

Texas Department of Licensing and Regulation

IA # 02-2025 Internal Audit Follow-Up Procedures

Report over Anti-Trafficking Activities Prior Year's

Open Internal Audit Findings

Report Date: September 19, 2025

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Commissioners of the
Texas Department of Licensing and Regulation
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Austin, TX 78701

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 August 1, 2025, through September 16, 2025, 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.

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

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Austin, Texas
September 19, 2025

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Texas Department of Licensing and Regulation

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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. We performed follow-ups in fiscal year 2024 and identified that one of the findings was remediated, the other was partially remediated.

The 2024 Internal Audit Plan included performing procedures to validate that TDLR management has taken steps to address one remaining partially remediated internal audit finding.

Follow-Up Procedures Objective and Scope

The follow-up procedures focused on the remediation efforts taken by TDLR management to address the one remaining open finding included in the 2023 Internal Audit Report over Anti-Trafficking Activities, and to validate that appropriate corrective action had been taken. The one remaining finding is related to consistently executing procedures for maintaining supporting documentation.

Our follow-up procedures included verification that pre-research was conducted prior to an onsite investigation.

Executive Summary

The finding from the prior year's Anti-Trafficking Activities internal audit report include the one remaining item that was identified and is considered to be a non-compliance issue 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 the one remaining open finding is remediated.

Risk Rating	Total Findings	Previously Remediated	Remediated in Current Year
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		Strong
SCOPE AREA	RESULT	RATING
Objective: 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 the one finding that was open at the start of the fiscal year.	Strong

Conclusion

Based on our evaluation, key personnel in each of their respective program areas made efforts to remediate the prior internal audit finding. TDLR should continue their efforts to maintain the operation of their internal controls.

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 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 by 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: Remediated

We examined documentation and identified that pre-inspection research is completed according to TDLR policies and is maintained as part of the case files.

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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