Management's Response

Management response is not required as no observations were noted for this compliance requirement.

B. Investment Officer, State Agency Board Member and Officer Training

The PFA section 2256.007 lists specific training requirements for the agency investment officers, board members and officers.

Audit procedures applied to determine compliance with these requirements included:

- Reviewed TREC's investment training records to determine compliance with section 2256.007 requirements.
- Reviewed TREC's investment officer training compliance report to determine compliance with section 2256.007 requirements.
- Reviewed quarterly investment reports and reports on Subchapter A, Chapter 2256, provided to TREC's governing body.

Figure IT1 compares section 2256.007 training requirements to TREC's records of investment officer training taken.







| Texas Government Code Sec. 2256.007 Section | INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. | TREC Investment Officer and Officers Training Meet Requirements |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| (a) | Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties. |  |
| (b) | The Texas Higher Education Coordinating Board shall provide the training under this section. | N/A |
| (c) | Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter. |  |
| (d) | An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. |  |
| (d) | The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature. |  |

Figure IT1 Texas Government Code training requirements compared to TREC's training taken.

Legend:

-  Internal controls are effective and TREC is in compliance with requirement; no observations noted.
-  TREC is not in compliance with requirements; observation noted and discussed in this report.

Conclusion

TREC is in compliance with Section 2256.007. Investment officers and board members certified that they received their investment officer training within the required timeframe.

Recommendation

No recommendations are made for this compliance requirement.

Management’s Response

Management response is not required as the agency did ensure all board members completed their investment officer training.

C. Management Reports


The PFIA requires state agencies that invest public funds provide investment management reports to its governing body. Section 2256.023 Internal Management Reports lists specific information that must be included in the investment management reports.

TREC prepares investment management reports (staff reports) each month and posts them to their website. The staff reports are provided to their Commissioners and Board members at each quarterly meeting.

Audit procedures applied to determine compliance with Section 2256.023 requirements included:

- Reviewed monthly staff reports for completion and content compliance with Section 2256.023;
- Compared monthly investment reports provided by Texas Treasury Safekeeping Trust Company to the monthly staff reports to determine completeness and accuracy; and
- Reviewed internal procedures to determine existence and completeness.

Figure MR1 compares the Section 2256.023 investment management report requirements to TREC’s investment management reports (staff reports).

| Texas Government Code Sec. 2256.023 Section | Internal Management Reports | TREC Investment Management Reports Meet Requirements |
|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| (a) | Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report |  |








| Texas Government Code Sec. 2256.023 Section | Internal Management Reports | TREC Investment Management Reports Meet Requirements |
|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| | of investment transactions for all funds covered by this chapter for the preceding reporting period. | |
| (b)(1)(2)(3) | The report must: (1) describe in detail the investment position of the entity on the date of the report; (2) be prepared jointly by all investment officers of the entity; (3) be signed by each investment officer of the entity; |  |
| (b)(4) | contain a summary statement of each pooled fund group that states the: (A) beginning market value for the reporting period; (B) ending market value for the period; and (C) fully accrued interest for the reporting period; |  |
| (b)(5) | state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested; |  |
| (b)(6) | state the maturity date of each separately invested asset that has a maturity date; |  |
| (b)(7) | state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; |  |
| (b)(8) | state the compliance of the investment portfolio of the state agency or local government as it relates to: (A) the investment strategy expressed in the agency's or local government's investment policy; and (B) relevant provisions of this chapter. |  |
| (c) | The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period. |  |
| (d) | If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor. | N/A However, Internal Audit reviews compliance with PFIA requirements every two fiscal years |

Figure MR1 Texas Government Code reporting requirements compared to TREC’s management reports.

Legend:



Internal controls are effective and TREC is in compliance with requirement; no observations noted.



TREC is not in compliance with requirements; observation noted and discussed in this report.



Conclusion

TREC's investment management reports (staff reports) are in compliance with Section 2256.023. Additionally, the monthly investment reports were accurate and supported by authorized investment transaction execution documents.

Recommendation

No recommendations are made for this compliance requirement.

Management's Response

Management response is not required as no observations were noted for this compliance requirement.