

December 30, 2021

Lourdes M. Castro Ramirez, Secretary  
California Business, Consumer Services and Housing Agency  
915 Capitol Mall, Suite 350-A  
Sacramento, CA 95814

Dear Secretary Lourdes M. Castro Ramirez,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Department of Real Estate submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Doug McCauley, Real Estate Commissioner, at (916) 576-8100, [Doug.McCauley@dre.ca.gov](mailto:Doug.McCauley@dre.ca.gov).

## **GOVERNANCE**

### **Mission and Strategic Plan**

The mission of the Department of Real Estate (DRE) is to safeguard and promote the public interests in real estate matters through licensure, regulation, education and enforcement. The strategic goal areas for the DRE include:

- Licensing
- Enforcement
- Legal
- Audits
- Subdivisions
- Information Technology Services
- Communication & Publications
- Legislation
- Organizational Effectiveness

### **Control Environment**

The philosophy, attitude and actions of the DRE management regarding the importance and existence of the control system within the organization defines its control environment. The executive management of DRE establishes the culture and attitude regarding the importance of maintaining internal controls and sets the expectation of standards of conduct within the organization, which is “the tone at the top.”

The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal controls. The DRE’s control environment includes the following principles:

- Demonstrating a commitment to integrity and ethical values

- Maintaining management oversight of the internal control system
- Establishing organization structure, authority, and responsibility to pursue business objectives
- Demonstrating a commitment to attract, develop, and maintain competent people
- Maintaining accountability for the internal control responsibilities

Management is fully committed to the values of integrity, ethical practice and the safeguarding of assets and has developed systems of oversight and review to assure proper standards are maintained and followed. Examples of management's commitment to internal controls can be demonstrated through adherence to control environment principles, as follows:

Management is committed to integrity and ethical values, as required by adherence to the DRE's published Conflict of Interest statement. All employees who speak or attend events on behalf of DRE do not accept gifts or honoraria. This restriction is also noted on DRE's speaker request forms. The prohibition on the acceptance of gifts also applies to all employees in their performance of daily work duties. Management maintains segregation of duties over tasks such as travel expense claim handling and purchasing, while expenses such as rental cars and airline tickets require authorization by the employee's supervisor/manager and DRE's Chief Deputy Commissioner. Many of DRE's employees are required to file an annual Form 700 - Statement of Economic Interests and take a biennial Ethics Training Course. This is all part of setting "the tone at the top."

Management's oversight over the internal control system is achieved through the establishment of policies and procedures and review of activities by managers and supervisors to assure adherence to these standards. Policies and procedures are put in place to minimize risks identified by management. Risks in specific programs are identified through polling of management staff. These policies and procedures are communicated to staff in writing and then managers and supervisors are assigned responsibility to monitor adherence to these policies and procedures.

Management has established structures, reporting lines, and appropriate authority and responsibility in the pursuit of its objectives. It is critical that management delegate authority and define responsibilities at the various levels of the organization. To assure the standards of conduct are being adhered to across all levels of DRE, management evaluates the directives, attitudes, and behaviors of individuals and groups. Evaluations may consist of ongoing monitoring. Individuals can also report issues through regular staff meetings or through their supervisor.

DRE has demonstrated a commitment to attract, develop, and retain competent individuals in alignment with its objectives. Monitoring staff competence is very important in maintaining a system of internal control, and evaluation should not be limited to the hiring process. Instead, competence is something that should be nurtured and reinforced through an ongoing plan to develop and train employees. An example of this commitment can be shown through the creation of DRE's new Training Program. In addition and in alignment with DRE's strategic plan goals, DRE has continued to provide ongoing training on various programs such as Legal, Enforcement, and Audits.

The Chief Deputy Commissioner, Program Managers (Executive Management), managers, and supervisors are primarily responsible for identifying the compliance risks and internal controls for their operational areas. In addition, individual employees have responsibility for evaluating, establishing, improving, and monitoring internal controls for their areas of responsibility and accountability.

The DRE completed its Strategic Plan covering July 2019 to June 2023. This plan was developed over the course of fiscal year 2018-2019 following thoughtful input from DRE employees and stakeholders and much consideration, deliberation and spirited discussion.

## **Information and Communication**

The DRE is the state agency that (1) licenses, regulates, and disciplines real estate agents, and those residential mortgage loan originators who have obtained an endorsement to their real estate license, (2) investigates and commences action against unlicensed persons acting as or in the capacity of real estate licensees, (3) enforces the statutory laws known as the Subdivided Lands Act relative to the qualification of offerings for the initial public sale, lease or financing of new residential subdivision properties through the issuance of public reports, (4) oversees the Vacation Ownership and Timeshare Act, (5) administers a consumer recovery account program for victims of licensees, and (6) otherwise safeguards and promotes the public interests and consumer protection in real estate matters.

With the onset of stay-at-home orders that went into effect in March of 2020 and the State's overall move to increased telework, DRE has increased reliance upon technology to communicate information necessary to achieve its objectives. DRE made significant investments in information technology assets to allow for the continued efficiency and productivity of its operational functions while the majority of staff were transitioned to telework status. For example, prior to March of 2020, the percentage of staff with laptop computers which allowed for fieldwork to be conducted was less than 10% of all employees. Beginning in March of 2020, DRE's deployed over 300 additional laptop and telework setups. In addition, managers, supervisors, and staff utilize Microsoft Teams to conduct ongoing internal meetings and one-on-one discussions. Due to stay-at-home orders programs such as Audits and Enforcement, which traditionally conducted in-person audits and investigation in licensees' offices, transitioned to conducting these activities utilizing Microsoft Teams and ShareFile software. DRE has also continued to expand on its intranet as a way to centralize communication across DRE.

DRE's information technology infrastructure is composed of five core systems: Enterprise Information System (EIS), the Licensing (Masterfiles) Imaging System, the Electronic Exams System, the Application Center System, and the Web Systems. Externally, the DRE Website is the point of entry for the online Licensing system (eLicensing), which enables DRE's clientele to complete license renewals, various license and examination change transactions, and schedule examination dates via the Internet. DRE's ITS and Licensing sections also developed an online application system, Online Exam License Application (OELA), to allow for the submittal of applications for real estate exams and licenses in an effort to reduce 1) number of phone calls made to DRE requesting information on application status and 2) amount of paper applications mailed into DRE.

EIS is DRE's database system and was developed internally utilizing Power Builder Software. Currently, the EIS system is in need of an upgrade utilizing updated Power Builder software for EIS. In addition, DRE's data is housed using an outdated version of Oracle which will also need to be updated. To protect data, DRE servers have recorded images on CD, firewalls are used to protect the infrastructure, all servers, personal computers, and laptops have updated antivirus software installed and backup devices containing the server backups are stored at a secure, off-site facility.

Internally, DRE's core business processes depend on a complex infrastructure that is crucial to its ongoing operations. The five business processes are:

- Licensing (includes Licensing Services and Exams, Education and Research)
- Subdivisions (Includes Subdivisions, Timeshares and Budget Review Units)
- Enforcement (includes Enforcement, Audits, Legal, Recovery, and Mortgage Lending)
- Administration (includes support programs) and,
- Legislation and Public Information (including Records Management).

Employees can report inefficiencies and inappropriate actions to their supervisor, Human Resources or EEO officer.

## **MONITORING**

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Department of Real Estate monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:  
Marcus McCarther, Chief Deputy Commissioner.

Management monitors the internal control system through ongoing monitoring and separate outside evaluations. Biannually, the Executive Staff meets and discusses internal controls, risk assessment and monitoring processes.

Program Managers have annual meetings to inform staff of the State Leadership Accountability Act and to emphasize the importance of each employee in the internal control structure. Any deviations should be reported through the employees' chain of command.

DRE is audited by several entities including the Department of General Services, CalHR, and the Military Department. DRE has Tier 2 purchasing authority through Department of General Services for competitive and non-competitive bids and leveraged procurement agreements. In addition, DRE has separation of duties forms with Fi\$Cal. Any items needing correction during these audits are monitored by the Chief Deputy Commissioner.

## **RISK ASSESSMENT PROCESS**

The following personnel were involved in the Department of Real Estate risk assessment process: executive management, middle management, and front line management.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, questionnaires, and consideration of potential fraud.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

## RISKS AND CONTROLS

### **Risk: Call Center - High Phone Call Volume**

DRE will continue to experience high phone call volumes and long phone wait times, adversely affecting customer service until the Online Exam License Application (OELA) system is fully implemented.

#### **Control: A**

The OELA system was launched in September 2021 and was formally announced to the public on October 1, 2021. The promotion of the OELA system to the public is ongoing.

#### **Control: B**

Five Program Technician positions were approved through a Budget Change Proposal. Licensing Information Section began the hiring process in July 2021 of those positions to reduce call wait times.

#### **Control: C**

DRE will make continued efforts to place more information on and increase access to its website for examinees and licensees to reduce phone call volume.

### **Risk: Equal Employment Opportunity (EEO) Program**

DRE transitioned back to a department in July 2018 and has since been rebuilding its human resources office. Since July 2018, DRE's human resources manager served as the EEO Officer; however, the committee of employees was not established. By failing to establish a committee, the DRE was not in compliance with Government Code 19795 sections (b)(1) and (b)(2) with regard to the establishment and organization of its EEO Program. In addition, by failing to establish said committee, the DRE may not have the ability to properly advise on the formulation and implementation of plans needed to correct possible findings of underrepresentation of individuals with disabilities.

#### **Control: A**

DRE will continue onboarding the new EEO Officer who was hired in September 2021 with a beginning date on November 2021.

#### **Control: B**

DRE will establish a separate committee of employees as outlined in Government Code 19795 sections (b)(1) and (b)(2).

### **Risk: Succession Planning**

In the coming years, the retirement of subject matter experts will cause DRE to lose expertise in institutional knowledge.

**Control: A**

A Workforce Plan will be developed by the new EEO Officer and Human Resources in the first quarter of calendar year 2022.

**Control: B**

Various programs within DRE will continue to work on the completion of desk manuals for crucial positions.

**Risk: Technology Issue – Enterprise Information System**

DRE's Enterprise Information System ("EIS") is overdue for an upgrade in Power Builder and Oracle software. This has impacted the functionality of EIS across various programs such as Audits, Legal, and Subdivisions.

**Control: A**

A new C.E.A position has been created with the goal of establishing Information Technology Services ("ITS") as a separate program area. DRE's re-organization would provide the ITS program the staff and focus needed for the effective and imminent EIS upgrades.

**Control: B**

Power Builder upgrade is ongoing.

**Control: C**

Oracle Database upgrade is ongoing with an expected completion date of March 30, 2022.

**Risk: Department's Financial Situation**

DRE's fund became structurally imbalanced in 2021 -22. The imbalance is caused by DRE's revenue source stagnation due to limitations on fee increases to DRE's licensee population and increasing expenditures.

**Control: A**

DRE is in the process of contracting for service to perform a fee study to assess our current fee situation.

**Control: B**

DRE will continue to develop and implement an expenditure reduction plan of five percent as outlined in Budget Letter 21-23.

**CONCLUSION**

The Department of Real Estate strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation

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strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Doug McCauley, Real Estate Commissioner**

CC: California Legislature [Senate (2), Assembly (1)]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency