

October 18, 1995

Mr. Ren Liner, Executive Director  
Texas Appraiser Licensing and Certification Board  
1101 Camino La Costa  
Austin, Texas 78752

Dear Mr. Liner:

The Texas Appraiser Licensing and Certification Board has established management control systems for strategic planning, information management, human resources, and performance management. However, the Board could improve agency operations by developing a written agreement of the relationship between the Board and the Texas Real Estate Commission, developing written policies and procedures for the complaint resolution process, and improving controls over human resources.

The management control audit of the Board was conducted in accordance with Government Code, §§ 321.0132 and 321.0133. Our audit objectives were to conduct a financial analysis and assessments of the management control systems and to certify the accuracy of selected performance measures. Appendices 1 and 2, respectively, contain detailed information about the objective and scope of the audit and the certification of performance measures. Also, Appendix 3 includes background information about the Board.

The results of this review will be included in the 1995 Small Agency Management Control Audit report. This report will contain the audit results of all agencies we visited during the Small Agency Management Control Audit. When this report is published in November 1995, copies will be distributed to the executive director and board chair of each agency in the report. Additional copies can be obtained from Production Services at 479-4700.

We appreciate the cooperation and assistance of the Board's management and staff during this project. If you have any questions please call Larry Turner at 479-4763 or me at 479-4774.

Sincerely,

Linda A. Newsom, CFE  
Audit Manager

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October 1995

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### Overall Conclusion

The Board has established management control systems for strategic planning, information management, human resources, and performance management. However, the Board could improve agency operations by developing a written agreement of the relationship between the Board and the Texas Real Estate Commission, developing written policies and procedures for the complaint resolution process, and improving controls over human resources.

The Board's mission is to protect the public interest by ensuring that real estate appraisers are qualified in accordance with federal and state law and are of sufficient numbers to facilitate the free flow of commerce and industry. In fiscal year 1994, the Board had six employees and total expenditures of \$244,000.

#### Section 1: Policies and Procedures

### The Board Needs to Develop Written Policies and Procedures over Agency Operations

The Board and the Texas Real Estate Commission (Commission) have not documented their relationship in a written agreement that defines the responsibilities of each entity. Additionally, the Board has not documented the policies and procedures relating to its complaint resolution process.

#### Section 1-A:

### Develop a Written Agreement with the Texas Real Estate Commission

Currently, the Board and the Commission have not drafted a written agreement that describes their relationship. The Board was created by the Legislature as an independent subdivision of the Commission. Under this directive, the Commission is to provide administrative support (e.g., accounting, payroll, and management information services) to the Board. A written agreement would define each entity's responsibilities and establish a framework for future negotiations.

#### Recommendation:

We recommend that the Texas Appraiser Licensing and Certification Board work with the Texas Real Estate Commission to develop a written agreement documenting the relationship and responsibilities for each agency.

Management's Response:

*Since July 1, 1991, when the Texas Appraiser Licensing and Certification Board (TALCB) became an "independent subdivision" of the Texas Real Estate Commission (TREC), an informal working agreement has been in place concerning the administrative services to be provided by TREC to the TALCB. By and large, this informal arrangement has worked very well.*

*The TREC has provided the TALCB with administrative services at no cost including; staff services (accounting, cashier, mail service, personnel, purchasing), information services (data processing, main-frame computer support and programming, computer reports), office space (at no cost until September 1, 1995, then \$9,300 per year as per appropriation), and utilities.*

*The TALCB will discuss a formalized agreement with TREC at its next Board meeting, tentatively scheduled for November 17, 1995. It is my understanding that TREC also will be discussing this item at their October 30, 1995, Commission meeting.*

Section 1-B:

**Document the Policies and Procedures for the Complaint Resolution Process**

The Board has a complaint resolution process in place but does not have written policies and procedures to document the process. Written policies and procedures provide guidance and instructions for employees and outside parties.

Recommendation:

We recommend that the Board develop written policies and procedures for its complaint resolution process.

Management's Response:

*The enforcement and complaint resolution process is developing and has been evolving this past year as the TALCB has moved from the initial emphasis on licensing and certifying significant numbers of appraisers in a relatively short time to the enforcement and regulatory function. Currently, detailed written policies and procedures for dealing with complaints have not been developed; however, a flow chart showing the process has been relied upon by the Board for guidance in the complaint resolution process. During this coming year, the Board will be working on the development of written policies and procedures for the enforcement function based on the existing, and evolving, flow chart.*

## The Board Should Improve Controls over Human Resources

The Board has not distributed its employee handbook to employees or complied with agency policy regarding annual performance appraisals. In addition, the Board has not recently reevaluated the duties and responsibilities of its employees to determine if their FLSA exempt or nonexempt status determination is appropriate. In fiscal year 1994, the Board's expenditure for salaries and wages was \$155,557 or 64 percent of total expenditures.

Section 2-A:

### Distribute the Employee Handbook to Employees

Agency management has not distributed human resource policies and procedures to its employees. The Board uses the Texas Real Estate Commission's *Employee Handbook*, which contains written policies and procedures regarding human resource laws, regulations, expectations, and responsibilities. Policies and procedures help to clearly communicate expectations to employees and promote compliance with applicable laws and regulations.

#### Recommendation:

We recommend that the Board distribute the *Employee Handbook* to all employees and have each employee sign a statement stating they have read the handbook.

#### Management's Response:

*After we were made aware of this situation during the interviews with the State Auditor's staff, the TREC Employee Handbook was distributed to all six employees on August 30, 1995. An explanatory sheet from the Commissioner was included at the beginning of the Employee Handbook. Each employee signed an acknowledgment that they had received the Employee Handbook and would make themselves familiar with it.*

*It is sensible to avail ourselves of the TREC Employee Handbook in conjunction with the personnel services provided to us by TREC. This ensures conformance of TALCB staff to the parent agency's rules and policies and prevents the TREC staff services personnel from having to master the intricacies of two separate policy handbooks. There did not seem to be any reason to "reinvent the wheel" since we are housed with TREC and use their personnel office and staff. Additionally, there did not appear to be significant items in the TREC Employee Handbook which should not equally apply to TALCB employees.*

Section 2-B:

## **Conduct Annual Performance Appraisals**

The Board did not conduct annual performance appraisals, as required by agency policies. Performance appraisals document an employee's strengths and areas needing improvement and also provide support for personnel actions taken.

### Recommendations:

We recommend that the Board conduct annual evaluations on its employees and consider designating an employee to monitor compliance with this policy.

### Management's Response:

*The TALCB does have a policy to conduct annual performance evaluations for all employees; however, we have been remiss on keeping up-to-date on those. We are now caught up on all performance evaluations with the exception of one, which will be done in the near future.*

*Regular employee performance evaluations are important communications and productivity tools which enable each employee and the agency as a whole to become more effective. Unfortunately in the day-to-day press on time and energies, the priority of the evaluations were lower than they should have been.*

*The commissioner is the person who is responsible for monitoring compliance with the performance evaluation policy.*

Section 2-C:

## **Review Employee FLSA Status Determinations**

The Board has not evaluated the duties and responsibilities of its employees to determine if the current Fair Labor and Standards Act (FLSA) exempt or nonexempt status determinations are appropriate. The Board's employees transferred from the Texas Real Estate Commission after the Board was created in 1991, and their status determinations were not reevaluated or updated based on their new positions.

An agency found to have made an incorrect determination is liable for back wages for a period of up to two years from the date of an employee's claim and up to three years if the agency is found to have willfully violated any provisions of the FLSA.

Recommendation:

We recommend that the Board:

- C Review the duties and responsibilities of all positions to determine the appropriate FLSA “exempt” or “nonexempt” status.
- Inform all employees of their FLSA determinations.
- C Maintain documentation to support the determinations, including basis of FLSA exempt determinations (Executive, Administrative, or Professional).

Management's Response:

*Quite frankly, I was not aware that the FLSA exemption/non-exempt review and determinations were needed. I will be working over the next few weeks to review the status and make determinations as to the proper status for each employee.*

## Objective, Scope, and Methodology

### Objective

Our objective was to conduct financial analyses and assessments of the management control systems of small agencies<sup>1</sup> to enable them to meet legislative mandates and deliver intended benefits. An additional objective was to certify the accuracy of selected performance measures by examining the classification of those measures and reviewing the controls over the measures reported.

### Scope

The scope of this audit included:

- Determining whether the audit entity is managing or utilizing resources, including state funds, personnel, property, equipment and space, in an economical and efficient manner.
- Evaluating the causes of inefficiencies or uneconomical practices, including inadequacies in internal and administrative procedures, organizational structure, and the use and allocation of resources.
- Determining whether financial, program, and statistical reports of the audited entity contain useful data and are fairly presented.

The Texas Real Estate Commission provides administrative support for the Board, including management information and accounting services which were reviewed by the State Auditor's Office at the same time the Board was being audited. A separate letter was sent to the Commission's board and management.

### Methodology

The methodology used on this audit consisted of collecting information, performing audit tests and procedures, analyzing the information, and evaluating the information against established criteria.

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<sup>1</sup>A small agency is identified as an agency with less than \$10 million in appropriations and fewer than 300 employees.



Information collected to accomplish the audit objective included the following:

- C Interviews with management and staff
- C Documentary evidence, including:
  - State and federal statutes, regulations, and rules
  - Board documents, plans, policies, procedures, manuals, reports, memoranda, minutes, and other written communications
  - Various audit and management reports from both internal and external sources
  - Agency financial data and reports

Procedures and tests conducted:

- C Reviewed policies and procedures to ensure alignment of statutory functions, appropriations, and mission of the strategic plan.
- C Reviewed compliance with Legislative Budget Board directives for selected performance measures.
- C Reviewed policies and provisions of the Fair Labor Standards Act (FLSA), Americans with Disabilities Act (ADA), and Equal Employment Opportunity Act (EEO).

Analytical techniques used:

- C Financial analysis
- C Process review and analysis
- C Content analysis

Criteria used:

- C Statutory requirements
- C General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project
- C State Auditor's Office Management Control Methodology and Models
- C Process criteria from the Comptroller of Public Accounts, Department of Information Resources, and General Service Commission

## **Other Information**

Fieldwork was conducted from May 10 to June 30, 1995. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

No significant instances of noncompliance with these standards occurred.

The audit work was performed by:

- Larry Turner
- Jarrett Oliver
- Roberto Montealegre
- Linda A. Newsom, CFE (Project Manager)
- Randy Townsend, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Audit Director)

Appendix 2:

## Performance Measures Matrix

### Results of Performance Measures Review

Related Objective or Strategy <sup>1</sup>	Description of Measure <sup>1</sup>	How Classified	Results Reported <sup>2</sup>	Certification Results*					Comments
				C	CQ	FPC	I	N/A	
<b>Agency # 329 Texas Appraiser Licensing and Certification Board</b>									
D.1	Total Number of Individuals Licensed	Output	4,598	*					
D.1	Average Cost of Examination Administration	Efficiency	22.91	*					

\*Key for Certification Results

C	-	Certified
CQ	-	Certified with Qualifications
FPC	-	Factors Prevented Certification
I	-	Inaccurate
N/A	-	Not Applicable

**Sources:**

<sup>1</sup>General Appropriations Act, 73rd Legislature, R.S. (1993).

<sup>2</sup>Outcomes are reported for FY 1994.

All numbers are from ABEST II - Automated Budget and Evaluation System of Texas.

## **Background Information<sup>2</sup>**

The Texas Appraiser Licensing and Certification Board was created in 1991, in compliance with federal requirements, to establish standards for those seeking to become licensed or certified as real estate appraisers. The Board was established as an independent subdivision of the Texas Real Estate Commission.

The Board is composed of eight members appointed by the governor with the advice and consent of the Senate and the executive secretary of the Veterans' Land Board or that person's designee, who serves as a voting member of the Board. Four appointed members must be actively engaged in the practice of real estate appraising and licensed or certified under this act. The remaining four appointed members of the board must be public members appointed by the governor on the basis of their recognized business ability. Appointed members shall hold office for two-year terms.

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<sup>2</sup>The source of this information is the *Guide to Texas State Agencies*, 1994 and Article 6573 a.2, Vernon's Texas Civil Statutes.