



May 11, 2016

Wayne Bell, Commissioner  
Bureau of Real Estate  
1651 Exposition Blvd  
Sacramento, CA 95815

Subject: Audit Report of the California Bureau of Real Estate Subdivision and Timeshare Sections

Dear Mr. Bell:

Enclosed please find our final audit report for the Bureau of Real Estate (BRE) – Subdivisions and Timeshares. The audit was performed at the request of the Department of Consumer Affairs' (DCA) audit committee to provide an assessment of the CalBRE Subdivision and Timeshare sections' operations and internal controls. The audit test period was July 2015 – December 2015. The last day of fieldwork was March 29, 2016.

We received your response on May 10, 2016 and have included it in this report as Attachment I. As outlined in your response, the bureau generally concurs with our audit findings and plans to take corrective actions to improve its operation.

We will return to BRE for follow-up reviews after 180-days and 360-days from the date of this report to evaluate your progress in implementing the audit recommendations.

We appreciate the cooperation extended by BRE's staff during the course of the audit. If you have any questions, please contact me at (916) 574-8192.

Sincerely,

A handwritten signature in blue ink, appearing to read "Annecia Wallace".

Annecia Wallace  
DCA Internal Audit Chief

cc: Awet Kidane, Director

Enclosure: Final Audit Report of the Operational Audit – Bureau of Real Estate – Subdivisions and Timeshares



# California Department of Consumer Affairs California Bureau of Real Estate Subdivision and Timeshare Section Audit

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*DCA Internal Audit Office  
Report 2016-101  
May 2016*

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## **Report Summary**

The Department of Consumer Affairs' (DCA) Internal Audit Office completed a limited scope audit of the California Bureau of Real Estate (CalBRE) Subdivision and Timeshare section. Our audit examined the CalBREs' internal control processes in the Subdivision and Timeshare sections.

To evaluate the CalBREs' operations, we interviewed pertinent personnel, reviewed relevant documentation and processes. We performed compliance testing of key functions and compared actual operations to applicable laws, regulations, and guidelines. Our audit test period was from July 2015 through December 2015. Our last day of audit fieldwork was March 29, 2016.

Our audit revealed the CalBRE internal controls over the Subdivision and Timeshare section are operating efficiently and effectively; however, CalBRE has two internal control deficiencies that need to be addressed. The following audit issues are addressed in detail under the Findings and Recommendations section of this report:

1. The internal control over the safeguarding of assets is not adequate.

Recommendation: A reconciliation and supervisory review of the checks to the check transmittal log should be completed prior to submission to the CalBRE Fiscal section.

2. There is inadequate review of Subdivision and Timeshare section files by management.

Recommendation: To ensure good internal control all files should be reviewed by management prior to issuance of the Public Reports.

## **Background**

The California Legislature enacted the nation's first real estate license law in 1917. Providing for the licensing and regulation of real estate licenses, this law continues to serve as a model for similar legislation in many other states. The California Bureau of Real Estate (CalBRE) continues to enjoy a national reputation as a leader in real estate licensing and regulation. To facilitate the administration and enforcement of the Real Estate Law and the Subdivided Lands laws, the Commissioner is empowered by law to issue regulations. Known as the Regulations of Real Estate Commissioner, these have the force and effect of law.

The purchase of real estate is the largest single investment most Californians make during their lifetimes. Subdivision laws enforced by CalBRE help ensure that subdividers deliver to buyers what was agreed to at the time of sale. These laws cover most standard subdivisions and various types of common interest developments of five or more lots or units, time-shares, certain undivided interest developments, and out of state time-share subdivisions offered for sale in California.

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

The objectives of this audit were to determine that CalBRE:

- Established policies and procedures to guide staff in effectively handling subdivision and timeshare activities;
- Has adequate internal controls;
- Has adequate separation of duties; and,
- Has complied with the applicable laws and regulations.

The following procedures were performed to address the audit objectives:

- Interviewed key personnel, including CalBRE staff to obtain their perspectives;
- Reviewed available written policies and procedures governing CalBREs' subdivision and timeshare operations;
- Reviewed prior audit reports;
- Tested the administrative internal control processes to determine if CalBRE is in accordance with the state and federal laws; and
- Determine whether CalBRE has adequate internal control over the subdivision and timeshare section.

## **Findings and Recommendations**

### **1. Safeguarding Assets**

The internal control over the safeguarding of cash receipts (checks, money orders, and certified checks) is not adequate. Prior to submission of cash receipts to the Fiscal section there is no reconciliation and supervisory review of the check transmittal log and the checks.

State Administrative Manual, Section 20050, states in part, "Elements of a satisfactory system of internal accounting and administrative controls, shall include, but are not limited to, an effective system of internal review."

Without adequate internal control, there could be a loss of state funds.

#### **Recommendation:**

Prior to submission to the Fiscal section, there should be supervisory review and a reconciliation of the checks and the check transmittal log.

#### **CalBRE Response:**

The Bureau of Real Estate has implemented a supervisory review and reconciliation of the checks and the check transmittal log in both Sacramento and Los Angeles district offices. Supervisors now review and reconcile checks/check transmittal log on a weekly or daily basis depending upon the frequency of submittal to Fiscal.

## **2. Subdivision and Timeshare File Review**

There is inadequate review of subdivision and timeshare section files by management. Due to increased workload, there is no supervisory review of the subdivision and timeshare section files prior to release of the Public Reports to the developers.

SAM Section 20050, states in part, all levels of management must provide active, ongoing oversight and monitoring processes for the prevention and early detection of fraud and errors in program administration, and must routinely monitor, evaluate and improve internal controls when necessary.

Internal administrative controls comprise the methods and procedures that address operational efficiency and adherence to management policies.

A symptom of a control deficiency is that line supervisors ignore or do not adequately monitor control compliance.

Without adequate supervisory review, Public Reports could be issued with errors that could have an adverse effect on the persons purchasing property from developers.

### **Recommendation:**

To ensure good internal control all files should have supervisory review prior to issuance of the Public Reports.

### **CalBRE Response:**

The Bureau has a long-standing policy in place to have line supervisors perform periodic reviews of subdivision and timeshare filings. Additionally, all newly hired line staff members have each and every file reviewed before release to the public for an extended period of time (usually 1-year, but may vary depending upon the proficiency displayed by the employee). It is an active, ongoing monitoring process which ensures operational efficiency, adherence to management policies and, ultimately, control compliance.

While review of all subdivision/timeshare files is preferred, it is not feasible due to the large number of filings and the ratio of line supervisors to line staff members. The Bureau is working to hire additional line supervisors, but even with such augmentation, review of every file is not feasible.