



TEXAS REAL ESTATE COMMISSION

Internal Audit Services

AN INTERNAL AUDIT OF

Financial Services: Procurement

Report No. 25-001

December 17, 2024

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

Report Highlights

Why Was This Review Conducted?

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Real Estate Commission (TREC) performed this internal audit as part of the approved FY 2025 Annual Internal Audit Plan.

Business Objectives and Scope

To evaluate the Financial Services: Procurement competitive bid process to ensure its effectiveness and efficiency, while verifying compliance with state requirements. Additionally, confirm that the competitive bid solicitation process adheres to the applicable state regulations and the State Procurement and Contract Management Guide.

The audit scope period was September 1, 2022, to May 31, 2024.

Audit Focus

This audit focused on the competitive bid process to ensure:

- Compliance with Government Code 2155 Competitive Bid Solicitation Requirements.
- Compliance with State Procurement and Contract Management Guide for competitive bids.
- Competitive Solicitation Process.
- Competitive Solicitation Evaluation Processes.

Audit Conclusions

The TREC Financial Services Division is responsible for procuring goods and services that meet specific parameters, through a competitive bid process.

The Financial Services Division has implemented the TREC Contract Management Guide and Procedures Manual, which provides guidelines for a structured and transparent process for soliciting and evaluating competitive bids from TREC vendors. The TREC Contract Management Guide and Procedures Manual integrates essential elements related to the solicitation and evaluation of competitive bids outlined in the State Procurement and Contract Management Guide and Government Code Chapter 2155.

TREC monitors solicitations through a Solicitation Tracking List via SharePoint used and updated by personnel responsible for overseeing the competitive bid process. A separate review is conducted by management to ensure the solicitation and evaluation process was followed.

Internal Control Rating

Generally Effective.

What Did We Recommend?

No findings were noted therefore no recommendations were made.

We identified two (2) opportunities for improvement which is defined as an area where the internal controls are effective as designed but can be enhanced for efficiency.

Opportunity Recommendations:

1. Create dashboards to monitor key metrics using existing tools like SharePoint or Excel. Dashboards can condense information from several sources into visual formats, help identify areas for improvement, as well as provide data in a clear and concise manner.
2. Add a management review signature section to the Procurement and Contract Compliance (PCC) Checklist. The management signature supports a separate review was conducted to ensure the process was followed and required documents were retained.

Number of Findings by Residual Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	0	0
Improvement Opportunities	0	0	2	2

Thank you!

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

Introduction

We performed this audit as part of the approved FY 2025 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 the evidence obtained accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

Business Objective, Conclusion, and Internal Control Rating

The purpose of this audit was to evaluate the Financial Services: Procurement competitive bid process to ensure its effectiveness and efficiency, while verifying compliance with state requirements. Additionally, confirm that the competitive bid solicitation process adheres to the applicable state regulations and the State Procurement and Contract Management Guide. This includes:

- Compliance with Government Code 2155 Competitive Bid Solicitation Requirements,
- Compliance with State Procurement and Contract Management Guide for Competitive bids,
- Competitive Solicitation Process, and
- Competitive Solicitation Evaluation Processes.

The audit scope period was September 1, 2022, to May 31, 2024.

This audit identified no findings which resulted in an overall internal control rating of **Generally Effective**. **Exhibit 1** describes the internal control rating.

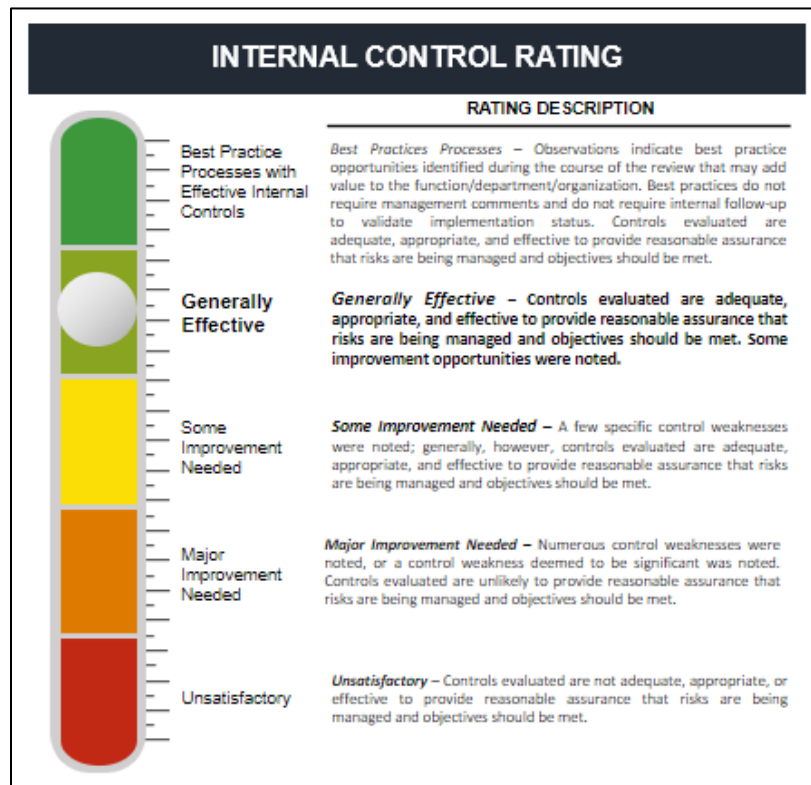


Exhibit 1: Internal control rating description.

Finding vs Improvement Opportunity

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where the internal control or process is effective as designed but can be enhanced.

Findings and Risk Rating Summary

Inherent risk is the business risk associated with the respective function or process if internal controls were not in place or were not effective. Residual risk is Internal Audit’s ranking of the remaining risk or likelihood of a negative event occurring with the internal controls and processes in place. See the findings and management response section of this report for a discussion of all issues identified recommendations and management responses.

Background

The Texas Real Estate Commission (TREC) oversees real estate licensing, regulation, and enforcement in the state of Texas. TREC ensures that real estate professionals adhere to state laws and maintain high standards of practice. The Financial Services Department within TREC is required to comply with government codes and the State Procurement and Contract Management Guide as part of the competitive bid solicitation and evaluation process.

The Financial Services Department, purchasing section is comprised of four (4) employees, including the Chief Finance Officer (CFO). **Exhibit 2** provides the TREC organizational structure and purchasing reporting lines.

TREC’s competitive bid process consists of formal solicitation or informal bidding. The formal solicitation process requires the agency to use an Invitation for Bid (IFB) for procurements exceeding \$25,000 and may be used for procurements of \$25,000 or less. Posting the IFB to the Electronic State Business Daily (ESBD) is mandatory when the total solicitation value is greater than \$25,000. The informal bidding process is for purchases over \$10,000 but no more than \$25,000. TREC must provide bid opportunities to vendors who are active on the Centralized Master Bidders List (CMBL) and at least two vendors who are Texas-certified Historically Underutilized Businesses (HUB).

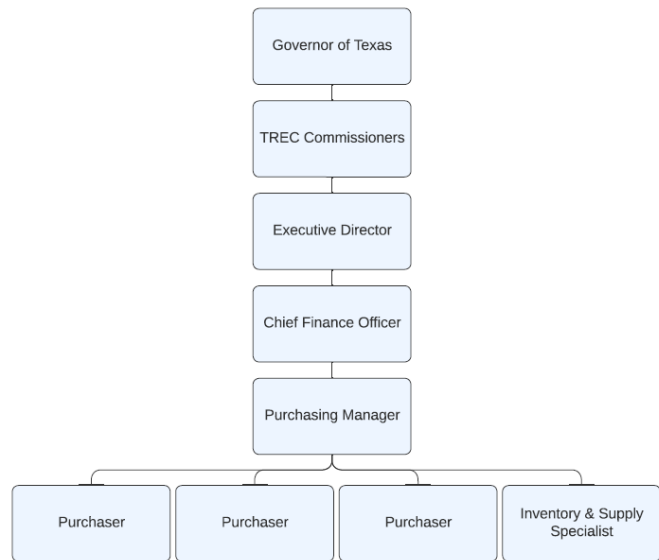


Exhibit 2. Purchasing Organizational Chart

Detailed Findings and Management Response

Business Objective #1: Operations & Technology

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective: To have a management control structure in place to ensure a competitive bid solicitation and evaluation process is maintained and followed.

Control Rating: Generally Effective.

Operations are the processes, controls, and technology in place to ensure the respective department or function executes its responsibilities in an effective and efficient manner.

Finding Narrative:

TREC has an agency specific Contract Management Guide and Procedures Manual that incorporates the State Procurement and Contract Management Guide. The manual provides guidance and parameters for the solicitation and evaluation of competitive bids as well as outlines step-by-step procedures for the agency to complete the process consistently and fairly. The competitive bid solicitation and evaluation process helps TREC make informed decisions and secure the best possible contracts for their needs.

Criteria	<ul style="list-style-type: none"> TREC’s Contract Management Guide and Procedures Manual Government Code Chapter 2155, Competitive Bid Solicitation Requirements State Procurement and Contract Management Guide for competitive bids
Effect/Risk/Impact	<ul style="list-style-type: none"> There may not be a process in place to solicit and evaluate competitive bids from vendors for goods and services.
Control Tests	<ul style="list-style-type: none"> Met with the purchasing manager to understand the competitive bid solicitation and evaluation process. Reviewed and extracted key attributes from the Government Code 2155 and State Procurement Guide to determine if the process had been followed for a sample of selected vendors.
Management Controls in Place	<ul style="list-style-type: none"> A step-by-step documented process that defines the types of solicitations by threshold, explains posting requirements/timelines, and outlines procedures for the evaluation process. Solicitation Tracking list via SharePoint to collect, retain, and share information related to the solicitation and evaluation process. An Evaluation Committee with members who are to be independent and objective. The Evaluation Committee provides independent scoring of bids and evaluates the results to recommend a vendor. A Scoring Matrix provides conformity for the evaluation committee during the evaluation process.
Conclusion	<p>TREC has implemented the TREC Contract Management Guide and Procedures which:</p> <ul style="list-style-type: none"> Provides guidelines for a structured and transparent process for soliciting and evaluating competitive bids from TREC vendors. Integrates the essential elements related to the solicitation and evaluation of competitive bids as outlined in the Texas Procurement and Contract Management Guide and Government Code Chapter 2155.
Root Cause	<ul style="list-style-type: none"> Not applicable as no findings were identified.

Recommended Actions:

None.

Management Response:

None required.

Business Objective #2: Compliance & Monitoring

Business Risk Rating (Inherent): High

Business Risk Rating (Residual): Low

Business Objective: To have a management control structure in place to ensure compliance with applicable state requirements and the State Procurement and Contract Management Guide for Competitive Solicitations.

Control Rating: Generally Effective

Compliance

Compliance is the processes and controls in place to ensure the organization complies with applicable policies, regulations, or laws.

Monitoring

Monitoring is the ongoing evaluations, separate evaluations, or some combination of the two used to determine whether the internal controls are present and functioning.

Finding Narrative:

Compliance with state requirements and the State Procurement and Contract Management Guide for Competitive Solicitations ensures TREC operates within the legal framework, avoiding legal penalties, fines, or negative publicity. Compliance helps protect the interest of stakeholders, including customers, employees, and citizens by ensuring the agency adheres to ethical standards and best practices.

Criteria	<ul style="list-style-type: none"> • Government Code Chapter 2155. • State Procurement and Contract Management Guide
Effect/Risk/Impact	<ul style="list-style-type: none"> • The competitive bid solicitation and evaluation process may not comply with state requirements and the State Procurement and Contract Management Guide for competitive solicitations.
Control Tests	<ul style="list-style-type: none"> • Reviewed documentation of a selected sample of competitive bids to verify: <ul style="list-style-type: none"> ○ A review and authorization of the competitive bid solicitation and evaluation occurs, ○ Complies with state requirements, State Procurement and Contract Management Guide, and TREC Contract Management Guide.
Management Controls in Place	<ul style="list-style-type: none"> • Completion of the Procurement and Contract Compliance (PCC) Checklist to ensure all procurement documents were retained and all procurement activities comply with state requirements and the State Procurement and Contract Management Guide. • Management review of the completed evaluation and solicitation documents, and procurement activities.

Conclusion	<p>TREC has implemented the TREC Contract Management Guide and Procedures Manual, which provides comprehensive guidance for procuring goods and services, managing contracts, and receiving goods and services. Additionally, TREC monitors solicitations through the Solicitation Tracking List SharePoint site. The Solicitation Tracking List is updated to track the stage, status, and project updates (i.e., meeting with evaluation team, review of documents, approval status, etc.) for each solicitation.</p> <p>A separate review is conducted by management to ensure the purchaser followed the solicitation and evaluation process, and required documentation is retained. However, evidence of the management review can be altered/entered by another party or is subject to retention restrictions within the system the approval was noted. Additionally, the approval is not centralized and can be documented within the Centralized Accounting and Payroll/Personnel System (CAPPS), Teams, or in a memo.</p> <p><u>Opportunity for Improvement:</u></p> <ol style="list-style-type: none"> 1. TREC could utilize dashboards or reporting metrics to ensure the competitive bid processes comply with TREC Contract Management Guide and Procedures Manual. 2. Strengthen the evidence of management’s evaluation process review by adding a digital signature line to a specific document, such as the PCC Checklist.
Root Cause	Not required for Opportunities for Improvement.

Recommended Actions:Opportunity for Improvement:

1. Create dashboards to monitor key metrics using existing tools like SharePoint or Excel. Dashboards can condense information from several sources into visual formats, help identify areas for improvement, as well as provide data in a clear and concise manner. Due to resources constraints in IT, the collection of data for the dashboards will initially be manual therefore focus on simple, easy-to-track key metrics such as solicitation stage durations and staff productivity to gain valuable insights. Once resources become available, automate the dashboards and metrics.
2. Add a digital signature section to the Procurement and Contract Compliance (PCC) Checklist to indicate a separate review by management of the procurement documents and procurement activities.

At the conclusion of the audit, both recommendations have been implemented and are to be utilized moving forward.

Management Response:

None required.