



TEXAS REAL ESTATE COMMISSION INTERNAL AUDIT SERVICES

PUBLIC FUNDS INVESTMENT ACT COMPLIANCE AUDIT

Audit #23-001
January 6, 2023



McConnell Jones
Diverse Thinking | Unique Perspectives

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

Report Highlights

Why Was This Review Conducted?

McConnell & Jones LLP (MJ) serving as the outsourced internal audit function (Internal Audit) for the Texas Real Estate Commission (TREC) performed this internal audit as part of the approved FY 2023 Annual Internal Audit Plan.

Audit Objectives and Scope

The purpose of this audit was to:

1. Assess the Texas Real Estate Commission’s compliance with the Public Funds Investment Act (PFIA) requirements.
2. Verify that what is recorded on the agency’s financial system and reported to the Commissioners and Board agree to the investment statements.

The audit scope period was September 1, 2020, through August 31, 2022.

Audit Focus

1. Investment transactions.
2. Investment reconciliations.
3. Investment reporting.
4. Investment officer training.
5. Compliance with TREC investment policy and PFIA requirements.



We wish to thank all employees for their openness and cooperation. Without this, we would not have been able to complete our review.

Audit Conclusions

Overall, the agency’s internal controls over investment activities need some improvement to ensure compliance with the PFIA requirements. Our review highlighted that although some areas are effective, other areas lack compliance requirements of PFIA.

The agency invests their funds through the Texas Treasury Safekeeping Trust Company (TTSTC) and takes a conservative approach to investment vehicles.

As of August 31, 2022, \$31,076,111 was invested in securities and overnight repurchase agreements.

Internal Control Rating

Some Improvement Needed.

What Did We recommend?

1. TREC should ensure the statutorily required training compliance report is prepared and provided to the TREC Commissioners and TALCB Board indicating all current Commissioners, Investment Officers, and Board Members have met the required training within 180 days of the last regular legislature date.

Number of Findings/ Opportunities by Risk Rating

Category	High	Medium	Low	Total
Findings	0	0	1	1
Improvement Opportunities	0	0	1	1

Introduction



McConnell & Jones LLP (MJ) performed an internal audit of the Texas Real Estate Commission’s (TREC) compliance with Texas Government Code Chapter 2256 Public Funds Investment commonly referred to as the Public Funds Investment Act (PFIA).

We performed this audit as part of the approved FY 2023 Annual Internal Audit Plan. This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 accomplishes that requirement.

Pertinent information has not been omitted from this report. This report summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

Government Code Chapter 2256 Section 2256.005 Investment Policies, Investment Strategies; Investment Officer subsection (n) requires that at least once every two years a state agency arranges for a compliance audit of management controls on investments and adherence to the agency's established investment policies to be performed by their internal auditor or a private auditor. The audit resulting audit

reports must be reported to the state auditor no later than January 1st of each even numbered year.

TREC INVESTMENT BALANCES

TREC invests funds through the Texas Treasury Safekeeping Trust Company.

As of August 31, 2022, \$31,076,111 was invested in securities and repurchase agreements for seven active accounts; \$22,788,914 in securities and \$8,287,197 in overnight repurchase (cash repo).

The following is each account’s ending market value, including cash repo, as of August 31, 2022:

- TREC Fund (3054): \$ 1,250,791*
- TREC Operating Account (3055): \$ 22,639,108*
- TALCB Operating Account (3056): \$ 3,464,790*
- TREC Real Estate Fee Trust Account (3057): \$ 587,786*
- Real Estate Recovery Trust Fund (3058): \$ 4,363,050*
- Real Estate Inspection Recovery Fund (3059): \$ 609,163*
- Appraisal Registry Account (3060): \$ 28,793*
- TALCB Administrative Penalties (3193): \$ 22,968*

Objective, Conclusion, and Internal Control Rating



*This audit identified findings that resulted in an overall internal control rating of **Some Improvement Needed**. **Figure 1** describes the internal control rating.*

The purpose of this audit was to assess management’s controls and business processes in place to ensure:

- Texas Real Estate Commission complies with the Public Funds Investment Act requirements.
- Accuracy of what is recorded on the agency’s financial system and reported to the Commissioners and Board.

The scope period was September 1, 2020, through August 31, 2022.

Texas Government Code Chapter 2256 Public Funds Investment sections applicable to TREC are:

- Section 2256.005 Investment Policies, Investment Strategies; Investment Officer
- Sec. 2256.007 Investment Training; State Agency Board Members and Officers
- Section 2256.023 Internal Management Reports

As such we focused on the following processes:

- Investment transactions including investment purchases, sales, interest, earnings, distributions, authorization, and recording.
- Investment reconciliations including investment statement and investment bank account reconciliations to the financial system.
- Investment reporting including investment reports provided to the Commissioners and TALCB Board.
- Investment officer training compliance including investment officer and board training certificates or assertions.
- Compliance with TREC investment policy and PFIA requirements.

Finding vs Improvement Opportunity

We define a finding as an internal control weakness or non-compliance with required policy, law, or regulation. We define an improvement opportunity as an area where the internal control or process is effective as designed but can be enhanced.

The Texas Real Estate Commission complied with all applicable sections of the Texas Government Code Chapter 2256 Public Funds Investment Act. Although a few specific management internal controls weaknesses were noted for investment activities and reporting, overall, the internal controls provide reasonable assurance that risks are being managed and objectives are being met.

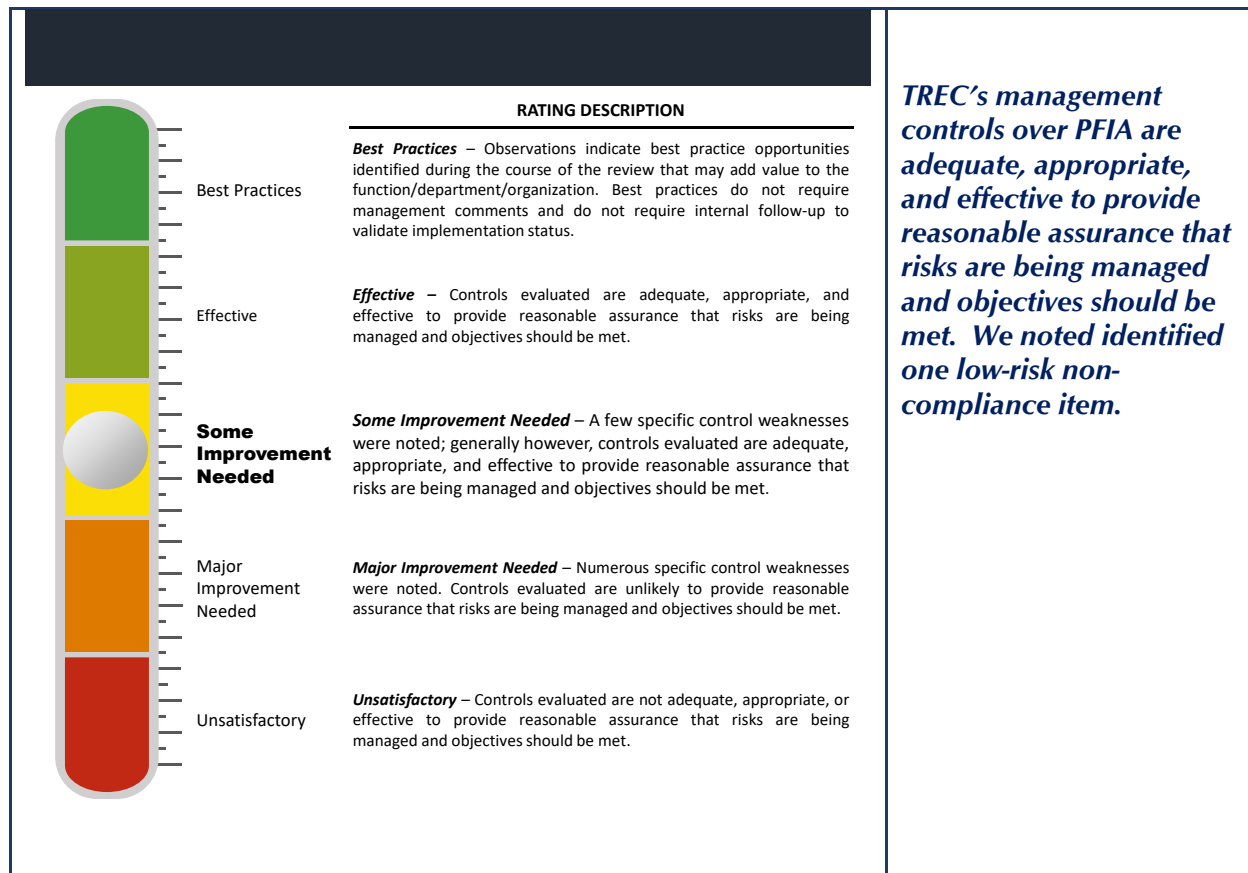


Figure 1: Internal Control Rating Description.

Observation and Risk Rating Summary



Figure 2 provides a summary of our audit observations. See Detailed Findings and Management Response section of this report for a discussion of all issues identified, recommendations, and management responses.

Business Objective	Internal Control Rating	Control Assessment / Findings	Recommendations
Investment Transaction Approvals	Generally Effective	No Findings noted.	No recommendations noted.
Investment Reconciliation Tools and Reports	Generally Effective for compliance requirements. An opportunity was noted to improve verbiage used on staff reports.	<i>Opportunity for Improvement:</i> 1. The verbiage referencing balance totals is inconsistent on the Staff Reports submitted to the Commissioners and TALCB Board. (<i>Low Risk</i>)	<i>Opportunity for Improvement:</i> 1. TREC should ensure the verbiage is consistent on the Staff Reports submitted to the Commissioners, TALCB Board, and posted on the website. (<i>Subsequent to Audit: Management has implemented this recommendation.</i>)
Investment Reporting	Some Improvement Needed	The required investment officer training compliance report was not submitted to the Commissioners and TALCB Board within 180 days of the last regular legislature date. (<i>Low Risk</i>)	TREC should ensure a training compliance report is prepared and provided to the Commissioners and TALCB Board members within 180 days of the last regular legislature date.
Investment Officer Training	Generally Effective	No findings noted.	No recommendations noted.
Compliance with TREC Investment Policy and PFIA Requirements	Generally Effective	No findings noted.	No recommendations noted.

Figure 2: Summary of Audit Observations.

Detailed Findings and Management Response



This section of our report provides a discussion on the reportable findings we noted during the audit, our recommendations, and management's response.

Business Objective #1: Investment Transaction Approvals

Risk Level: High Risk

Risk Ranking: Generally Effective.

Observations

TREC is in compliance with the investment transaction approval requirements.

Finding Recommendation (s):

No recommendations noted.

Managements Response #1

Management response is not required as no observations were noted for this compliance requirement.

Business Objective #2: Investment Reconciliation Tools and Reports

Risk Level: High Risk

Risk Ranking: Generally Effective for compliance requirements. One opportunity was noted to ensure investment reports provided to Commissioners, TALCB Board members, and posted on the website are consistent.

Observations

No findings were noted with compliance with PFIA requirements.

Opportunities for Improvement

1. The verbiage to indicate balance totals was inconsistent on the Staff Reports submitted to the Board.

Recommendations #2

Finding Recommendation (s):

None as TREC complies with PFIA requirements for investment reports.

Opportunities for Improvement.

1. TREC should ensure the verbiage is consistent on the Staff Reports submitted to the Commissioners, TALCB Board, and posted on the website. *(Low Risk)*

Managements Response #2

Management response is not required as no observations were noted for this compliance requirement. However, management agrees that the verbiage should be consistent on the Staff Reports and will be updating the format going forward.

Business Objective #3: Investment Training Reporting

Risk Level: Low Risk

Risk Ranking: Some Improvement Needed

Observations

A training compliance report was not submitted to the Board within 180 days of the last regular legislature date as required by Texas Government Code Sec. 2256.007 Investment Training, State Agency Board Members and Officers.

Finding Recommendation (s):

TREC should ensure a training compliance report is prepared and provided to the Commissioners and TALCB Board indicating all current Commissioners, TABC Investment Officers, and TALCB Board Members have met the required training within 180 days of the last regular session of the legislature.

Managements Response #3

Management agrees with the recommendation and will ensure that a training compliance report is created and submitted to the Board indicating all current Commissioners, Investment Officers, and Board Members have met the required training within 180 days of the last regular legislature date.

Business Objective #4: Investment Officer Training

Risk Level: Medium

Risk Ranking: Generally Effective

Observations

TREC is in compliance with Texas Government Code Sec. 2256.007 Investment Training, State Agency Board Members and Officers regarding investment training for State Agency Board Members and Officers.

Recommendations #4

Finding Recommendation (s):

No recommendations noted.

Managements Response #4

Management response is not required as no observations were noted for this compliance requirement.



Business Objective #5: Compliance with TREC investment policy and PFIA requirements.

Risk Level: High

Risk Ranking: Generally Effective

Observations

TREC complies with its investment policy and PFIA requirements.

Finding Recommendation (s):

No recommendations noted.

Managements Response #5

Management response is not required as no observations were noted for this compliance requirement.

APPENDIX A - BACKGROUND



This section of the report provides an overview of TREC's PFIA Compliance details.

The Texas Real Estate Commission maintains seven separate accounts in which reserve funds are placed in short-term investments through the Texas Treasury Safekeeping Trust Company. These funds are:






- Texas Real Estate Commission Operating Account (3055)
- TALCB Appraiser Licensing & Certification Board Operating Account (3056)
- TREC Real Estate Fee Trust Account (3057)
- Real Estate Recovery Trust Account (3058)
- Real Estate Inspection Recovery Fund (3059)
- Appraisal Registry account (3060)
- TALCB Appraiser Licensing & Certification Board Administrative Penalties (3193)







TREC's investment strategy for these funds is to maintain a ladder approach to the investment portfolio's management. This approach provides for a relatively even distribution of securities maturing each year to facilitate cash flow and investment decisions. This also helps to control interest rate exposure flow and investment decisions and helps to control interest rate exposure.

A. Investment Policy

The PFIA requires state agencies that invest public funds to have a written investment policy that is reviewed at least once per year by the governing body. Section 2256.005 Investment Policies, Investment Strategies; Investment Officer lists specific topics that must be included in the agency's investment policy.

Figure 3 compares Section 2256.005 requirements to TREC's investment policy.

Texas Government Code Sec. 2256.005 Section	PFIA Investment Policy Requirements	TREC Investment Policy Meets Requirement
(b)(1)	The investment policies must be written.	
(b)(2)	Primarily emphasize safety of principal and liquidity.	
(b)(3)	Address investment diversification, yield, and maturity and the quality and capability of investment management.	
(b)(4)(A)	Include a list of the types of authorized investments in which the investing entity's funds may be invested.	
(b)(4)(B)	Include the maximum allowable stated maturity of any individual investment owned by the entity.	

Texas Government Code Sec. 2256.005 Section	PFIA Investment Policy Requirements	TREC Investment Policy Meets Requirement
(b)(4)(C)	Include for pooled fund groups, the maximum dollar weighted average maturity allowed based on the stated maturity date for the portfolio.	
(b)(4)(D)	Include methods to monitor the market price of investments acquired with public funds.	
(b)(4)(E)	Include a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis.	
(b)(4)(F)	Include procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021 .	N/A TREC uses TTSTC for investments. TTSTC monitors rating changes.
(d)	As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance: (1) understanding of the suitability of the investment to the financial requirements of the entity; (2) preservation and safety of principal; (3) liquidity; (4) marketability of the investment if the need arises to liquidate the investment before maturity; (5) diversification of the investment portfolio; and (6) yield.	
(e)	The governing body of an investing entity shall review its investment policy and investment strategies not less than annually.	
(e)	The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.	




Texas Government Code Sec. 2256.005 Section	PFIA Investment Policy Requirements	TREC Investment Policy Meets Requirement
(f)	Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity.	

Figure 3: Section 2256.005 requirements and TREC’s compliance.

Legend:

-  Internal controls are effective and TREC is in compliance with requirement; no observations noted.
-  TREC is not in compliance with requirements; observation noted and discussed in this report.

Conclusion

TREC is in compliance with Section 2256.005 Investment Policies, Investment Strategies: Investment Officer.

Recommendation

No recommendations are made for this compliance requirement.

B. Investment Officer, State Agency Board Member, and Officer Training

The PFIA section 2256.007 lists specific training requirements for the agency investment officers, board members and officers.

Audit procedures applied to determine compliance with these requirements included:

- Reviewed TREC’s investment training records to determine compliance with section 2256.007 requirements.
- Reviewed TREC’s investment officer training compliance report to determine compliance with section 2256.007 requirements.
- Reviewed quarterly investment reports and reports on Subchapter A, Chapter 2256, provided to TREC’s governing body.

Figure 4 compares section 2256.007 training requirements to TREC’s records of investment officer training taken.








Texas Government Code Sec. 2256.007 Section	INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS.	TREC Investment Officer and Officers Training does not Meet All Requirements
(a)	Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.	
(b)	The Texas Higher Education Coordinating Board shall provide the training under this section.	
(c)	Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.	
(d)	An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency.	
(d)	The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.	

Figure 4: Section 2256.007 requirements and TREC’s compliance.

Legend:

-  Internal controls are effective and TREC is not in compliance with requirement; observations noted.
-  TREC is not in compliance with requirements; observation noted and discussed in this report.

Conclusion

TREC is not in full compliance with Section 2256.007 Investment Training: State Agency Board Members and Officers.

Recommendation

1. TREC should ensure a training compliance report is created and submitted to the Board indicating all current Commissioners, Investment Officers, and Board Members have met the required training within 180 days of the last regular legislature date.

C. Management Reports




The PFIA requires state agencies that invest public funds to provide investment management reports to its governing body. Section 2256.023 Internal Management Reports lists specific information that must be included in the investment management reports.

TREC prepares investment management reports (staff reports) each month and posts them to their website. The staff reports are provided to their Commissioners and Board members at each quarterly meeting.

Audit procedures applied to determine compliance with Section 2256.023 requirements included:

- Reviewed monthly staff reports for completion and content compliance with Section 2256.023.
- Compared monthly investment reports provided by Texas Treasury Safekeeping Trust Company to the monthly staff reports to determine completeness and accuracy; and
- Reviewed internal procedures to determine existence and completeness.

Figure 5 compares the Section 2256.023 investment management report requirements to TREC’s investment management reports (staff reports).

Texas Government Code Sec. 2256.023 Section	Internal Management Reports	TREC Investment Management Reports Meet Requirements
(a)	Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.	
(b)(1)(2)(3)	The report must: (1) describe in detail the investment position of the entity on the date of the report; (2) be prepared jointly by all investment officers of the entity; (3) be signed by each investment officer of the entity;	
(b)(4)	contain a summary statement of each pooled fund group that states the: (A) beginning market value for the reporting period; (B) ending market value for the period; and (C) fully accrued interest for the reporting period;	
(b)(5)	state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;	
(b)(6)	state the maturity date of each separately invested asset that has a maturity date;	
(b)(7)	state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired;	
(b)(8)	state the compliance of the investment portfolio of the state agency or local government as it relates to: (A) the investment strategy expressed in the agency's or local government's investment policy; and (B) relevant provisions of this chapter.	




Texas Government Code Sec. 2256.023 Section	Internal Management Reports	TREC Investment Management Reports Meet Requirements
(c)	The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.	
(d)	If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.	Internal Audit reviews compliance with PFIA requirements every two fiscal years

Figure 5: Section 2256.023 reporting requirements compared to TREC’s management reports.

Legend:

-  Internal controls are effective and TREC is in compliance with requirement; no observations noted.
-  TREC is not in compliance with requirements; observation noted and discussed in this report.

Conclusion

TREC is in compliance with Section 2256.023 Reporting Requirements.

Recommendation

No recommendations are made for this compliance requirement.