



An Audit Report on

**The Real Estate Commission:  
A Self-directed, Semi-independent  
Agency**

July 2019

Report No. 19-044



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# **The Real Estate Commission: A Self-directed, Semi-independent Agency**

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## **Overall Conclusion**

The Real Estate Commission (Commission) has established processes and controls to ensure the accuracy and completeness of financial data that it is required to report. However, the Commission should strengthen controls over its financial data to ensure that it reports revenue information accurately.

The Commission has also established a process for budgeting, setting fees, and assessing administrative penalties. However, it should continue to strengthen its budgeting process to take appropriate action to reduce fees when approved fund balance reserves are exceeded.

### **Financial Related Processes and Reporting.**

While the Commission has established financial processes and controls to report revenues and expenditures in its annual financial report, it should strengthen those processes and controls to help ensure that changes to fee amounts are reviewed and approved, revenue is properly allocated to appropriate funds, and it complies with the Office of the Comptroller of Public Accounts reporting requirements. The Commission complied with statutory requirements related to submitting annual and biennial reports. In addition, it transferred funds to the General Revenue Fund as required.

**Budgeting and Fee Setting.** The Commission had an established process for budgeting and fee setting. While the Commission did not always ensure that it appropriately adjusted fees when fund balances exceeded approved fund balance levels in fiscal year 2014 through fiscal year 2018, the Commission took steps to strengthen its budget development policy in November 2018.

**Information Systems.** The Commission had weaknesses in its information technology systems used to manage and report financial data. To minimize security risks, auditors communicated details about certain issues directly to the Commission in writing.

### **Background Information**

The Real Estate Commission (Commission) regulates providers of real estate brokerage, inspection, home warranty, timeshares, and right-of-way services in Texas. As of March 31, 2019, the Commission reported 194,216 license holders and registrants.

In 2011, the Commission was granted self-directed, semi-independent agency status. The Commission establishes its own budget, which must be supported with revenues the Commission generates. In fiscal year 2018, the Commission reported \$21,080,961 in Licenses and Permits revenue.

Since 1991, the Commission has included an independent subdivision, the Texas Appraiser Licensing and Certification Board (TALCB), which regulates real estate appraisers and appraisal management companies and has a separate board. The Commission and TALCB share staff and resources. For example, the Executive Director of the Commission is also the Commissioner of TALCB.

Source: The Commission.

*This audit was conducted in accordance with Texas Government Code, Section 1105.004, as applicable.*

*For more information regarding this report, please contact Courtney Ambres-Wade, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.*

Auditors also communicated other, less significant issues to Commission management separately in writing.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating <sup>a</sup>
1-A	The Commission Had Processes and Some Controls to Ensure Accuracy of Reported Revenue Data	Medium
1-B	The Commission Had Processes and Controls to Help Ensure That It Accurately Reported Expenditures and Appropriately Makes Claims Payments	Low
2	The Commission Had a Process for Establishing Its Budgets and Fees; However, It Did Not Always Adjust Fees To Address Excess Fund Balances	Medium
3	The Commission Complied with SDSI Reporting Requirements	Low
4	The Commission Had Weaknesses in Its Information Technology Systems Used to Manage and Report Financial Data	High

<sup>a</sup> A chapter/subchapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **High** if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **Medium** if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated **Low** if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

## ***Summary of Management's Response***

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Commission agreed with the recommendations in this report.

## *Audit Objectives and Scope*

The objectives of this audit were to:

- Determine whether the Commission has processes and related controls to help ensure the accuracy and completeness of financial and performance data.
- Evaluate the Commission's **processes for setting fees and penalties**.

The scope of this audit covered financial and performance information, applicable processes, and supporting documentation from September 1, 2017, through February 28, 2019.

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# Detailed Results

Chapter 1

## **The Commission Had Established Processes and Controls for Reporting Financial Information; However, It Should Strengthen Controls Related to Revenue Processes**

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The Real Estate Commission (Commission) implemented controls and processes to record and report financial information. Those controls included ensuring that expenditures and claims payments were authorized, documented, and reported accurately. However, controls related to the Commission's management and reporting of its collected revenue should be improved.

Chapter 1-A

### **The Commission Had Processes and Some Controls to Ensure Accuracy of Reported Revenue Data**

**Chapter 1-A  
Rating:  
Medium <sup>1</sup>**

While the Commission had processes in place to report financial data in its Annual Financial report (AFR), it should strengthen those processes and controls to help ensure that it accurately reports revenue collected (see text box for more information).

#### **The Commission's Revenue Reporting Structure**

The Commission's Versa system includes more than 230 separate revenue codes for the Commission and the Texas Appraiser Licensing and Certification Board. Those revenue codes direct revenue transfers to the nine funds that the Commission administers. The funds are reported in three separate financial statements annually.

Source: The Commission.

**Revenue transactions in Versa Regulation.** The Versa Regulation (Versa) system, which the Commission uses to manage its licenses and permits, accurately assessed fees based on license type (see Chapter 4 for more information on Versa and other applications the Commission uses). Although the Commission collected the correct license fee amount for all 35 license and permit transactions tested, Commission staff have the ability to change and waive fees without review or approval. In addition, the Commission did not have a documented policy for when Commission staff may waive or change any fee amounts previously approved by the Commission's board.

Commission staff also record receipt of administrative penalties in Versa. Three (10.7 percent) of 28 administrative penalties tested were misclassified in Versa by Commission staff. Specifically, two penalties were misclassified by type and deposited in the incorrect recovery fund (see Chapter 1-B for additional information about recovery funds). The Commission misclassified the remaining penalty tested as an administrative penalty; it should have

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<sup>1</sup> The risk related to the issues discussed in Chapter 1-A is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

been classified as a license fee. As a result, \$600 in revenue was not deposited into the correct recovery fund.

Revenue allocation. The Commission does not consistently update the spreadsheets it uses to manage revenue collected and allocated between the nine dedicated funds managed by the Commission and the Texas Appraiser Licensing and Certification Board (TALCB), in accordance with its requirements. This increases the risk that revenues are not transferred to the correct fund for their intended purposes and are reported inaccurately in the Commission's AFR.

For example, the Commission reported \$21.1 million as Licenses, Fees, and Permits in its fiscal year 2018 AFR. Of that amount, it is unclear whether all or a portion of \$129,527 should have been included as Licenses, Fees, and Permits or transferred to other funds for specific use because the Commission did not have sufficient documentation.

Revenue reporting methodology. The Commission overstated certain revenues in its fiscal year 2018 AFR because it did not follow the Office of the Comptroller of Public Accounts (Comptroller's Office) reporting requirements. Not following the Comptroller's Office requirements increases the risk that financial statements could be misstated. Those requirements state that governmental funds' revenues must be reported on a modified accrual basis, which means that revenue should be reported when the funds are measurable and available. However, the Commission reported revenue collected in August 2017 (fiscal year 2017) in its fiscal year 2018 AFR and excluded revenue collected in August 2018. For example, the Commission's License, Fees, and Permits revenue was overstated in its fiscal year 2018 AFR by \$121,079, which was less than 1 percent of the total reported.

Complying with Comptroller's Office reporting requirements was a recommendation in *An Audit Report on the Real Estate Commission: A Self-directed Semi-independent Agency* (State Auditor's Office Report No. 14-037, September 2014).

## Recommendations

The Commission should:

- Strengthen its revenue process to ensure that changes to fee codes and fee amounts or waived fees are appropriately reviewed and approved in the Versa system.
- Adopt a formal policy for when Commission staff may change fee amounts.

- Ensure that it consistently transfers and reports revenue in the appropriate fund.
- Follow Comptroller's Office requirements for the preparation of Annual Financial Reports.

### **Management's Response**

*The Commission should:*

- *Strengthen its revenue process to ensure that changes to fee codes and fee amounts or waived fees are appropriately reviewed and approved in the Versa system.*
- *Adopt a formal policy for when Commission staff may change fee amounts.*

*Management Response:*

*Management agrees with the recommendation and will review the related permissions and policies for waiving or changing fees within the Versa Licensing system. The policy changes will include a clear delineation and separation of duties between licensing and accounting staff. This will serve to streamline processes and improve efficiencies which will translate to improved customer service. Anticipated completion timeline is December 31, 2019.*

*The Commission should:*

- *Ensure that it consistently transfers and reports revenue in the appropriate fund.*
- *Follow Comptroller's Office requirements for the preparation of Annual Financial Reports.*

*Management response*

*Management agrees with the recommendations. To ensure that revenues are reported in the appropriate fund, management has updated procedures to regularly review revenue spreadsheets, which includes a monthly review by the Accounting Manager with follow-up by the Director of Staff and Support Services.*

*In addition, the agency changed Annual Financial Report procedures to ensure fees collected at the end of the fiscal year are reported using the*



*modified accrual basis. This procedure change has been made and will be implemented in the upcoming fiscal year-end close.*

*All tasks complete.*

Chapter 1-B

The Commission Had Processes and Controls to Help Ensure That It Accurately Reports Expenditures and Appropriately Makes Claims Payments

Chapter 1-B  
Rating:  
Low <sup>2</sup>

The Commission had processes and controls to ensure that it accurately pays operational expenditures in accordance with its requirements and also appropriately pays claims and judgments against the recovery funds it administers, as required by Texas Occupations Code, Chapters 1101 and 1102, and the Commission's requirements.

Operational expenditures. The Commission had controls to ensure that expenditures complied with key requirements in its procurement plans. For fiscal years 2018 and 2019, Commission staff prepared annual procurement plans as required by Title 34, Texas Administrative Code, Chapter 20. Those procurement plans help ensure that the Commission appropriately records and reports expenditures.

According to the fiscal year 2019 procurement plan, Commission staff should prepare a purchase requisition form for purchases of goods or services and obtain written approval from the appropriate division director and the Director of Staff and Support Services. Purchases of more than \$1,000 must also be approved by the Commission's Budget Analyst, and purchases of more than \$2,500 require the approval of the Commission's executive director.

For all 29 operational expenditures tested, the Commission appropriately, when applicable, (1) approved the requisition and (2) reviewed and approved the related purchase voucher. In addition, the Commission appropriately categorized the expenditures in the Uniform Statewide Accounting System (USAS).

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<sup>2</sup> The risk related to the issues discussed in Chapter 1-B is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Claim payments. The Commission administers two recovery funds from which it pays legal claims and judgments against its licensees and certificate holders. The Commission suspends the licensee or certificate holder until the recovery fund has been reimbursed for the claim paid (see text box for additional information on claims and judgments). The Commission processed 49 claims payments in fiscal year 2018 and the first six months of fiscal year 2019.

All seven claim payments tested were approved by Commission staff and Commissioners according to policy and were paid from the appropriate recovery fund. In addition, all claims were supported by required documentation. The Commission also correctly calculated the interest to be paid to the claimant from the date of judgment and documented its calculations.

In addition, Commission staff appropriately suspended the license or certificate for the holder to whom the judgment applied, pending repayment to the recovery fund of the disbursed funds as required.

#### Claims and Judgments

The Commission holds funds in recovery accounts to reimburse those persons who have suffered actual damages caused by license or certificate holders, or their employees or agents. Claimants must provide the Commission with a valid judicial order for payment from a recovery account.

**The Commission's legal** department processes claims, and the **Commissioner's board must approve** payments. The Commission suspends the license or certificate until the holder reimburses the claim payment.

The Commission reports those payments as Claims and Judgments on its AFRs.

Sources: Texas Occupations Code, Chapters 1101 and 1102, and the Commission.

## ***The Commission Had a Process for Establishing Its Budgets and Fees; However, It Did Not Always Adjust Fees to Address Excess Fund Balances***

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Chapter 2  
Rating:  
Medium<sup>3</sup>

The Commission had an established process for budgeting and fee setting, including review and approval of annual budgets and fee schedules by Commissioners. However, the Commission did not always ensure that it appropriately adjusted fees when fund balances exceeded approved fund balance levels.

**Budgeting Process.** The Commission considered historical information and also used revenue and expenditure projections when preparing the budget for the upcoming year. However, the Commission consistently overestimated revenues while underestimating expenditures. Based on historical information in the Commission's approved budgets for fiscal years 2015 through 2017, actual revenues exceeded budgeted revenues by more than 20 percent.

**Fund Balance.** According to the Commission's AFRs for fiscal years 2014 through 2018, the difference between revenues and expenditures grew by 91.5 percent over those five years. As a result, the Commission's fund balance reserve increased by 252.5 percent during the same time period, from \$4.7 million in fiscal year 2014 to \$16.6 million in fiscal year 2018.

However, the Commission has taken steps to strengthen its budgeting process and monitoring of fund balance in its approved November 2018 budget development policy. That policy provides for certain conditions to exist with its fund balance before specific actions must be taken to address any excess revenue. Specifically, the new policy states that when year-end fund balances exceed the total of approved reserves by more than 20 percent, Commission staff are required to offer recommendations for sustainable fee reductions.

**Contribution to general revenue.** Texas Occupations Code, Section 1105.003(f), requires the Commission to deposit \$750,000 into the State's General Revenue Fund each fiscal year by August 31. Auditors determined that the Commission had transferred the required amount by the statutory deadline for fiscal year 2018.

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<sup>3</sup> The risk related to the issues discussed in Chapter 2 is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

**Recommendation**

The Commission should monitor fund balances and adjust fees in accordance with its updated budget development policies.

**Management's Response**

*Management agrees with the recommendation and has implemented updated budget and investment policies at the November 2018 Commission and Board meetings to include monitoring fund balances and proposing fee reductions to minimize excess fund balances.*

*Complete*

## The Commission Complied with SDSI Reporting Requirements

Chapter 3  
Rating:  
Low <sup>4</sup>

The Commission complied with certain statutory requirements for submitting biennial and annual self-directed, semi-independent (SDSI) reports related to the inclusion of certain elements and timely submission (see text box).

Due to the Commission's SDSI status, as authorized in the Texas Occupations Code, Chapter 1105, it is not required to include performance data as part of its SDSI reports. In addition, at the time of this audit the Commission was revising its performance measures process in response to a recommendation from the Sunset Advisory Commission.

Self-directed, Semi-independent (SDSI) Reports

The Commission included all required elements from Texas Occupations Code, Section 1105.005, in its 2017 and 2018 annual SDSI reports and in its 2018 biennial SDSI report, and the reports were submitted by the due date to all recipients.

To comply with requirements to report on all revenue received and all expenses incurred in the previous 12 months, the Commission included its AFR as part of its 2017 and 2018 annual SDSI reports. Reporting on all revenue received and all expenses incurred was a recommendation in *An Audit Report on the Real Estate Commission: A Self-directed Semi-independent Agency* (State Auditor's Office Report No. 14-037, September 2014).

Performance Measures

The Commission has SDSI status authorized by Texas Occupations Code, Chapter 1105. During the audit scope, Chapter 1105 did not include a requirement to report on performance measures. However, the Sunset

### Required SDSI Reports

Texas Occupations Code, Section 1105.005, requires the Commission to:

- Submit a biennial report to the Legislature and the governor before the beginning of each regular session of the Legislature. The report must include (1) an audit as required by Texas Occupations Code, Section 1105.004, (2) a financial report of the previous fiscal year, including reports on the financial condition and results of operations, (3) a description of all changes in fees imposed on regulated persons, (4) a report on changes in the regulatory jurisdiction of the agency, and (5) a list of all new rules adopted or repealed.
- Submit an annual report to the governor, the committee of each house of the Legislature that has jurisdiction over appropriations, and to the Legislative Budget Board by November 1. The report must include (1) the salary for all agency personnel and the total amount of per diem expenses and travel expenses paid for all agency employees, (2) the total amount of per diem expenses and travel, expenses paid for each member of the agency, **(3) the agency's operating plan and the annual budgets of the commission and the board** and (4) a detailed report of all revenue received and all expenses incurred by the agency in the previous 12 months.

<sup>4</sup> The risk related to the issues discussed in Chapter 3 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited

Advisory Commission completed a review of the Commission for the 2018-2019 review cycle, 86th Legislature. During that review, the Sunset Advisory Commission recommended that the Commission “evaluate and update its key performance measures” and to report annual performance data and quarterly call center reports to the Sunset Advisory Commission until January 1, 2023. As a result, the Commission asserted during the course of this audit that it was revising its performance measures process in response to the recommendation. Senate Bill 624 (86th Legislature), effective September 1, 2019, revised the Texas Occupations Code, Chapter 1105, to require the Commission to report performance data in its annual and biennial SDSI reports.

Although the Commission had a process for reporting performance measures internally to senior management, it did not have policies and procedures, including a review process, for the collection, calculation, and reporting of performance measure information. Having policies and procedures helps ensure consistency and accuracy in the collection, calculation, and reporting of performance measure information.

#### Recommendation

The Commission should continue to revise its performance measures process and consider guidance provided in the *Guide to Performance Measure Management* (State Auditor’s Office Report No. 12-333, March 2012), including developing policies and procedures for the collection, calculation, and reporting of key performance measures.

#### **Management’s Response**

*Management agrees with the recommendation. Management has implemented revisions of performance measures for reporting purposes. Management is in the process of revising collection, calculation and reporting policies to comply with statutory deadlines of reporting by November 1, 2019.*

## ***The Commission Had Weaknesses in Its Information Technology Systems Used to Manage and Report Financial Data***

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Chapter 4  
Rating:  
High <sup>5</sup>

Auditors identified weaknesses in the Commission's controls over access to its (1) internal network, (2) Versa Regulation system, (3) Versa Online application, and (4) USAS (see text box for information about these systems). In addition, the Commission did not have documentation showing appropriate segregation of duties within its change management process for significant changes made to its Versa system and Versa Online application. Specifically:

**User access.** While the Commission's policy requires periodic review of user access, the Commission did not have documentation to show that it performed a user access review for fiscal year 2018. As a result, auditors identified active accounts in the Commission's internal network and Versa Regulation system that were not assigned to current Commission employees. According to the Commission, these active accounts were deactivated when auditors brought the issue to the Commission's attention. Disabling and removing user accounts in compliance with Commission policy when a user is no longer a Commission employee was a recommendation in *An Audit Report on the Real Estate Commission: A Self-directed Semi-Independent Agency* (State Auditor's Office Report No. 14-037, September 2014). Not appropriately restricting user access to current employees increases the risk of unauthorized access to Commission data.

**Uniform Statewide Accounting System (USAS).** The Commission did not always ensure separation of duties within USAS. Auditors verified that no USAS transactions had been entered and released by the same Commission employee during fiscal year 2018.

**Versa System Change Management.** The Commission did not have documentation supporting segregation of duties within its change management process for significant changes made to its Versa system and Versa Online application.

### Agency Information Systems

Auditors performed limited testing of general and application controls over the Commission's internal network and the following key information technology systems that the Commission used to manage and report financial data:

- Versa Regulation, which is the Commission's licensing database.
- Versa Online, which is a Web portal that allows individuals to apply for and manage licenses, and make online payments.
- USAS, which the Commission uses to process its expenditures and prepare its annual financial report.

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<sup>5</sup> The risk related to the issues discussed in Chapter 4 is rated as High because they present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.



Not maintaining appropriate separation of duties increases the risk that unauthorized changes could be made.

Password configuration. Password settings for the Commission's network were not always as restrictive as the Commission's policies and procedures. The Commission updated the settings to match its policy when auditors brought the issue to the Commission's attention.

To minimize security risks, auditors communicated details of the issues identified to Commission management.

#### Recommendations

The Commission should:

- Ensure that network and application accounts are removed when the user no longer has a business need to have access.
- Comply with requirements to perform periodic review of user access and document those reviews.
- Restrict access within USAS to ensure proper segregation of duties as necessary.
- Strengthen controls over Versa change management to ensure appropriate segregation of duties.
- Ensure that it restricts passwords consistently with its policies and procedures.

#### Management's Response

*Management agrees with all Chapter 4 recommendations. The majority of the recommendations have already been put into effect with the remainder scheduled for implementation by the end of the fiscal year. Annual follow-up will be scheduled in conjunction with mandated internal and external security assessments. Management will confirm removal of permissions, compliance with user access, password enforcement and USAS restriction.*

# Appendices

Appendix 1

## **Objectives, Scope, and Methodology**

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### Objectives

The objectives of this audit were to:

- Determine whether the Real Estate Commission (Commission) has processes and related controls to help ensure the accuracy and completeness of financial and performance data.
- Evaluate the Commission's processes for setting fees and penalties.

### Scope

The scope of this audit covered financial and performance information, applicable processes, and other supporting documentation from September 1, 2017, through February 28, 2019.

### Methodology

The audit methodology included collecting information and documentation, performing selected tests and other procedures on the information obtained, analyzing and evaluating the results of tests, and conducting interviews with Commission management and staff. In addition, the methodology included performing a limited review of the general and application controls over the information technology systems that the Commission used to manage and report financial data and performance measure data.

### Data Reliability and Completeness

To determine the reliability, validity, and completeness of revenue, expenditure, and claims payment data in the Uniform Statewide Accounting System (USAS), auditors (1) reviewed user access, (2) performed a high-level review of data fields and their contents for appropriateness, and (3) compared that information to other sources. Auditors determined that the revenue, expenditure, and claims payment data in USAS was sufficiently reliable for the purposes of this audit.

Auditors compared banking transaction data from the Texas Treasury Safekeeping Trust Company (TTSTC) system to applicable revenue line items in the Commission's annual financial report (AFR) and revenue and bank statement reconciliations. To determine the reliability, validity, and completeness of data in the TTSTC system, auditors (1) reviewed queries for

completeness and (2) reviewed data fields and their contents for accuracy and validity. Auditors determined that the banking transaction data in the TTSTC system was sufficiently reliable for the purposes of this audit.

To determine the reliability, validity, and completeness of detailed revenue transaction data in the Commission's licensing and enforcement system (Versa), auditors (1) reviewed user access, (2) reviewed change management, (3) tested completeness by reviewing queries and comparing totals to the deposit spreadsheets, (4) tested certain application controls, (5) performed a high-level review of data fields and their contents for appropriateness, and (6) compared that information to other sources. Auditors determined the accuracy of the revenue data is of undetermined reliability (see Chapter 1-A and Chapter 4 for details).

#### Sampling Methodology

Auditors selected a risk-based sample of (1) monthly deposit spreadsheets, (2) monthly transfer spreadsheets, (3) monthly trust fund reconciliations, (4) monthly recovery funds reconciliations, and (5) monthly budget spreadsheets for testing. The sample items were generally not representative of the population; therefore, it would not be appropriate to project those test results to the population.

Auditors selected a nonstatistical sample of (1) license and fee revenue transactions, (2) recovery fund revenue transactions, (3) expenditures, and (4) claim payments primarily through random selection. In some cases, auditors selected additional items for testing based on risk. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- The Commission's policies and procedures.
- The Commission's AFR for fiscal year 2018.
- The Commission's annual and biennial reports for self-directed, semi-independent (SDSI) agencies.
- Revenue data from Versa.
- Expenditures and claim payment data from USAS.
- TTSTC bank statements.
- The Commission's revenue reconciliations and supporting documentation.

- Commission revenue, expenditure, and claim payment supporting documentation.
- Board meeting minutes, budget information, and supporting documentation for the Commission's budget and fee setting process.
- User access data, password settings, and other supporting documentation related to the general controls over the Commission's financial-related information systems.

Procedures and tests conducted included the following:

- Interviewed Commission staff to gain an understanding of the Commission's financial and operations processes.
- Verified the accuracy of selected revenue and expenditure amounts and balances in the fiscal year 2018 AFR.
- Reviewed a sample of monthly reconciliations, deposit spreadsheets, transfer spreadsheets, trust spreadsheets, and recovery fund reconciliations to determine if they were mathematically correct, sufficiently supported, and reviewed and approved.
- Tested a sample of license and permit revenue transactions from Versa to determine if they were recorded accurately in Versa and in applicable reconciliations, were sufficiently supported, were classified as the correct type of revenue, and if related controls were operating effectively.
- Tested a sample of expenditure transactions and a sample of claim payment transactions from USAS to determine if they were recorded accurately, sufficiently supported, classified as the correct type of expenditure/claim payment, and if related controls were operating effectively.
- Tested the Commission's annual and biannual SDSI reports, which were due during the audit scope, to determine if they included all elements required by Texas Occupations Code, Section 1105.005, and if they were submitted on a timely basis to required recipients.
- Evaluated the Commission's annual budget and fee-setting process.
- Tested a sample of administrative penalty fees received by the Commission to determine if the fees were assessed in compliance with Texas Occupations Code, Chapters 1101 and 1102, and Title 1, Texas Administrative Code, Chapter 535, and were sufficiently documented.

- Tested selected general controls of the Commission’s network, Versa, and USAS systems. Auditors also performed limited application control testing for Versa.

Criteria used included the following:

- Title 1, Texas Administrative Code, Chapters 153, 157, 159, 202, 535, 539, and 543.
- Texas Occupations Code, Chapters 1101 through 1105 and 1303.
- Texas Property Code, Chapter 221.
- Commission Master Fee Schedule.
- Department of Information Resources’ *Security Control Standards Catalog*, Version 1.3.
- Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.
- Office of the Comptroller of Public Accounts’ *eXpendit purchasing procedures*.
- Office of the Comptroller of Public Accounts’ *Manual of Accounts*.
- Office of the Comptroller of Public Accounts’ *Reporting Requirements for the Annual Financial Reports of State Agencies and Universities*.
- Commission policies and procedures.

#### Project Information

Audit fieldwork was conducted from January 2019 through May 2019. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor’s staff performed the audit:

- Benjamin Nathaniel Keyfitz, CPA, CFE (Project Manager)
- Rachel Lynne Goldman, CPA (Assistant Project Manager)

- Arnton Gray
- Jessica McGuire, MSA
- Melissa M. Prompungorn, CFE
- Grace Yang
- Dana Musgrave, MBA (Quality Control Reviewer)
- Courtney Ambres-Wade, CFE, CGAP (Audit Manager)

## Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

## **Related State Auditor's Office Work**

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Related State Auditor's Office Work		
Number	Product Name	Release Date
14-037	An Audit Report on the Real Estate Commission: A Self-directed Semi-independent Agency	September 2014



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