



# TEXAS REAL ESTATE COMMISSION

## Internal Audit Services

AN INTERNAL AUDIT OF

# Public Funds Investment Act Compliance

Report No. 25-002

October 10, 2024

*Our full report contains information that is deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. As such, it is a restricted, confidential, report that is exempt from the requirements of the Texas Public Information Act under the provisions of Texas Government Code, Section 552.139. We prepared this summary report for public release when requested.*

## 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) and Texas Appraiser Licensing and Certification Board (TALCB), performed this internal audit as part of the approved FY 2025 Annual Internal Audit Plan.

### Business Objectives and Scope

The purpose of this audit was to:

1. Assess the Texas Real Estate Commission’s compliance with the Public Funds Investment Act (PFIA) 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 and the financial system.

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

### Audit Focus

- Investment transactions.
- Investment reconciliations.
- Investment reporting.
- Investment Officer, Commissioner, and Board Member Training.
- Compliance with TREC investment policy and PFIA requirements.



*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

TREC’s internal controls over investment activities comply with the PFIA requirements.

The agency continues to invest their funds through the Texas Safekeeping Trust Company (TTSTC) and takes a conservative approach to investment vehicles.

As of August 31, 2024, \$25,799,148.06 was invested in securities and overnight repurchase agreements in active investment accounts.

### Internal Control Rating

Generally Effective.

### What Did We Recommend?

Our assessment identified one finding regarding the review of reconciliations by the investment officers. To address this finding, we recommend the following:

- TREC should ensure that the investment officers’ review and sign-off process of reconciliations includes verification of all dates and amounts for each investment held to catch potential human errors.

Additionally, we noted one opportunity for improvement, an area where the internal control or process is effective as designed but can be enhanced.

### Number of Findings by Residual Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	1	1
Improvement Opportunities	2			

## 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 that 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.

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 resulting audit reports must be reported to the state auditor no later than January 1st of each even numbered year.

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### TREC INVESTMENT BALANCES

*TREC invests funds through the Texas Treasury Safekeeping Trust Company.*

*As of August 31, 2024, \$25,799,148.06 was invested in securities and repurchase agreements for four active accounts; \$20,192,413.13 in securities and \$5,606,734.93 in overnight repurchase agreements (cash repo).*

*The following is each investment account's ending market value, including cash and repo, as of August 31, 2024:*

*TREC Operating Account (3055): \$17,264,401.37  
TALCB Operating Account (3056): \$4,048,171.05  
Real Estate Recovery Trust Fund (3058): \$4,018,457.27  
Real Estate Inspection Recovery Fund (3059): \$468,118.37*

*Additionally, non-investment account balances held in TTSTC totaled \$2,203,835.64; \$26,687.00 in cash and \$2,177,148.64 in overnight repurchase agreement pools:*

- TREC Agency (3054): \$1,574,434.44*
- TX A&M (3057): \$604,323.66*
- Appraiser Registry (3060): \$25,077.54*

## Business Objective, Conclusion, and Internal Control Rating

The purpose of this audit was to assess management's controls and business processes in place to ensure:

- Texas Real Estate Commission complies with the Public Funds Investment Act requirements.
- Accuracy of what is recorded on the agency's financial system and reported to the Commissioners and Board.

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

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.

As such we focused on the following processes:

- Investment transactions including investment purchases, sales, interest, earnings, distributions, authorization, and recording.
- Investment reconciliations including investment statement and investment bank account reconciliations to the financial system.
- Investment reporting including investment reports provided to the Commissioners and TALCB Board.
- Investment officer training compliance including investment officer and board training certificates or assertions.
- Compliance with TREC investment policy and PFIA requirements.

This audit identified findings that resulted in an overall internal control rating of: **Generally Effective**.

Exhibit 1 describes the internal control rating.

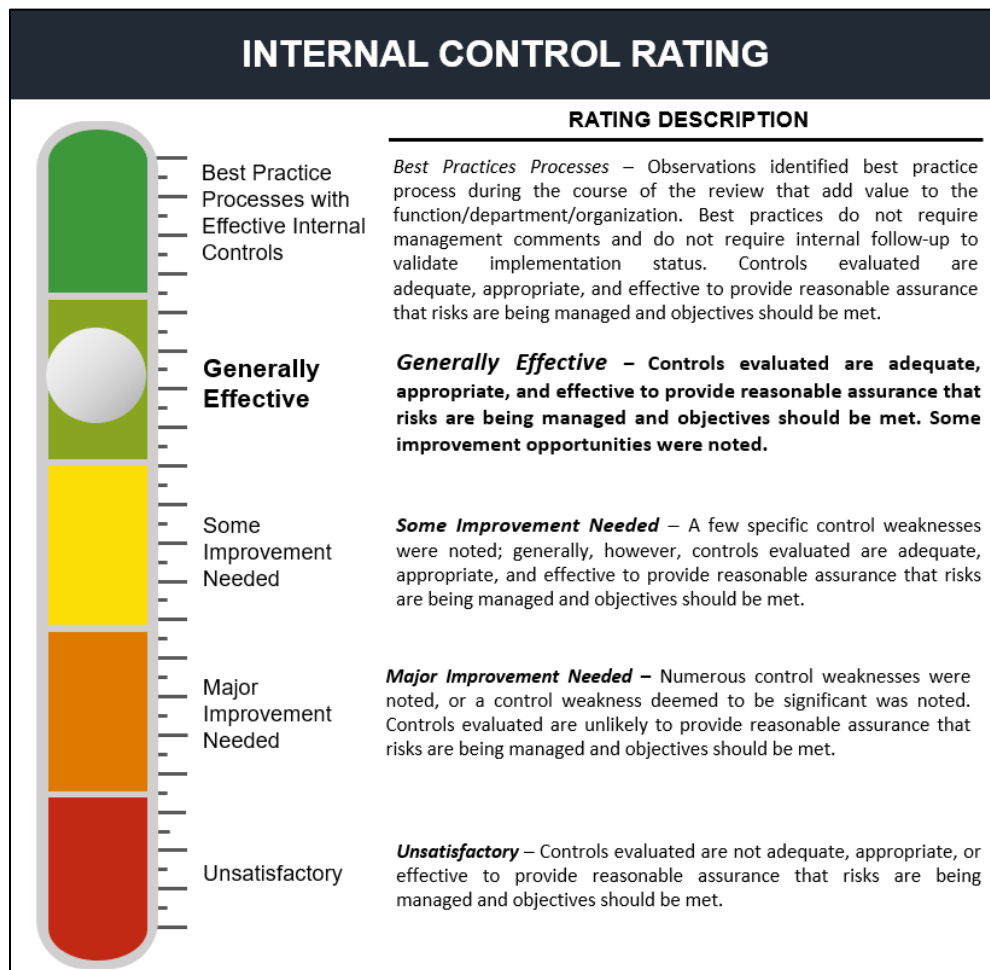


Exhibit 1: Internal control rating description.

### 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.

The Texas Real Estate Commission complied with all applicable sections of the Texas Government Code Chapter 2256 Public Funds Investment Act. Although one specific management internal control weakness was noted for investment reconciliations, overall, the internal controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. One opportunity for improvement was noted.

## Findings and Recommendations 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 processes and controls in place. **Exhibit 2** provides a summary of our audit observations. See the findings and management response section of this report for a discussion of all issues identified recommendations and management responses.

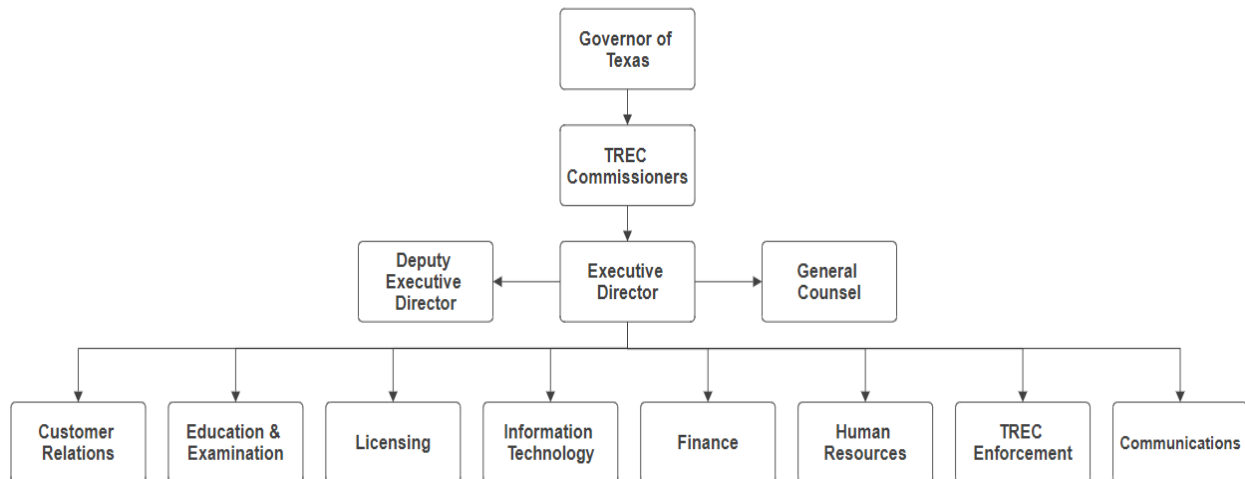
Focus Area	Internal Control Rating	Findings	Recommendations
1. Investment Policy	Generally Effective	No Findings noted.	No recommendations noted.
2. Investment Officer, Commissioner, and Board Member Training	Generally Effective	No Findings noted.	No recommendations noted.
3. Investment Reporting	Generally Effective	<p><b><u>Findings</u></b></p> <ul style="list-style-type: none"> <li>The investment holding reports for fund 3058 throughout periods in FY 2023 and FY 2024 each contained discrepancies when compared to the corresponding TTSTC statements. These discrepancies included reporting areas with regards to overall cash receipts and disbursements, investment purchase dates, and investment purchase amounts.</li> </ul> <p><b><u>Opportunities for Improvement</u></b></p> <ul style="list-style-type: none"> <li><b>OFI 1:</b> The beginning cash available balance is listed on the monthly investment holdings report in aggregate, which can create confusion as to the sources of that amount.</li> </ul>	<p><b><u>Finding Recommendations</u></b></p> <ul style="list-style-type: none"> <li>TREC should ensure that the investment officer review and sign-off process includes verification of all dates and amounts for each investment held.</li> </ul> <p><b><u>Opportunities for Improvement</u></b></p> <ul style="list-style-type: none"> <li><b>OFI 1:</b> List the sources of the monthly beginning cash available balance as separate line items on the monthly staff holdings report to provide additional clarity.</li> </ul>

Focus Area	Internal Control Rating	Findings	Recommendations
		<ul style="list-style-type: none"> <li>• <b>OFI 2:</b> At quarterly commission meetings, the Finance Division presents the most recent month’s certified investment holdings report, so quarterly beginning balances cannot be easily determined.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>OFI 2:</b> Develop and certify investment holding reports quarterly, as opposed to monthly, for presentation at commission meetings.</li> </ul>

**Exhibit 2:** Summary of Internal Audit Findings and Recommendations.

## Background

TREC's Director of Finance is the organization's designated investment officer. As such, this individual is authorized to execute investment transactions on behalf of TREC. The Finance Division, along with the contracted investment firm, TTSTC, work to ensure that the organization's funds are invested in the highest return vehicles allowed by policy and statute. The investment firm provides detailed investment statements monthly. The Finance Division performs reconciliations and develops investment holding reports on a monthly basis. Then, during quarterly commission meetings, the most recently completed investment holding report is presented and discussed. **Exhibit 3** reflects TREC's organization structure as of this audit.



**Exhibit 3:** TREC Organizational.

The TREC and TALCB maintain four separate accounts in which reserve funds are placed in short term investments through the Texas Treasury Safekeeping Trust Company (TTSTC). These funds are:

- TREC Current Operations and Contingencies Reserve Account #3055.
- TALCB Current Operations and Contingencies Reserve Account #3056.
- TREC Real Estate Recovery Trust Account #3058.
- TREC Real Estate Inspection Recovery Fund Account #3059.

TREC's investment strategy for these funds is to maintain a laddered 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. This also helps to control interest rate exposure flow and investment decisions and helps to control interest rate exposure.

## Detailed Findings and Management Response

This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to improve internal controls or the business process.

### Business Objective #1: Investment Policy

**Business Risk Rating (Inherent): High**

**Business Risk Rating (Residual): Low**

**Business Objective:** To ensure processes and controls are effective to ensure that investment policies are documented in compliance with the Public Funds Investment Act.

**Control Rating:** Generally effective.

**Finding Narrative:**

The PFIA requires state organizations 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.

**Exhibit 4** compares Section 2256.005 requirements to TREC/TALCB investment policies.

Texas Government Code Sec. 2256.005	PFIA Investment Policy Requirements	TREC Investment Policy Meets Requirement
(b)(1)	The investment policies must be written.	✓
(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
(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
(d)	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: (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.	✓



Texas Government Code Sec. 2256.005	PFIA Investment Policy Requirements	TREC Investment Policy Meets Requirement
(e)	The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. 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.	✓
(f)	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.	✓

**Exhibit4:** Section 2256.005 requirements and TREC/TALCB compliance.

Legend:

- ✓ Internal controls are effective and TREC/TALCB policies were compliant with all relevant requirements; no observations noted.
- ✗ TREC is not in compliance with requirements; observation noted and discussed in this report.

**Conclusion**

TREC and TALCB were found to be compliant with Section 2256.005 Investment Policies, Investment Strategies; Investment Officer. Our audit procedures resulted in no exceptions noted.

**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.

**Business Objective #2: Investment Officer, Commissioner, and Board Member Training**

**Business Risk Rating (Inherent): High**

**Business Risk Rating (Residual): Low**

**Business Objective:** To ensure processes and controls are effective to ensure that investment officers, commissioners, and board members comply with all training requirements in the Public Funds Investment Act.

**Control Rating:** Generally effective.

**Finding Narrative:**

The PFIA section 2256.007 lists specific training requirements for the agency investment officers, commissioners, and board members. Audit procedures applied to determine compliance with these requirements included:

- ✓ Reviewed TREC’s investment training records to determine compliance with the requirements of section 2256.007.

**Exhibit 5** 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 Meets 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.	✓

**Exhibit 5:** Section 2256.0075 requirements and TREC/TALCB compliance.

Legend:

- ✓ Internal controls are effective and TREC/TALCB training processes and reporting were compliant with all relevant requirements; no observations noted.
- ✗ Internal controls are not effective and TREC/TALCB training processes and reporting were not compliant with all relevant requirements; observation noted and discussed in this report.

**Conclusion**

TREC and TALCB were found to be compliant with Section 2256.007 Investment Training; State Agency Board Members and Officers. Our audit procedures resulted in no exceptions noted.

**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.

### Business Objective #3: Management Reports

**Business Risk Rating (Inherent): High**

**Business Risk Rating (Residual): Low**

**Business Objective:** To ensure processes and controls are effective to ensure that investment transactions are recorded and reported accurately and in compliance with PFIA requirements.

**Control Rating:** Generally effective.

#### Finding Narrative:

The PFIA requires state agencies that invest public funds to 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's Finance Division prepares detailed investment holding reports on a monthly basis. These investment reports are signed/certified by TREC's Director of Finance, Accounting Manager, and Budget Analyst to ensure completeness and accuracy. These individuals are also appointed as investment officers through a formal approval process.

The most recently completed monthly investment holding report is presented to the TREC Commissioners at quarterly Commissioner Meetings. Audit procedures applied to determine compliance with Section 2256.023 requirements included:

- ✓ Reviewed TREC's monthly certified investment reports for completion and content compliance with Section 2256.023.
- ✓ Compared monthly TTSTC investment statements to TREC's investment reconciliation worksheets and certified investment holdings reports to determine completeness and accuracy.



**Exhibit 6** compares Section 2256.023 reporting requirements to TREC/TALCB certified investment reports.

Texas Government Code Sec. 2256.023 Section	PFIA Internal Management Report Requirements	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 of investment transactions for all funds covered by this chapter for the preceding reporting period.	✓
(b)(1)(2)(3)	(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;	✓

Texas Government Code Sec. 2256.023 Section	PFIA Internal Management Report Requirements	TREC Investment Management Reports Meet Requirements
(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

**Exhibit 6:** Section 2256.0075 requirements and TREC/TALCB compliance.

Legend:

-  Internal controls are effective, and TREC/TALCB internal management reporting processes and reporting were compliant with all relevant requirements, with one issue noted.
-  Internal controls are not effective, and TREC/TALCB internal management reporting processes and reporting were not compliant with all relevant requirements; observation noted and discussed in this report.

**Conclusion**

TREC and TALCB were found to be substantially compliant with Section 2256.023 Internal Management Reporting. However, we noted that the investment holding reports for fund 3058 throughout periods in FY 2023 and FY 2024 each contained minor discrepancies when compared to the corresponding TTSTC statements. Specifically:

- An investment purchase made from fund 3058 on 6/15/2023 was erroneously recorded in Investment Holding Reports with a purchase price of \$1,141,820.63 rather than the actual purchase price of \$987,222.98, a difference of \$154,597.65.

- An investment purchase made from fund 3058 on 6/17/2024 was erroneously recorded in the Investment Holding Reports with a purchase date of 6/15/2024.

### ***Recommendations***

TREC should ensure that the investment officer review and sign-off process includes verification of all dates and amounts for each investment held.

### ***Management's Response***

*Management agrees with the recommendation and will ensure that all dates and amounts listed on our internal reports are accurate and match the document of record which are the TTSTC bank statements.*

### ***Opportunities for Improvement***

**OFI 1:** The beginning cash available balance is listed on the monthly investment holdings report in aggregate, which can create confusion as to the sources of that amount.

**OFI 2:** At quarterly commission meetings, the Finance Division presents the most recent month's certified investment holdings report, so quarterly beginning balances cannot be easily determined.

### ***Improvement Recommendations***

**OFI 1:** List the sources of the monthly beginning cash available balance as separate line items on the monthly staff holdings report to provide additional clarity.

**OFI 2:** Develop and certify investment holding reports quarterly, as opposed to monthly, for presentation at commission meetings.