

December 30, 2025

Tomiquia Moss, Secretary
California Business, Consumer Services and Housing Agency
500 Capitol Mall, Suite 1850
Sacramento, CA 95814

Dear Secretary Tomiquia Moss,

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, 2025.

Should you have any questions please contact Marcus McCarther, Chief Deputy Commissioner, at (916) 576-8775, marcus.mccarther@dre.ca.gov.

GOVERNANCE

Mission and Strategic Plan

Mission:

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

Vision:

The vision of DRE is to be the Champion for Public Protection in Real Estate by promoting innovation, accountability, and excellence in public service.

DRE strives to strengthen internal controls, enhance consumer protection, and modernize its operations to meet the evolving needs of California's real estate marketplace.

Strategic Goals:

Goal 1: Customer-centric Service

Our primary focus is on real estate consumers and customers. Protecting their interests drives industry confidence, economic vitality, and forms the foundation where all Californians live, work, and play. We build our reputation as the best consumer protection and customer empowerment department through our exemplary and consistent actions.

Objectives:

1. Consistently deliver timely, quality, and courteous experiences for external and internal customers.
2. Scan for and anticipate emerging opportunities and trends that will enhance consumer protection.
3. Improve the review and regulation of subdivisions and timeshares.
4. Build upon effective licensing programs to ensure industry competence that continuously improves consumer protection.
5. Increase regulatory compliance through proactive outreach and effective enforcement.
6. Leverage partnerships with California universities and community colleges to promote real estate education and awareness of current licensing and consumer protection requirements.

Goal 2: Healthy Organization

We are a talented team of consumer protection champions. We achieve our mission and power our other strategic goals by deliberately investing in an inclusive, collaborative, and engaged workforce.

Objectives:

1. Be an engaged workforce through commitment, communication, learning, career advancement, retention, and recruitment.
2. Improve how leaders and employees manage dynamic workloads to align priorities and capacity.
3. Cultivate a respectful and inclusive culture that leverages diversity as a strategic strength.
4. Foster an adaptable hybrid workplace where we continuously evolve how we collaborate.

Goal 3: Innovative Operations

We are re-imagining our processes and technology to embrace innovation. Our teams leverage lean methods and modern tools to continuously improve the delivery of results.

Objectives:

1. Expand adoption of digital solutions for high-volume and routine services to increase self-service, enhance functionality, and efficiency.
2. Streamline processes that require manual intervention by addressing key bottlenecks.

3. Strengthen program knowledge and continuity with updated and easily referenced standards and procedures.
4. Continually seek opportunities to update our operations to align with legislative and market changes.
5. Prepare for the future and reduce risks by enhancing the use of and modernizing our mobile and core technologies.

Goal 4: Resourceful Stewardship

We leverage our resources to perform at the highest level possible. Our resources include our people, budgets, facilities, data, and technology assets. As stewards of these resources, we make wise investments and transparently track our impact according to our strategic priorities.

Objectives:

1. Expand the fiscal awareness of our individual and interconnected budgets.
2. Proactively monitor and reallocate vacant positions to the place of highest need.
3. Evaluate utilization of resources and propose solutions to ensure adequate workforce and technology capacity.
4. Evaluate and align service level capacity with allocated budgets and forecasted fee revenue.
5. Adapt facilities and technologies to enable a new hybrid of onsite, field, and remote workforce.

Control Environment

The Commissioner of DRE, Chika Sunquist, is responsible for the overall establishment and maintenance of internal controls, along with the effective and objective ongoing monitoring of these controls.

The Chief Deputy Commissioner, Assistant Commissioners (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.

Integrity and Ethical Values

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 executive 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 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."

Core Values

- **Excellence:** Develop flexibility and resilience to deal with change, challenges, and uncertainty so that our employees continue to provide timely, professional, effective, and efficient service to all customers.
- **Professionalism:** To continue to communicate effectively, ethically, and appropriately to always find a way to be productive.
- **Knowledge:** To continue to find sources to improve our workflow to increase productivity, nurture teamwork and trust relationships between management and our employees.
- **Communication:** We continue to strive for effective communication to boost teamwork and customer service, ensuring that management and the team are on the same page.
- **Caring:** We work with our stakeholders as partners to support mutual understanding of ideas and open exploration of our differences. We continue to ensure our employees and customers feel appreciated and valued.

DRE Oversight Structure

DRE has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to DRE's systems of control and monitoring.

In 2022, DRE established a dedicated Internal Audit Unit (IAU). The IAU upholds its autonomy by directly reporting to the Commissioner and Chief Deputy Commissioner. IAU provides management with insights into the quality and effectiveness of internal controls, along with

assessing the quality of operational performance in comparison to established standards. The audit procedures are crafted to determine the presence and proper functioning of internal controls while also pinpointing any inefficiencies. DRE undergoes regular audits conducted by the Department of Technology and Military Department in relation to Information Technology operations and security. Audits from the Department of General Services, Department of Finance, California Department of Human Resources (CalHR), and State Personnel Board are also conducted to assess administrative functions.

Ability to Report Ethical Concerns

Annually, employees are notified about the Whistleblower Protection Act through email and posted flyers in all offices. Reports of improper activities by DRE employees can be submitted directly to the IAU, through the California Whistleblower Hotline managed by the California State Auditors (CSA), as well as through their supervisor, Equal Employment Opportunity (EEO) officer or Human Resources (HR) channels. The IAU is equipped to receive complaints against DRE employees through direct contact or referrals from the California Whistleblower Hotline.

The IAU is responsible for responding to complaints received from the CSA "Whistleblower Hotline." When a complaint is received from CSA, a determination is made as to whether the IAU or management in the affected program will conduct the investigation. The determination is based on past experience, materiality of the issues and/or the position of the individual(s) involved in the complaint.

Organizational Structure to Ensure Appropriate Level of Responsibility

DRE comprises nine divisions and each division is led by an Assistant Commissioner, with management and supervisory levels beneath. Additionally, DRE has an independent EEO officer that reports directly to DRE Commissioner.

Establishing and Maintaining Competent Workforce

DRE continues to carry out initiatives identified in its Workforce Analysis and Succession Planning Action Plan submitted to CalHR. These efforts focus on building staff capability, retaining skilled employees, and preparing future leaders to ensure continuity in key functions.

- **Knowledge Transfer Initiatives:** DRE continues to strengthen knowledge transfer through ongoing training and professional development. The department's Learning Management System (SOLD) provides accessible, on-demand learning opportunities, while onboarding and new employee orientation programs help supervisors and new hires integrate smoothly into their roles. Work to update and maintain policies and procedures remains in progress to preserve institutional knowledge and promote consistent practices. DRE also encourages knowledge sharing through webinars, workshops, and internal collaboration.

- **Retention Initiatives:** Beginning in October 2025, DRE has implemented the Merit Award Program to support employee recognition and engagement. The program includes the Employee Suggestion Program, Governor's State Employee Medal of Valor, Superior Accomplishment Awards, and Service and Retirement Awards, all designed to celebrate innovation, excellence, and long-term service. The department continues to promote employee growth and retention through its Upward Mobility Plan and ongoing engagement activities that encourage recognition, inclusion, and professional development.
- **Succession Management Initiatives:** Leadership and professional development training continue to be available to help employees prepare for future supervisory and management roles. While leadership training is ongoing, the formal Succession Leadership Plan and Mentorship Program have not yet been developed and remains areas of focus for future planning. DRE will continue to explore ways to strengthen leadership pipelines and ensure the transfer of institutional knowledge in critical

Information and Communication

The outcomes of external audits from government entities are communicated to both management and the IAU for risk assessment and internal review or audit purposes. The results of the SLAA department-wide Risk Assessment were documented and shared with the Commissioner and Deputy Commissioner, serving as a foundation for the formulation of the new biennial audit plan.

DRE facilitates organization-wide information sharing via All-Staff Meetings conducted on Microsoft Teams, featuring participation from all executive management. Prior to these meetings, a survey is distributed to all employees, allowing them to submit topics or questions for management. Employees also have the opportunity to pose questions and provide feedback during the event. Additionally, routine information sharing occurs and is archived on the Intranet news page, known as eConnect.

Communication with external stakeholders primarily takes place through DRE's public website and its social media platforms. DRE's website provides resources for filing complaints, accessing consumer alerts, guides, publications, forms, and license information.

DRE employees can report inefficiencies and inappropriate actions to management through the IAU, their supervisors/managers, EEO officer, and/or HR.

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 oversees the internal control system through ongoing monitoring and periodic internal and external evaluations. Executive Staff convene biannually to discuss internal controls, risk assessment, and monitoring processes. Program Managers conduct annual meetings to educate staff on the State Leadership Accountability Act, highlighting the importance of each employee in the internal control structure. Any deviations are to be reported through the employees' chain of command.

In addition to the establishment of the IAU, DRE undergoes audits from various entities, including the Department of General Services, CalHR, Department of Technology, the Military Department, State Personnel Board, and California State Auditors when instances of a whistleblower complaint occur.

The IAU performs routine reviews of all identified risks to address and mitigate potential gaps. When a risk is identified, the Assistant Commissioner of the division takes responsibility for developing a plan to manage or eliminate the risk, including an estimated completion date. The IAU conducts follow-ups to ensure the plan is completed and objectives are met.

RISK ASSESSMENT PROCESS

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

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

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: Financial Sustainability

On July 1, 2024, DRE implemented a statutory fee increase to address the declining fund balance and growing gap between revenue and operational costs. Before the increase, DRE operated at an estimated \$8.4 million annual deficit with a cost-recovery level of 86%. In Fiscal Year (FY) 2024/25, exam and license application volumes declined while facility costs at the May Lee State Office Complex (MLSOC) increased, offsetting some of the fee revenue gains. Early projections indicate a possible fund-balance shortfall by FY 2028/29, depending on expenditure savings and revenue trends.

Control: Fiscal Monitoring and Cost Management Practices

DRE continues to monitor and manage its financial position through ongoing fiscal oversight and cost-control measures. Expenditure and revenue trends are reviewed through monthly fiscal reports and internal meetings to identify variances and emerging budget risks. Current efforts include maintaining salary savings through controlled hiring, reducing discretionary spending, implementing fund transfers, and increasing outreach to support licensing and application activity. Early projections show a possible fund balance shortfall by FY 2028/29, depending on expenditure savings and actual revenue performance. To strengthen long-term forecasting, DRE is hiring a Research Data Specialist to enhance financial modeling and better align budget planning with market trends. Together, these actions help preserve operational stability amid changing fiscal conditions.

Risk: Workforce Continuity and Process Documentation

DRE continues to face staffing and knowledge management challenges driven by ongoing budget constraints and limited hiring authority. Case-by-case evaluations for hiring remain in place, with mission-critical determinations guiding position approvals. This restriction, combined with multiple vacancies in Licensing, Audits, Enforcement, Legal, and Subdivisions, has resulted in heavier workloads, delayed processing times, and increased reliance on a small number of experienced staff. Retirements, turnover, and limited promotional opportunities have also contributed to the loss of institutional knowledge and reduced capacity to meet operational goals. Additionally, reliance on outdated program manuals and incomplete desk procedures limits knowledge transfer and consistency across programs. Together, these factors pose a continuing risk to DRE's ability to sustain operations and deliver timely, high-quality services to stakeholders.

Control: Workforce Planning and Capacity Management

DRE continues to manage workforce challenges through targeted staffing and workload strategies that prioritize mission-critical functions. Divisions assess and justify vacancies on a case-by-case basis, focusing on essential positions needed to maintain core operations. To mitigate the impact of hiring restrictions and staff turnover, divisions use workload redistribution, cross-training, and mentorship efforts to preserve institutional knowledge and maintain service delivery. The Audits Division prioritizes audits based on complaints from the public over proactive (non-complaint) audits and temporarily reorganizes staff assignments by location to meet workload demands. Within Enforcement, caseload management strategies documented in the Enforcement Supervisor and Manager Manual are reinforced through supervisory review and risk-based prioritization to focus limited investigative resources on matters with the greatest potential consumer impact. A retired annuitant is also used in Subdivisions, as needed, to provide continuity and assist with training of newer staff. Some divisions are developing prioritized hiring schedules and identifying critical roles for immediate backfill when resources allow. These measures help sustain

essential program operations and maintain service delivery amid ongoing resource constraints.

Control: Program Documentation and Knowledge Transfer Practices

DRE is strengthening program documentation through the development and revision of program manuals and desk procedures across divisions. The Enforcement Administrative Manual is nearing completion. The Enforcement Manager/Supervisor Manual was created in 2023, and additional manuals remain in draft or revision stages, such as the Timeshare Report Application Guide. Progress on remaining documentation has been delayed by budget constraints and limited staffing, including updates to the Operating Cost Manual, an externally provided manual that requires third-party resources. Divisions are continuing to refine and develop desk procedures to support consistency and knowledge transfer, though regular review cycles are not yet in place. Each division will be implementing a process to ensure manuals and desk procedures are reviewed and updated on a consistent basis. Most manuals currently include revision dates, and remaining manuals will have revision dates added once updated.

Risk: Limited Digitization and Modernization

DRE continues to rely on paper-based processes, manual workflows, and legacy Information Technology systems. These practices limit operational efficiency and the ability to support remote or hybrid work. Paper documents must be physically routed, transported, stored, and archived, which increases processing time, storage needs, and the potential for delays or errors. These challenges are more pronounced during periods of high workload or staffing shortages. DRE's structural deficit and current fiscal constraints limit the ability to invest in system upgrades, workflow automation, and broader modernization efforts. As technology becomes increasingly integral to daily operations, the lack of adequate resources for digitization increases the risk that process

improvements will be delayed, resulting in continued inefficiencies and reduced service capacity.

Control: Digital Process Improvements and Modernization Efforts

DRE continues to make progress toward digitization through a series of ongoing technology and process improvement efforts led by the Information Technology Division (ITD) and supported by individual programs. Key initiatives include development of a Case Management System, Online Exam/License Applications enhancements through the Portal Modernization Project, a SharePoint migration to improve document access and collaboration, and planning for an E-Filing Project to reduce paper submissions.

While these projects are underway, several divisions have implemented interim digital solutions to reduce reliance on paper processes. At the beginning of the fiscal year, the Audits Division transitioned to a paperless process for preparing, storing, and transmitting audit reports and working papers to the Enforcement and Legal Divisions through SharePoint. This workflow continues to be refined based on staff feedback from all three divisions. Legal has also established a committee to design a similar digital system for Enforcement files and is developing procedures for when digital documents cannot be obtained. These efforts collectively support DRE's broader goal of improving efficiency, accessibility, and long-term modernization of operations.

Risk: Emergency Preparedness and Continuity

DRE's Continuity Plan (CP) was last updated in 2021 and does not reflect the agency's headquarters relocation in 2024. In 2023, the Administrative Services Division requested updates from divisions to support the next revision of the plan. A key component of the CP, the Technical Recovery Plan (TRP), is managed by ITD and was submitted to the California Department of Technology (CDT) on October 31, 2025, in accordance with statewide requirements. Although the TRP has been submitted, the CP itself has not yet

been updated, leaving the DRE at increased risk of operational disruption in the event of an emergency, system outage, or extended facility closure.

Control: Emergency Preparedness and Continuity Planning

DRE continues to strengthen emergency preparedness through updated procedures, staff training, and coordination with the Department of General Services' Facilities Management Division. Staff have been notified of evacuation procedures, and instructions for all offices are posted on the Business Services Office (BSO) eConnect page. Emergency Response Team (ERT) volunteers received two in-person trainings and walkthroughs at MLSOC, followed by a 2025 fire drill and a real evacuation where BSO gathered feedback. ERT video training is in development with the Training Unit and is expected in early 2026. Emergency procedures were also added to the New Employee Onboarding Checklist in November 2025.

Planned efforts include First Aid and CPR training, updating district ERT volunteer lists, and completing revisions to the CP. The Human Resources Special Projects Unit is coordinating the CP update and has identified division subject matter experts to support content review. The updated CP is targeted for completion in early 2026, following the recent submission of the TRP to CDT on October 31, 2025.

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

Chika Sunquist, Real Estate Commissioner

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