



**Texas Real Estate Commission
Internal Audit Services**

**FY 2025
Annual Internal Audit Report**



McConnell Jones
Diverse Thinking | Unique Perspectives



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McConnell Jones

August 14, 2025

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the fiscal year 2025 Annual Internal Audit Report for the Texas Real Estate Commission (TREC). This report was presented to the TREC Commissioners and is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102). McConnell & Jones LLP (MJ) submits this Annual Internal Audit Report for fiscal year 2025 on behalf of the Texas Real Estate Commission.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for governing boards. The purpose of the Annual Internal Audit Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Annual Internal Audit Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the Annual Internal Audit Report for fiscal year 2025 is due November 1, 2025.

Please contact Darlene Brown at 713.968.1600 or Ranada Williams at 512.936.0102 if you should have any questions about this Annual Internal Audit Report.

Sincerely,

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I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, McConnell & Jones LLP (MJ) will ensure the required Annual Internal Audit Plan, Annual Internal Audit Report and any other required internal audit information is provided to the Texas Real estate Commission (TREC) for posting to their website.

II. FISCAL YEAR 2025 ANNUAL INTERNAL AUDIT PLAN STATUS

The fiscal year 2025 Annual Internal Audit Plan was prepared by McConnell & Jones LLP based on a comprehensive risk assessment and approved by TREC's commissioners. The approved FY 2025 Annual Internal Audit Plan was executed as approved. The chart below reflects the approved audit plan status as of July xx, 2025

Fiscal Year 2025 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Financial Services: Procurement	25-001	December 17, 2024	Financial Services: Procurement	Completed
2	Public Funds Investment Act Compliance	25-002	October 10, 2024	Public Funds Investment Act Compliance	Completed
3	Follow-Up on Open Audit Findings	25-003	June 18, 2025	Report on Prior Audit Findings Follow-up	Completed
4	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
5	Annual Audit Report	N/A	N/A	N/A	Completed
6	Audit Communications, Project Management	N/A	N/A	N/A	On-going

**Deviation from FY 2025 Internal Audit Plan:**

The approved FY 2025 Annual Internal Audit Plan was executed without deviations.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit did not provide any advisory / consulting services to the TREC during FY 2025.

IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the AICPA since 1987 and is subject to the AICPA's peer review process every three years. Issues noted by the peer reviewer were related to another practice line in the firm and not the risk advisory services practice. MJ developed an action plan to remediate the deficiencies noted. We provide a copy of our most recent peer review letter below.



Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act and audits of employee benefit plans.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Deficiencies Identified in the Firm's System of Quality Control

We noted the following deficiencies during our review:

- 1) The firm's quality control policies and procedures for engagement performance – supervision and review establish criteria to include supervision and review of the engagements in order for those engagements to comply with professional standards. Supervision and review on employee benefit plans and an audit in accordance with the single audit act was not adequate causing these engagements to not be performed in accordance with the standards. As a result, the following items were noted:
 - a. For the audit of a defined benefit plan, the firm did not document their understanding of the IT System, risks, and controls in the system, nor did they document the linkage between IT risk assessment and the procedures performed. In the audit of a 403(b) plan, the firm relied on control documentation from the prior year audit but did not carry the documentation forward into the workpapers selected for peer review. This caused the firm to omit documentation over the understanding of controls to include observation and inspection, inquiries of management, and controls at the service organization. In the single audit engagement performed under *Government Auditing Standards*, the firm failed to document inherent risk by assertion, sample size rational and population, and rational for dual testing of internal control and compliance testing. This resulted in two employee benefit plans and the single audit that did not conform to professional standards.
 - b. Sign-offs on various workpapers of two audits under *Government Auditing Standards* and an agreed upon procedures engagement were dated more than 60 days after the report release date.
- 2) The firm's quality control policies and procedures for monitoring has not been suitably complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with professional standards. The firm's monitoring involved discussing areas for improvement in engagement performance with staff conducting employee benefit plans. In addition, the firm performed post-issuance reviews of engagements, but those reviews were not completed timely. As a result, the items noted in 1a and 1b caused two employee benefit plan audits and one single audit that did not conform to professional standards.

Opinion

In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of **McConnell & Jones LLP** applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2023, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **McConnell & Jones LLP** has received a peer review rating of *pass with deficiencies*.

ADKF, PC
ADKF, P.C.

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INTERNAL AUDIT PLAN FISCAL YEAR 2026**V.**

MJ prepared an audit plan that ensures a review is performed on the high-risk processes. Financial Services is currently the highest risk area. We will focus on the procurement within Financial Services. We will also conduct the biennial compliance with the Public Funds Investment Act (PFIA) as well as follow-up on open audit findings in FY2026.

**Texas Real Estate Commission FY 2026 Annual Audit Plan Activities**

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Enforcement: Complaint Investigation Audit ✓ TREC and TALCB processes for: ○ Enforcement ○ Investigations ○ Abatements	High	March – May 2026	156
2	Payroll Audit ✓ Overtime ✓ Compensation Time ✓ Classification of Discretionary Payments	High	October – December 2025	104
3	Follow-Up on Open Audit Findings	Compliance	On-Going	11
4	Annual Risk Assessment	Compliance	July 2026	12
5	Annual Internal Audit Report	Compliance	July 2026	3
6	Internal & External Communications (Includes Commissioner / Board Meetings)	N/A	On-Going	16
	Total Hours			302
	Total Fees FY 2026			\$47,393

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2025

External audit services procured in fiscal year 2025 consisted of the internal audit function.

VII. REPORTING SUSPECTED FRAUD AND ABUSE

The Texas Real Estate Commission includes a link to the State Auditor's Office (SAO) website for fraud reporting at the footer of the TREC's website. In addition, information on reporting suspected fraud to the State Auditor is included in the agency's policies and procedures. These actions were implemented to comply with:

- Article IX, Section 7.10, the General Appropriations Act (81st Legislature)
- Texas Government Code, Section 321.022.
- Section 7.09, page IX-37, the General Appropriations Act (86th Legislature), and
- Section 7.09, page IX-38, the General Appropriation Act (87th Legislature).

The Texas Real Estate Commission will report to the state auditor any money received from the state that TREC suspects it may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of TREC. The Texas Real Estate Commission



shall report this in the form required by the state auditor to ensure compliance with Texas Government Code, Section 321.022.

VIII. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TREC's commissioners for review and approval. Notification of significant changes to the Internal Audit Plan approved by the commissioners will be submitted to the State Auditor's Office (SAO).

This annual internal audit report was provided to the Texas Real Estate Commissions' commissioners.