



TEXAS REAL ESTATE COMMISSION

Texas Real Estate Commission

Internal Audit Services

FY 2019

Annual Internal Audit Report



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



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November 19, 2019

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 2019 Annual Internal Audit Report for the Texas Real Estate Commission (TREC). This Annual Internal Audit Report 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) was engaged on December 20, 2016 to provide internal audit services to the TREC in accordance with The Texas Internal Auditing Act. Pursuant to the Request for Proposals (RFP) issued October 14, 2016, MJ submits this Annual Internal Audit Report for fiscal year 2019 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 2019 is due November 1, 2019.

Please contact Odysseus Lanier at 713.968.1603 or Priscilla Piphon at 512.936.3590 if you should have any questions about this Annual Internal Audit Report.

Sincerely,

Odysseus Lanier, CPA
Partner

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 2019 ANNUAL INTERNAL AUDIT PLAN STATUS

The fiscal year 2019 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 2019 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2019.

Fiscal Year 2019 Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Public Funds Investment Act Compliance	19-001	December 12, 2018	Public Funds Investment Act Compliance Audit	Completed
2	Licensing Registration Processes	19-002	June 4, 2019	Licensing and Registration Division Processes	Completed
3	Residential Service Company Financial Statement/Report Reviews	Internal Audit was not requested to complete any Residential Service Company financial statement reviews during FY 2019			
4	Follow-Up on Open Audit Findings	The agency was in process of implementing recommendations during FY 2019.			
5	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
6	Annual Audit Report	N/A	N/A	N/A	Completed

#	Description	Report Number	Report Date	Report Title	Audit Status
7	Audit Communications, Project Management	N/A	N/A	N/A	On-going

Deviation from 2019 Plan:

MJ completed the FY 2019 Annual Internal Audit Plan as approved with no deviations.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit provided a consulting and advisory engagement on the agency’s licensing function’s processes. This engagement focused on providing an independent assessment of the Licensing and Registration Division’s (LRS) operations to identify bottlenecks, redundancies, unnecessary or outdated process and requirements for the goal of improving the licensing processes. The agency requested an independent review of the current licensing process and its proposed changes related to the processing of new and renewal license applications to determine those areas of the application and renewal processes that are inefficient and provide possible solutions to address those inefficiencies to help reduce processing times. The engagement focused on the following processes:

- ✓ Application and Licensing Workflow and Tracking
- ✓ Licensing and Registration’s Operations Management Reports
- ✓ Licensing Third Party Application Review and Capabilities
- ✓ Application and Licensing Process Documentation
- ✓ Licensing and Registration Resource Allocation

We provided management with a report that included 18 actions that could be taken to improve the licensing processes.

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. Our commitment to quality is underscored by the fact that, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial engagements, the reviewers concluded that MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. We provide a copy of our most recent peer review letter below.



V. INTERNAL AUDIT PLAN FISCAL YEAR 2020

MJ developed the fiscal year 2020 Annual Internal Audit Plan based on results of a risk assessment. The risk assessment included reviewing the agency's strategic plan, the Legislative Appropriations Request, and policies and procedures; analyzing the agency's financial reports; and conducting discussions with management. Our assessment evaluated risk exposures relating to 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, and contracts.

MJ will conduct one audit, update the risk assessment, conduct prior audit finding follow-up activities, prepare the Fiscal Year 2021 Annual Internal Audit Plan and prepare the Fiscal Year 2020 Annual Internal



Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **251 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

Fiscal Year 2020 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Background Check and Investigations Compliance Audit	High	January 2020 – February 2020	181
2	RSC Licensure Activities	Request	On-Going	28
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	11
4	Update Risk Assessment	Compliance	July 2020	15
5	Annual Audit Plan	Compliance	July 2020	5
6	Annual Audit Report	Compliance	August 2020	3
7	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	8
Total Hours				251
Total Fees				\$27,411

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2019

External audit services procured in fiscal year 2019 consisted of the internal audit function.

VII. REPORTING SUSPECTED FRAUD AND ABUSE

The Texas Real Estate Commission has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

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.

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 presented to the Texas Real Estate Commissions' commissioners and approved on November 19, 2019.

R. Scott Kesner, Chair