



Joint Legislative Audit Committee  
Office of the Auditor General

---



**FINANCIAL AUDIT REPORT  
DEPARTMENT OF REAL ESTATE  
YEAR ENDED JUNE 30, 1979**

REPORT TO THE  
CALIFORNIA LEGISLATURE

REPORT OF THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

790

FINANCIAL AUDIT REPORT  
DEPARTMENT OF REAL ESTATE  
YEAR ENDED JUNE 30, 1979

APRIL 1980



THOMAS W. HAYES  
AUDITOR GENERAL

# California Legislature

## Office of the Auditor General

□ 925 L STREET  
SUITE 750  
SACRAMENTO 95814  
(916) 443-0255

April 16, 1980

790

The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Department of Real Estate, year ended June 30, 1979.

The auditors are Richard I. LaRock, CPA, Audit Manager; Del Pelagio, CPA; Benjamin Wald; and Enrique Farias.

Respectfully submitted,

S. FLOYD MORI  
Assemblyman, 15th District  
Chairman, Joint Legislative  
Audit Committee

Attachment

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDITOR'S OPINION	3
FINANCIAL STATEMENTS	
COMBINED BALANCE SHEET	4
ALL FUND TYPES AND ACCOUNT GROUPS	
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL	5
REAL ESTATE FUND	
STATEMENT OF CHANGES IN FUND BALANCE	6
SPECIAL DEPOSIT FUND	
NOTES TO THE FINANCIAL STATEMENTS	7
OTHER COMMENTS	11

## INTRODUCTION

In response to a resolution by the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Department of Real Estate. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The Department of Real Estate is responsible for the protection of the public in the sale of property, real property securities, and real estate transactions by real estate agents. To help meet its responsibility, the department permits only trained persons to act as real estate salespersons and brokers, fosters a professional attitude for these persons, and sets minimum standards for real estate offerings. The department may take disciplinary, civil, and criminal action against licensees and others who have violated the real estate law. Additionally, the department assists in education and research in the field to aid the consumer in understanding real estate.

AUDITOR'S OPINION

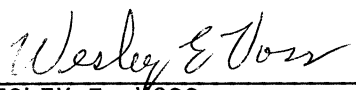
To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the Department of Real Estate as of June 30, 1979 and the related statements of revenues, expenditures, and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Department of Real Estate as of June 30, 1979 and the results of operations and changes in fund balance for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Totals - Memorandum Only" for June 30, 1979 are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and statement of revenues, expenditures, and changes in fund balance for the year ended June 30, 1978, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

  
\_\_\_\_\_  
WESLEY E. YOSS  
Assistant Auditor General

Date: October 12, 1979

Staff: Richard I. LaRock, CPA  
DeI Pelagio, CPA  
Benjamin Wald  
Enrique Farias

DEPARTMENT OF REAL ESTATE  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1979  
 (With Unaudited Amounts for 1978)

ASSETS	Governmental Fund Type <u>Special Revenue</u>	Fiduciary Fund Type <u>Special Deposit</u>	Account Group <u>General Fixed Assets</u>	Totals (Memorandum Only)	
				<u>June 30, 1979</u>	<u>June 30, 1978</u>
Cash	\$ 1,073,426	\$4,247	\$ --	\$ 1,077,673	\$ 1,070,399
Deposits in Surplus Money					
Investment Fund (Note 3)	9,711,000	--	--	9,711,000	9,325,000
Accounts receivable:					
Abatements	267	--	--	267	952
Reimbursements	23,227	--	--	23,227	19,870
Miscellaneous	7,277	--	--	7,277	3,250
Recovery (Note 4)	1,836,950	--	--	1,836,950	1,386,759
Revenue	8,619	--	--	8,619	6,135
Allowance for deferred and uncollectible accounts receivable - recovery (Note 4)	(1,836,950)	--	--	(1,836,950)	(1,386,759)
Due from Surplus Money					
Investment Fund	431,583	--	--	431,583	328,454
Prepayments to other funds	615,473	--	--	615,473	296,635
Expense advances to employees	528	--	--	528	780
Equipment	--	--	569,980	569,980	416,008
Total Assets	<u>\$11,871,400</u>	<u>\$4,247</u>	<u>\$569,980</u>	<u>\$12,445,627</u>	<u>\$11,467,483</u>
 <b>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</b>					
Liabilities:					
Accounts payable	\$ 652,773	\$ --	\$ --	\$ 652,773	\$ 1,280,464
Uncleared collections	9,027	--	--	9,027	1,834
Total Liabilities	<u>661,800</u>	<u>--</u>	<u>--</u>	<u>661,800</u>	<u>1,282,298</u>
Encumbrances Outstanding	<u>403,250</u>	<u>--</u>	<u>--</u>	<u>403,250</u>	<u>--</u>
Fund Equity:					
Investment in general fixed assets	--	--	569,980	569,980	416,008
Fund Balance:					
Designated for depositors	--	4,247	--	4,247	7,475
Designated for recovery act claims (Note 5)	2,000,005	--	--	2,000,005	1,955,320
Designated for real estate education and research (Note 5)	2,673,717	--	--	2,673,717	1,558,091
Designated for carrying out provisions of the real estate law (Note 5)	<u>6,132,628</u>	<u>--</u>	<u>--</u>	<u>6,132,628</u>	<u>6,248,291</u>
Total Fund Equity	<u>10,806,350</u>	<u>4,247</u>	<u>569,980</u>	<u>11,380,577</u>	<u>10,185,185</u>
Total Liabilities, Encumbrance Outstanding, and Fund Equity	<u>\$11,871,400</u>	<u>\$4,247</u>	<u>\$569,980</u>	<u>\$12,445,627</u>	<u>\$11,467,483</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF REAL ESTATE  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
REAL ESTATE FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979  
(With Unaudited Amounts for 1978)

	1979		Variance- Favorable (Unfavorable)	1978
	Budget as Adjusted	Actual		Actual
Revenues: (Note 2)				
Examination fees	\$ 1,500,000	\$ 1,753,995	\$ 253,995	\$1,626,843
License fees	4,900,000	5,308,789	408,789	5,460,478
Subdivision fees	958,500	1,342,566	384,066	1,084,174
Other regulatory licenses	160,000	100,450	(59,550)	38,509
Sale of publications	225,000	208,842	(16,158)	200,513
Miscellaneous service to the public	806,000	724,164	(81,836)	893,071
Income from Surplus Money				
Investment Fund	550,000	826,812	276,812	608,118
Other miscellaneous income	5,000	23,103	18,103	7,524
Total Revenues	<u>9,104,500</u>	<u>10,288,721</u>	<u>1,184,221</u>	<u>9,919,230</u>
Expenditures: (Note 2)				
Current:				
Personal services	6,438,813	6,438,367	446	6,129,657
Operating expenses:				
General expense	549,183	549,183	--	632,869
Printing	333,594	333,594	--	356,114
Communications	325,437	325,437	--	313,730
In-state travel	117,586	117,586	--	134,846
Out-of-state travel	3,337	3,337	--	7,298
Data processing services	375,111	375,111	--	48,894
Consolidated data center	57,436	57,436	--	44,581
Rent - building space	443,372	443,372	--	416,122
Pro rata administrative charge	548,997	548,997	--	500,164
Hearing services	192,302	192,302	--	183,748
Board of Control	--	150	(150)	158
Equipment	92,913	92,793	120	70,198
Recovery act claims	398,000	397,081	919	244,727
Real estate education and research	261,500	261,500	--	500,907
Total Expenditures	<u>10,137,581</u>	<u>10,136,246</u>	<u>1,335</u>	<u>9,584,013</u>
Excess of Revenues over (under) Expenditures	<u>(1,033,081)</u>	<u>152,475</u>	<u>1,185,556</u>	<u>335,217</u>
Other Financing Sources:				
Reimbursements (Note 2)	780,476	780,476	--	502,886
Prior year adjustments	--	111,697	111,697	58,126
Total Other Financing Sources	<u>780,476</u>	<u>892,173</u>	<u>111,697</u>	<u>561,012</u>
Excess of Revenues and Other Sources over (under) Expenditures	<u>(252,605)</u>	<u>1,044,648</u>	<u>1,297,253</u>	<u>896,229</u>
Fund Balance - July 1	<u>9,761,702</u>	<u>9,761,702</u>	<u>--</u>	<u>8,865,473</u>
Fund Balance - June 30	<u>\$ 9,509,097</u>	<u>\$10,806,350</u>	<u>\$1,297,253</u>	<u>\$9,761,702</u>

The notes to the financial statements are an integral part of this statement.



DEPARTMENT OF REAL ESTATE  
STATEMENT OF CHANGES IN FUND BALANCE  
FIDUCIARY FUND TYPE  
SPECIAL DEPOSIT FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979  
(With Unaudited Amounts for 1978)

	<u>1979</u>	<u>1978</u>
Fund Balance - July 1	\$7,475	\$ --
Additions:		
Receipts from depositors	4,247	21,531
Deductions:		
Payments for depositors	<u>7,475</u>	<u>14,056</u>
Fund Balance - June 30	<u><u>\$4,247</u></u>	<u><u>\$ 7,475</u></u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF REAL ESTATE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the Department of Real Estate. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local government as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into a Governmental Fund Type, a Fiduciary Fund Type, and an Account Group.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except those accounted for in Proprietary Funds--are accounted for through governmental funds. The Special Revenue Fund is the only Governmental Fund Type used by the Department of Real Estate.

Special Revenue

The Special Revenue Fund is used to account for specific revenues and operating expenditures earmarked for particular activities. The Department of Real Estate accounts for this Special Revenue Fund:

Real Estate Fund - This fund is used to account for expenditures in carrying out the provisions of the Real Estate Law in accordance with the Business and Professions Code. Funding is derived from penalties and from fees for examinations, licenses, filing, and inspections.

The Governmental Fund Type is maintained on a modified accrual basis of accounting. Below are some of the more significant elements of this fund type:

#### Income

Throughout the fiscal year, all income including revenues and reimbursements are accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected revenues and reimbursements.

#### Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments, including commitments for encumbrances outstanding for which no goods or services have been received, are accrued as expenditures against budget appropriations.

#### Liabilities

Retirement Plan - Regular employees of the department are members of the Public Employees' Retirement System (PERS), which is a defined benefit, contributory retirement plan. The amount the department and its employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The Department of Real Estate's share of retirement contributions for the year totaled \$833,792.

Vacation and Sick Leave - Costs of vacation and sick leave are charged at the time these benefits are used rather than when they are earned.

#### FIDUCIARY FUND TYPE

The Fiduciary Fund Type is used to account for assets held by a governmental unit in a trustee capacity. The Department of Real Estate accounts for only its portion of the Special Deposit Fund.

## Special Deposit Fund

The Special Deposit Fund includes monies received or collected for specific purposes by a state agency for which no fund has been created in the State Treasury. The State Controller maintains separate fund accounts for each agency and publishes Special Deposit Fund statements.

### ACCOUNT GROUP

The Account Group is used to account for General Fixed Assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance. Generally, assets valued at \$150 or more with a useful life of two years or more are accounted at the original cost. General Fixed Assets increased by a net of \$153,972 during the fiscal year.

### 2. BUDGETED REVENUES, REIMBURSEMENTS, AND EXPENDITURES

The amounts shown under "Budget as Adjusted" for revenues, reimbursements, and detailed expenditure accounts reflect the Governor's Budget after allowing for amendments to the Budget Act, interim statutory changes affecting appropriations, and authorized executive budget revisions issued during the year.

### 3. DEPOSITS IN SURPLUS MONEY INVESTMENT FUND

This account includes temporary cash reserves of funds of the department transferred to the Surplus Money Investment Fund for cash flow and pooled investment purposes. Earnings derived from investments of the Surplus Money Investment Fund are apportioned to contributing funds in proportion to the resources each fund provided during the period and are accrued on statements of the Department of Real Estate at June 30, 1979.

### 4. ACCOUNTS RECEIVABLE - RECOVERY

Accounts receivable - recovery are created when, upon order of the courts, the Real Estate Commissioner pays to judgment creditors (persons who receive final court order against licensed real estate persons) money from the separate account in the Real Estate Fund designated for payment of recovery act claims (Note 5). When the department pays recovery act claims it assumes all rights of the judgment creditor. This

assumption of rights is referred to as subrogation. The balance of \$1,836,950 in the account represents the department's subrogation rights.

Since July 1, 1964, the department has recovered only 5.6 percent of the claims paid. Accordingly, the accounts receivable - recovery account is reduced by the allowance for deferred and uncollectible accounts receivable - recovery.

5. FUND BALANCE

The fund balance includes \$2,673,717 designated for education and research and \$2,000,005 designated for recovery act claims. Section 10450.6 of the Business and Professions Code specifies that (1) 20 percent of license fee revenues be designated to support real estate education and research projects and (2) 5 percent of license fee revenues be designated to provide payment of recovery act claims (Note 4). Two accounts, one for real estate education and research and the other for recovery act claims, are established for this purpose. Section 10470.1 of the Business and Professions Code further provides that if the balance in the separate accounts in the Real Estate Fund for education and research and recovery purposes contains more than \$400,000, the Real Estate Commissioner may authorize the transfer of all or part of such surplus amount to be available for carrying out provisions of the Real Estate Law.

As of June 30, 1979, 190 claims requesting orders which direct payment out of the separate account in the Real Estate Fund in the amount of \$4.15 million were pending. The department's legal counsel estimates that the fund's liability from these claims will ultimately amount to \$1,600,000.

## OTHER COMMENTS

As an integral part of our examination, we reviewed the department's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the department's financial statements present its financial position and the results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enables us to suggest improvements which would result in better operating procedures and better operating controls. A management letter describing the suggested operating improvements was issued to the department along with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The department generally concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
California State Department Heads  
Capitol Press Corps