



TEXAS REAL ESTATE COMMISSION INTERNAL AUDIT

FY2017 INTERNAL AUDIT PLAN

As Prepared by
McConnell & Jones LLP





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McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

May 1, 2017

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Ms. Lisa Collier, CPA, CFE, CIDA First Assistant State Auditor

Dear Ladies and Gentlemen:

Attached is the 2017 Internal Audit Plan for the Texas Real Estate Commission (TREC). This annual audit plan was discussed with the TREC's Commissioners and received approval on May 1, 2017. The annual audit plan will enable the TREC to comply with the Texas Internal Auditing Act, Texas Government Code Chapter 2102 as amended by House Bill 2485 during the 78th Legislature and House Bill 16 during the 83rd Legislature. This annual audit plan will be executed by McConnell & Jones LLP (MJ) in accordance with The Texas Internal Auditing Act, The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and Generally Accepted Government Auditing Standards (GAGAS).

Please contact Darlene Brown at 281.740.0017 or Commission Chair Avis Wukasch at 512.255.5050 if you should have any questions about this audit plan.

Sincerely,

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1.0 COMPLIANCE WITH HOUSE BILL 16: PUBLICATION OF AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

House Bill 16 amended the Texas Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans and internal audit annual reports to the agency's Internet website within 30 days of approval. House Bill 16 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 House Bill 16, MJ will provide the required internal audit plan, internal audit annual report and any other required internal audit information to the Texas Real Estate Commission's (TREC) Executive Director who will ensure the information is posted to the TREC's website.

2.0 PURPOSE

The purpose of this report is to communicate the annual risk-based audit plan as approved by the Texas Real Estate Commission (TREC) Commissioners on May 1, 2017, the methodology used to develop the annual audit plan, the timing and resource requirements necessary to complete the audit plan, and the communication of audit results and any significant interim changes to the annual audit plan.

The annual audit plan was developed based on a comprehensive risk assessment and a prioritization of the audit universe. Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors; evaluated the proposed engagements; and prioritized the audits based on the risk score and TREC leadership input.

3.0 RISK ASSESSMENT

Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. An organization's risk exposure is determined through the identification of risks and evaluating the impact on operations and likelihood of occurrence.

Risk assessments identify an organization's exposure to business disruptions and barriers to achieving the organization's strategic goals. They serve as a tool to focus limited resources to perform evaluations of controls that are in place to limit the exposure.

In accordance with Texas Internal Auditing Act and The Institute of Internal Auditors (IIA) Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input of the TREC leadership team. Our assessment evaluated risk exposures relating to the TREC's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, policies and procedures, and contracts.

The types of risk exposure relevant to the TREC are:

- *Financial Exposure:* Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.
- *Compliance Exposure:* Compliance exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.



- *Information Exposure:* An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.
- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.
- *Human Resource Exposure:* A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.
- *Environmental Exposure:* An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
 - Recent changes in key personnel
 - Changing economic conditions
 - Time elapsed since last audit
 - Pressures on management to meet objectives
 - Past audit findings and quality of internal control
- *Public Service Exposure:* A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.
- *Reputational Exposure:* A reputational exposures exists whenever an event in the audit area could jeopardize the reputation of the agency and stakeholder trust.

MJ discussed the risk exposures with the TREC Commissioners and leadership team. We then prepared an annual and 3-year audit plan based upon current risks facing TREC operations.

4.0 FY2017 ANNUAL AUDIT PLAN

MJ will conduct two audits, follow-up on prior audit findings, update the risk assessment, provide Residential Service Company financial statement reviews, prepare the 2018 annual audit plan and prepare the 2017 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **257 hours** for a total annual budget not to exceed \$27,555. The planned audits, timing and estimated hours are summarized in the chart below.

Texas Real Estate Commission FY2017 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Information Technology Application Environment	High	April 2017 – June 2017	100
2	Public Funds Investment Act	Compliance	July – August 2017	40
3	RSC Licensure Activities	Request	On-Going	62
4	Follow-Up on Prior Audit Findings	Compliance	On-Going	11
5	Update Risk Assessment	Compliance	July - August 2017	20
6	Annual Audit Plan	Compliance	July - August 2017	9
7	Annual Audit Report	Compliance	August 2017	5
8	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	10
Total				257

The following chart is the three-year audit plan which is a result of the risk assessment.

Texas Real Estate Commission Proposed Three Year Audit Plan

Audit Area	Risk Category	Year 1 2017	Year 2 2018	Year 3 2019
Information Technology Application and Database Environment Assessment (ITS)	High			
Public Funds Investment Act	Compliance			
Human Resources (SSS)	High			
Financial Reporting (SSS)	High			

Audit Area	Risk Category	Year 1 2017	Year 2 2018	Year 3 2019
Residential Service Company Financial Reports and Assistance	Compliance			
Follow-Up on Prior Audit Findings	Compliance			
Update Risk Assessment / Audit Plan / Reporting	Compliance			
Audit Communications	Compliance			

5.0 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 executive management and present these changes to the 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.

This annual audit plan was presented to the Commissioners and approved on May 1, 2017.

Avis Wukasch, Chair