



Department of Commerce

Real Estate Licensing Process Audit

Audit Period: July 2011 through November 2012

Results Summary:

| Objective | Conclusion |
|----------------------------------|---|
| Initial License Issuance Process | Improvement Needed |
| Renewal Process | Well-Controlled with Improvement Needed |

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Executive Summary

Background

The Division of Real Estate and Professional Licensing is responsible for licensing Ohio's real estate brokers and salespeople, real estate appraisers, and foreign real estate dealers and salespeople. The Division is also responsible for the registration of real estate developments located in other states but marketed in Ohio. The Division of Real Estate and Professional Licensing is self-funded, deriving its revenue through licensing and other fees charged to its customer agencies. Since 2010, the number of active real estate licenses has decreased by 4%, on average, each year. As of October 2012, there were approximately 26,700 active salespersons and 5,000 active brokers, generating approximately \$3 million dollars from licensing fees.

During the audit, OIA identified opportunities for COM to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank COM staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform assurance work related to the real estate licensing process. This work was completed between October through December 2012. The scope of this audit was limited to the business processes, and did not include an audit of the electronic systems used in the licensing process. The following detailed audit objectives included:

- Evaluate the design and effectiveness of controls over the brokers/salespersons license application/issuance process.
- Evaluate the design and effectiveness of controls over the brokers/salespersons license renewal/re-issuance process.



Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions above.

Observation 1 – Sensitive Data Unsecured

ORC 1347.15(B) provides that each agency adopt rules regulating the access to confidential personal information. Agencies should develop controls to address the protection of information deemed as personally identifiable from intentional or unintentional disclosure or misuse.

Real estate’s salesperson and broker initial exam and retake applications require applicants to provide their name, address, date of birth, and social security number (SSN). Applications are scanned into an electronic repository, IntelliVUE, where licensing staff access the documents as they process the applications in the CAVU licensing system. Scanned applications are not redacted, although the IntelliVUE system has the ability to do so. Thus, anyone with access to IntelliVUE can view this sensitive information. Once scanned, paper applications are stored in a records box in a common area of the Division for two months before being transferred off-site for record retention. Although access to the floor is limited, added safeguards should exist.

Policies and procedures over the salesperson/broker initial application and renewal application via mail provide sample screen shots of the CAVU system. Sample screen shots included full SSN’s and were communicated to the Licensing Operations Manager immediately for correction. The Department of Commerce maintains an agency-wide information access policy to address the privacy and security of confidential personal information stored by the department.

Retaining sensitive application information, both in hard copy and electronically, increases the risk this information could be misused for identity theft.

Recommendation

Consider implementing the redaction feature offered in IntelliVUE, or redact SSN’s on the hard copy before it is scanned into IntelliVUE. Consider storing records in a locked room before being transported for records retention. Update policy and procedure documents to ensure sensitive data is not included in the examples provided.

Management Response

The Division takes very seriously the need to protect its applicants’ and licensees’ personal and confidential information and already takes several measures to do so. In response to the



observations and recommendations made by the OIA, the Division will implement the following additional CPI security measures:

- 1) In order to ensure that CPI is secure to an even higher degree, the Division will manually redact SSNs from the hard applications once that information is entered into CAVU. The redaction will take place prior to any documents being scanned into IntelliVUE; as a result, SSNs will not be visible in IntelliVUE or on the original applications that are temporarily kept pursuant to State records retention schedules. Licensing and Operations managers will determine which staff position will be responsible for redacting this information prior to it being scanned. This is anticipated to be fully implemented by December 2012.
- 2) The Division has already recognized the need to move the record retention boxes containing original applications to a limited access, secure room. As such, we have been working with Commerce’s Support Services team the past few months to re-organize the 20th floor. This will include designating a room with a keyed lock to store these records, thus eliminating any potential security threats. Access will be limited, and Support Services has agreed to remove these records from the Division’s storage more frequently as requested. This is anticipated to be implemented by April 2013, dependent on Support Services assistance.
- 3) The Division took the necessary steps to redact SSNs from its internal procedure manuals, but an area was uncovered inadvertently when part of the manual was reformatted. We corrected this as soon as it was brought to our attention and will be sure to check to make sure all CPI is correctly redacted in the future. This was corrected November 2012.

| Risk* | Remediation Owner | Estimated Completion Date |
|-----------------|--|---------------------------|
| Moderate | Operations Manager and Customer Service Supervisor | April 2013 |



Observation 2 – Lack of Monitoring

Supervisory reviews should be conducted to help ensure processes are followed and completed timely. Performance of reviews should be evidenced by the supervisor. Stock paper used for printing licenses should be adequately safeguarded.

Licensing staff are responsible for processing real estate license applications and renewals within the CAVU licensing system. Once an applicant submits a fee, permissions within CAVU allow licensing staff to process an application for licensure and/or renewal without ensuring the applicant has met all requirements (i.e., completing pre-certification education, passing the exam, etc.). CAVU maintains an audit trail that reflects all activity performed within an applicant's CAVU file, as well as who performed the activity; however, it does not appear there is any monitoring of the audit trail to ensure applicant files are being accessed and processed in accordance with the Division's policies and procedures.

Further, stock paper used to print salesperson and broker licenses is kept near an unsecured division printer. If an applicant fee was paid and processing steps marked complete, the CAVU system would not prevent someone with access from printing a license for an ineligible applicant.

A lack of comprehensive and consistent review processes increases the risk of fraud, as well as management's objectives not being achieved.

Recommendation

Develop and implement monitoring policy and procedures over the real estate licensing system. These policies and procedures should be formally documented and approved by management. Once implemented, the monitoring activities should be documented to provide management assurance they are completed as intended. Additionally, consider storing the license stock paper with a supervisor, and provide to examiners on an as-needed basis.

Management Response

As noted by OIA staff, the Division has specific policy and procedure manuals in place that detail each step that must be taken to complete all licensing functions, and the ORC and OAC set forth the requirements for licensure that must be met before a process may be executed. The licensing/education/enforcement system, CAVU, offers an audit trail to review specific activities undertaken by each staff member within any given record. The Division does; however, acknowledge OIA's recommendation to implement further management monitoring tools to ensure that processes are followed in conjunction with formal Division policies. We will do so as follows:

- 1) Real Estate Salesperson and Broker License Issuances: In order to ensure that the



license examiners issuing salesperson and broker licenses comply with the Division’s policies and procedures, the Licensing Manager will maintain printed copies of the testing vendor export and import reports and perform random checks of applicants on those lists (i.e. reviewing their CAVU file and documentation in IntelliVUE) to verify Division staff performed all functions required for issuance of licenses correctly and in accordance to policy. The Licensing Manager will track the applicants’ reviewed, as indicated on the reports and through notation in the applicants’ CAVU file. The Licensing Manager will perform these checks once per week (every Friday).

- 2) Real Estate Renewals: Every Friday, Licensing staff pulls a report from CAVU listing licensees scheduled to renew within 60 days from that date. Going forward, the Licensing Manager will maintain a hard copy of the lists and perform random checks after 60 days (by when the licensees on the list should have renewed) to verify Division staff processed the renewals per Division policies and procedures. The manager will consult CAVU and IntelliVUE to verify the licensees submitted all renewal requirements and that they were processed correctly and in accordance with Division policy. The checks performed will be recorded on the printed lists as well as within each individual CAVU file that is reviewed. The Licensing Manager will perform these checks once per week (every Friday) and will pull a sample of five licensees each time.
- 3) Securing Paper Licenses: The Division has adopted a new policy whereby all unused paper license stock must be kept in a secured file drawer or cabinet. The Licensing Manager will monitor the inventory regularly to ensure that licenses aren’t being misappropriated.

The three specific security measures defined above will mitigate any question or concern that a policy or procedure is being circumvented by any Division staff and act as a significant deterrent to fraud.

| Risk* | Remediation Owner | Estimated Completion Date |
|----------|----------------------|---------------------------|
| Moderate | Licensing Supervisor | December 2012 |

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

| Conclusion | Description of Factors |
|--|---|
| Well-Controlled | The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor. |
| Well-Controlled with Improvement Needed | The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives. |
| Improvement Needed | Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread. |
| Major Improvement Needed | Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses. |

Classification of Audit Observations

| Rating | Description of Factors | Reporting Level |
|-----------------|--|---|
| Low | Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity. | Agency Management; State Audit Committee (Not reported) |
| Moderate | Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention. | Agency Management and State Audit Committee |
| High | Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation. | Agency Management and State Audit Committee |