

# **Texas Department of Licensing and Regulation**

IA # 2024-03 Internal Audit Follow-Up Procedures Report  
over Anti-Trafficking Activities Prior Year's Open Internal  
Audit Findings

Report Date: September 9, 2024

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Commissioners of the  
Texas Department of Licensing and Regulation  
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This report presents the results of the internal audit follow-up procedures performed for the Texas Department of Licensing and Regulation (TDLR) during the period June 24, 2024, through September 6, 2024, related to the outstanding findings identified in the audit over Anti-Trafficking Activities performed in fiscal year 2023.

The objective of these follow-up procedures was to validate that adequate corrective action has been taken in order to remediate the issues identified in the prior fiscal year's internal audit report.

To accomplish this objective, we conducted interviews with key TDLR personnel responsible for Anti-Trafficking Activities. We also reviewed documentation and performed specific testing procedures to validate actions taken. Procedures were performed remotely, and an exit meeting was conducted on September 9, 2024.

The following report summarizes the findings identified, risks to the organization, recommendations for improvement and management's responses.

*Weaver and Tidwell, L.L.P.*

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September 9, 2024

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## IA # 2024-03 Internal Audit Follow-Up Procedures Report over Anti-Trafficking Activities Prior Year's Open Internal Audit Findings September 9, 2024

### Background

In fiscal year 2023, we performed internal audit procedures over the Anti-Trafficking Activities process and reported our results to the Commission. The internal audit identified two areas for improvement related to developing standard operating procedures and maintaining supporting documentation.

The 2024 Internal Audit Plan included performing procedures to validate that TDLR management has taken steps to address internal audit findings.

### Follow-Up Procedures Objective and Scope

The follow-up procedures focused on the remediation efforts taken by TDLR management to address findings included in the 2023 Internal Audit Report over Anti-Trafficking Activities, and to validate that appropriate corrective action had been taken. The 2023 report identified the following findings:

- TDLR does not have complete standard operating procedures
- TDLR policies for maintaining supporting documentation is not consistently followed.

Our follow-up procedures included verification of the following:

- That TDLR enhanced its standard operating procedures around human trafficking and have been reviewed and approved by an appropriate level of management.
- Referrals related to human trafficking from law enforcement are prioritized.
- Pre-research was conducted prior to an onsite investigation.
- Investigative reports were reviewed by Field Inspections Regional Manager, finalized and sent to Enforcement in a timely manner.

### Executive Summary

The findings from the prior year's Anti-Trafficking Activities internal audit report includes those items that were identified and are considered to be non-compliance issues with TDLR's policies and procedures, rules and regulations required by law, or where there is a lack of procedures or internal controls in place to cover risks to TDLR. These issues could have significant financial or operational implications.

Through our interviews, review of documentation, observations and testing we determined that of the two prior findings, one was fully remediated, and one was partially remediated.

Risk Rating	Total Findings	Remediated	Partially Remediated
High	1	1	-
Moderate	1	-	1
Low	-	-	-
Total	2	1	1

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A summary of our results is provided in the table below. See the Appendix for an overview of the Assessment and Risk Ratings.

FOLLOW-UP ASSESSMENT		Satisfactory
SCOPE AREA	RESULT	RATING
<b>Objective:</b> Validate that adequate corrective action has been taken in order to remediate the issues identified in the prior fiscal year's internal audit follow-up report.	We identified that procedures implemented by management addressed and remediated prior open findings. However, TDLR should continue their efforts to remediate the remaining open finding: <ul style="list-style-type: none"><li>Implement procedures to maintain supporting documentation</li></ul>	Satisfactory

### Conclusion

Based on our evaluation, key personnel in each of their respective program areas made efforts to remediate the findings from the prior year's internal audit reports. However, management should continue to make efforts to remediate the remaining partially remediated.

TDLR should continue to develop and implement a process for maintaining supporting documentation for all anti-trafficking activities.

Follow-up procedures will be conducted in Fiscal Year 2025 to validate the effectiveness of the remediation efforts taken to address the remaining open finding.

**Detailed Follow-Up Results, Findings,  
Recommendations and Management  
Response**

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### Detailed Follow-Up Results, Recommendations and Management Response

Our procedures included interviewing key personnel responsible for Anti-Trafficking Activities to gain an understanding of the corrective actions taken in order to address the findings identified in the 2023 Internal Audit over Anti-Trafficking Activities as well as examining existing documentation and performing testing in order to validate those corrective actions. We evaluated the existing policies, procedures, and processes in their current state.

#### Objective: Validate Remediation

Validate that adequate corrective action has been taken to remediate the remaining partially remediated finding identified in the 2023 Internal Audit over Anti-Trafficking Activities.

**Finding 1 – High – Standard Operating Procedures:** While the TDLR Anti-Trafficking Taskforce (ATT) maintains and utilizes several process documents, The ATT's procedures are incomplete and are not consistently followed.

- The ATT does not have documented procedures specifying the requirement to coordinate on-site inspections with TDLR's Enforcement Division and/or to external law enforcement (LE) two weeks in advance of the occurrence, which is the current ATT practice.
- The ATT has practices in place to prioritize human trafficking referrals from LE agencies, however these practices are not included in the ATT's Standard Operating Procedures (SOPs).
- The ATT does not have policies that document the timeframe requirement for the forwarding of an administrative or prosecution referral to be sent to TDLR's Enforcement Division or to LE agencies when the results of an inspection indicate potential human trafficking.
- The SOPs used by the ATT have not been reviewed and approved by TDLR management.

Additionally, the ATT's is in the process of transitioning the tracking the status of referrals from the ATT's Live Assignment Tracker spreadsheet to TDLR's Legal Files application. The Legal Files application has the ability for the ATT to identify the referral as one received from law enforcement, however the Live Assignment Tracker spreadsheet does not have a field to indicate the referral was provided by law enforcement.

We selected a sample of 15 out of a total population of 110 law enforcement intake referrals sent to the ATT between April 1, 2022 and December 31, 2022. For one of our 15 law enforcement intake referral samples, we determined that the law enforcement intake referral was not prioritized, and was investigated over five months after the initial referral.

#### Results: Finding Remediated

We verified that TDLR standard operating procedures over human trafficking outlined details around coordination efforts with law enforcement agencies, prioritization of human trafficking referrals received by law enforcement, and the timeliness of forwarding administrative or prosecution referrals to TDLR's Enforcement division when results of an inspection indicate human trafficking.

**Finding 2 – Moderate – Maintaining Supporting Documentation:** While the TDLR ATT has established practices and documented procedures, some processes and procedures are not consistently followed by ATT personnel. Currently, the ATT has established procedures for most processes within Legal Files documentation, the Tracking of Live Assignments, and documentation of Investigative Inspections processes; however, the utilization of the policies and procedures is inconsistent.

Although TDLR has processes in place for ATT operations, the lack of compliance with policies and procedures has caused inconsistent documentation, file retention, referral prioritization and performance throughout routine procedures.

We selected a sample of 25 out of a total population of 388 investigative inspections referred to the ATT between June 1, 2021, through December 31, 2022 and tested the ATT's processes. We identified the following exceptions:

Investigative Inspections Documentation – 11 exceptions

- 4 site inspections had local law enforcement present; however, we could not verify that a copy of the Notification of Investigative Inspections and Request for Assistance Form was sent to TDLR's Enforcement division or LE agencies two weeks in advance.
- 7 investigations had no inspection support on file
- 4 inspections did not have case records submitted before the ATT Specialist prior to separation from TDLR
- 3 inspections did not have any records

Pre-Inspection Research -13 exceptions

- 13 inspections did not have documentation to support that pre-inspection research was completed, as required by ATT practices

Reporting - 20 exceptions

- 20 did not have evidence that reports were submitted to TDLR Enforcement and OAG within the required 7 days:
  - 8 inspections did not have investigative reports on file
  - 12 inspection reports did not have evidence of review and approval by TDLR Management

**Results: Partially Remediated**

We verified that all required documentation over investigative inspections to be complete and available for review with the exception to Pre-Inspection research. For all five samples selected for testing, we were unable to obtain evidence to support Pre-Inspection research occurred as required by Field Inspections standard operating procedures. We verified that all five inspection reports were submitted to the Enforcement division timely. The anti-trafficking activities were reorganized to the Enforcement and Field Inspection divisions. We verified that the Enforcement and field Inspection divisions have developed their own anti-trafficking activity procedures that include communication with law enforcement.

**Management Response:** Management agrees with the recommendation. The five requested sample POIs occurred prior to the implementation of the new procedures requiring the documentation of pre-inspection when evidence of illicit activity is discovered. Pre-inspection research has always been performed by the Field Inspections Division; however, screenshots of the research have not been required by policy. We have updated our procedures to include this process, effective July 8, 2024.

It is of note that the electronic inspection system utilized by the Field Inspections Division does not have the capability to capture when pre-inspection research is performed and no information relating to human trafficking is discovered. Therefore, Field Inspections will attempt to create some kind of tracking method within e-Inspections to show pre-inspection research occurred when no evidence of illicit activity is discovered, or will establish some other method to track that research.

**Responsible Party:** Director of Field Inspections

**Implementation Date:** May 25, 2025



# Appendix

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## IA # 2024-03 Internal Audit Follow-Up Procedures Report over Anti-Trafficking Activities Prior Year's Open Internal Audit Findings September 9, 2024

The appendix defines the approach and classifications utilized by Internal Audit to assess the residual risk of the area under review, the priority of the findings identified, and the overall assessment of the procedures performed.

### Report Ratings

The report rating encompasses the entire scope of the engagement and expresses the aggregate impact of the exceptions identified during our test work on one or more of the following objectives:

- Operating or program objectives and goals conform with those of the agency
- Agency objectives and goals are being met
- The activity under review is functioning in a manner which ensures:
  - Reliability and integrity of financial and operational information
  - Effectiveness and efficiency of operations and programs
  - Safeguarding of assets
  - Compliance with laws, regulations, policies, procedures and contracts

The following ratings are used to articulate the overall magnitude of the impact on the established criteria:

#### Strong

The area under review meets the expected level. No high risk rated findings and only a few moderate or low findings were identified.

#### Satisfactory

The area under review does not consistently meet the expected level. Several findings were identified and require routine efforts to correct, but do not significantly impair the control environment.

#### Unsatisfactory

The area under review is weak and frequently falls below expected levels. Numerous findings were identified that require substantial effort to correct.

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### Risk Ratings

Residual risk is the risk derived from the environment after considering the mitigating effect of internal controls. The area under audit has been assessed from a residual risk level utilizing the following risk management classification system.

#### High

High risk findings have qualitative factors that include, but are not limited to:

- Events that threaten the agency's achievement of strategic objectives or continued existence
- Impact of the finding could be felt outside of the agency or beyond a single function or department
- Potential material impact to operations or the agency's finances
- Remediation requires significant involvement from senior agency management

#### Moderate

Moderate risk findings have qualitative factors that include, but are not limited to:

- Events that could threaten financial or operational objectives of the agency
- Impact could be felt outside of the agency or across more than one function of the agency
- Noticeable and possibly material impact to the operations or finances of the agency
- Remediation efforts that will require the direct involvement of functional leader(s)
- May require senior agency management to be updated

#### Low

Low risk findings have qualitative factors that include, but are not limited to:

- Events that do not directly threaten the agency's strategic priorities
- Impact is limited to a single function within the agency
- Minimal financial or operational impact to the organization
- Require functional leader(s) to be kept updated, or have other controls that help to mitigate the related risk