

# Texas Department of Licensing and Regulation

IA# 2023-01 Internal Audit Report over Anti-Trafficking Unit  
Activities

September 14, 2023

# CONTENTS

	Page
Internal Audit Report Transmittal Letter to the Commission.....	1
Background.....	2
Audit Objective and Scope .....	3
Executive Summary .....	4
Conclusion.....	6
Detailed Procedures Performed, Findings, Recommendations and Management Response.....	7
Objective A: Design of Internal Controls .....	8
Objective B: Effectiveness of Internal Controls.....	11
Objective C: User Access .....	12
Appendix .....	13



Commissioners of the  
Texas Department of Licensing and Regulation  
902 Colorado St.  
Austin, TX 78701

This report presents the results of the audit procedures performed for the Texas Department of Licensing and Regulation (TDLR) during the period January 16, 2023 through September 14, 2023, relating to the Anti-Trafficking Unit (ATU) activities of the TDLR.

The objectives of this internal audit were to evaluate the design and effectiveness of the TDLR's ATU processes as follows:

- A. Determine whether internal controls over anti-trafficking processes are designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- B. Verify that controls over selected critical processes within anti-trafficking processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.
- C. Ensure that user access to process and modify anti-trafficking transactions in applicable systems is restricted to appropriate personnel, and that access is periodically reviewed.

To accomplish these objectives, we conducted interviews and walkthroughs with key personnel involved in ATU processes to gain an understanding of the current processes in place, examined existing supporting documentation, and evaluated the internal controls over the processes. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from June 1, 2021 through December 31, 2022.

The following report summarizes the findings identified, risks to the Texas Department of Licensing and Regulation, recommendations for improvement and management's responses.

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

WEAVER AND TIDWELL, L.L.P.

Austin, Texas  
October 4, 2023

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

### Background

The Texas Department of Licensing and Regulation (TDLR or the agency) is the state agency responsible for licensing and regulating a broad range of occupations, businesses, facilities, and equipment. The Agency's mission statement is to earn the trust of Texans every day by providing innovative regulatory solutions for our licensees and those they serve.

In 2019, the 86<sup>th</sup> Texas Legislature created the Texas Human Trafficking Prevention Coordinating Council (Council) to work towards effectively and efficiently eradicating human trafficking through the coordination and collaboration of programs, services, and state resources. A TDLR representative is included as a Council member. TDLR received appropriations to create an Anti-Trafficking Unit (ATU) to perform inspections for potential trafficking activities at businesses where the agency has oversight responsibility. The ATU consists of five specialist team members which includes one Manager, one Team Lead, and four Field Specialists. Four additional Program Specialist positions and one Grant Coordinator position has been approved for the ATU and are awaiting fulfillment. In addition to performing inspections, TDLR is required to ensure that some of the medical and health licensees that the agency oversees have completed an anti-trafficking training approved by the Health and Human Services Commission prior to renewing their respective license.

The ATU is not a law-enforcement body, and therefore coordinates its activities with local law enforcement throughout Texas, the Labor Trafficking Working Group, other TDLR Departments, the Texas Human Trafficking Prevention Task Force, and the Texas Human Trafficking Prevention Coordinating Council. The ATU works in conjunction with TDLR Field Operations staff to identify signs of human trafficking through the onsite inspection process within the businesses that TDLR regulates. The Anti-Trafficking Unit focuses on identifying human sex trafficking in illicit massage businesses (IMB) as well as human labor trafficking in barbering and cosmetology, electrical, and air conditioning and refrigeration. The ATU received 388 cases from other TDLR departments, other agencies, or tips from the public from June 1, 2021, through December 31, 2022. Through this process, the TDLR has identified and reported suspected trafficking to the National Human Trafficking Hotline, resulting in information sharing with other agencies such as the Department of Homeland Security and the OAG's Human Trafficking and Transnational/Organized Crime Section.

TDLR also promotes public education on human trafficking. Inspection staff carry information cards that contain the National Human Trafficking Hotline number and list important human trafficking indicators. As part of this public education initiative, TDLR organized a human trafficking training for Texas communicators and has worked with the Polaris Project to develop an IMB training for TDLR staff.

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

### Audit Objective and Scope

This audit focused on processes in place related to the TDLR's ATU activities. We reviewed the procedures in place for appropriate risk and regulatory coverage and compliance to ensure efficient and effective processes. Key activities related to ATU processes to be reviewed included:

- Intake Referral Processing
- Investigative Inspections
- Data Collections
- Research
- Reporting and Data Sharing
- External Coordination
- Administrative and Prosecution Referral

Our procedures were designed to ensure relevant risks were covered and verified the following:

#### Intake Referral Processing

- All referrals were reviewed and assigned to an ATU Specialist timely.
- Referrals from law enforcement were prioritized and investigated timely.
- All referrals were investigated appropriately and evidence to support the investigation is retained.

#### Investigative Inspections

- Referrals resulting in investigative inspections were performed timely.
- Inspections were performed based on the risk assessment.
- ATU Specialists and Field Inspectors received regular training on human trafficking trends and updates.
- Field inspectors appropriately documented/logged all business inspections and complete required checklists.
- Licensees were compliant with the Texas Occupations Code, Chapter 116, as applicable and have completed the approved training courses on human trafficking prevention, including at least one course that is available without charge

#### Data Collection

- Data gathered during an investigation was complete, accurate, timely, and appropriately retained so that any potential future inquiries can be effectively and efficiently handled.

#### Research

- Adequate research was performed, including an internal and external search of the business, when performing an investigation.
- Research performed during an investigation was accurate, complete, and accessible for external coordinating entities.

#### Reporting and Data Sharing

- TDLR ATU was compliant with all active MOU's and reporting is complete, accurate, and timely.

#### External Coordination

- Reporting and data sharing, from and with other state agencies with anti-trafficking responsibility, occurred timely.

# **Texas Department of Licensing and Regulation**

## **Audit Report over Anti-Trafficking Unit Activities**

### **September 14, 2023**

#### Administrative and Prosecution Referral

- Administrative and Prosecution referrals were reported to the state timely.

The objectives of this internal audit were as follows:

- A. Determine whether internal controls over anti-trafficking processes were designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.
- B. Verify that controls over selected critical processes within anti-trafficking processes were operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.
- C. Ensure that user access to process and modify anti-trafficking transactions in applicable systems is restricted to appropriate personnel, and that access is periodically reviewed.

Our procedures included interviewing key personnel involved in ATU processes to gain an understanding of the current processes in place, examining existing documentation, and evaluating the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from June 1, 2021 through December 31, 2022 for all subprocesses except for intake referrals. Due to a change in the law enforcement intake referral process, the law enforcement intake referral scope period was April 1, 2022 through December 31, 2022.

### **Executive Summary**

Through our interviews, evaluation of internal control design and testing of transactions we identified two findings. The listing of findings includes those items that have been identified and are considered to be non-compliance issues with documented Texas Department of Licensing and Regulation 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 the TDLR. These issues could have significant financial or operational implications.

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

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

Overall Assessment		Unsatisfactory
Objective	Result	Rating
<p><b>Objective A:</b> Determine whether internal controls over anti-trafficking processes were designed to ensure that consistent processes are implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.</p>	<p>We identified 14 controls in place in ATU processes. However, there are opportunities to strengthen the processes and control environment including:</p> <ul style="list-style-type: none"> <li>• Develop standard operating procedures for ATU processes, including:                             <ul style="list-style-type: none"> <li>○ Law enforcement referrals prioritization</li> <li>○ Administrative and prosecution referral timeliness</li> <li>○ Changes and updates to SOPs</li> <li>○ Communication between the ATU and other TDLR Divisions</li> </ul> </li> <li>• Develop a procedure for maintaining documentation to support the performance of procedures.</li> </ul>	<p><b>Unsatisfactory</b></p>
<p><b>Objective B:</b> Verify that controls over selected critical processes within anti-trafficking processes were operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.</p>	<p>Controls appear to be in place, however through the course of our testing procedures we identified internal control ineffectiveness including the following:</p> <ul style="list-style-type: none"> <li>• A new file in Legal Files is not consistently created within three business days of receiving a referral.</li> <li>• Referrals are not consistently added to the Live Assignment Tracker within 90 business days of receiving a referral.</li> <li>• Documentation retention for investigative inspections documentation is inconsistent, specifically for pre-research and reporting documentation.</li> <li>• The Notification of Investigative Inspections and Request for Assistance Form is not consistently used and sent to appropriate parties in a timely manner.</li> </ul>	<p><b>Unsatisfactory</b></p>

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

Objective	Result	Rating
<b>Objective C:</b> Ensure that user access to process and modify anti-trafficking transactions in applicable systems is restricted to appropriate personnel, and that access is periodically reviewed.	Access to Versa is periodically reviewed.	<b>Strong</b>

### Conclusion

Based on our evaluation, ATU activities have procedures, practices, and controls in place designed to mitigate risks within significant processes at the Texas Department of Licensing and Regulation (TDLR). However, we identified opportunities to strengthen processes, formalize procedures performed, and improve effectiveness of controls within ATU processes at the TDLR.

The TDLR ATU should formalize procedures for reviews, approvals, and implementation of changes made to the standard operating procedures (SOP) and reporting administrative and prosecution referrals within the expected time frame. The TDLR ATU should formalize procedures for prioritizing referrals from law enforcement in policy. Further, the TDLR ATU should develop and formalize expectations around external coordination including communication, roles, referral handoffs, and data entry.

Additionally, the ATU should ensure that all referrals received are added to Legal Files within three business days of receiving the referral and to the Live Assignment Tracker within 90 business days of receiving the referral. The ATU should ensure that the Notification of Investigative Inspections and Request for Assistance Form is consistently used and sent to TDLR's Field Managers and Enforcement Investigations Manager, as well as law enforcement agencies in the area, at least two weeks prior to the upcoming investigative inspection. The ATU should ensure that consistent documentation is retained for all investigative inspections performed including a finalized report that has been reviewed and approved.

Follow-up procedures will be performed in Fiscal Year 2024 to evaluate the effectiveness of remediation efforts to address the findings identified.



**Detailed Procedures Performed,  
Findings, Recommendations and  
Management Response**

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

### Detailed Procedures Performed, Findings, Recommendations and Management Response

Our procedures included interviewing key personnel within the Agency that have responsibilities in managing and/or monitoring ATU processes, to gain an understanding of the current processes in place, by examining existing supporting documentation and evaluating the internal controls over the processes. We evaluated the existing policies, procedures, and processes in their current state. Our coverage period was from June 1, 2021 through December 31, 2022.

#### Objective A: Design of Internal Controls

Determine whether internal controls over anti-trafficking processes were designed to ensure that consistent processes were implemented and designed effectively to address the risks within the associated sub-processes and to ensure effective operations.

**Procedures Performed:** We conducted interviews and walkthroughs with key TDLR personnel involved in the ATU activities and gained an understanding of the current processes in place, examined existing documentation, and evaluated the internal controls over the process. We evaluated the existing policies, procedures, and processes in their current state. We documented our understanding of the processes and identified internal controls over the following critical sub processes:

- Intake Referral Processing
- Investigative Inspections
- Data Collections
- Research
- Reporting and Data Sharing
- External Coordination
- Administrative and Prosecution Referral

We evaluated the controls identified against expected controls to determine whether the identified reoccurring procedures and internal controls are sufficiently designed to mitigate the critical risks associated with the operational sub-processes for ATU activities. We identified any unacceptable risk exposures due to gaps in the existing control structure as well as opportunities to strengthen the effectiveness and efficiency of the existing procedures.

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

### September 14, 2023

**Results:** We identified 14 total controls in place over the significant anti-trafficking activities. We identified two findings where improvements in the processes, policies, and procedures could be made.

Process Area	Control Coverage	Findings
Intake Referral Processing	4	<b>Finding 1</b>
Investigative Inspections	5	<b>Finding 2</b>
Data Collections	1	-
Research	-	<b>Finding 2</b>
Reporting and Data Sharing	1	<b>Finding 1</b> <b>Finding 2</b>
External Coordination	3	-
Administrative and Prosecution Referral	-	<b>Finding 1</b>
<b>Total</b>	<b>14</b>	<b>2</b>

**Finding 1 – High – Standard Operating Procedures:** While the TDLR Antitrafficking Unit (ATU) maintains and utilizes several process documents, The ATU's procedures are incomplete and are not consistently followed.

- The ATU 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 ATU practice.
- The ATU has practices in place to prioritize human trafficking referrals from LE agencies, however these practices are not included in the ATU's Standard Operating Procedures (SOPs).
- The ATU 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 ATU have not been reviewed and approved by TDLR management.

Additionally, the ATU's is in the process of transitioning the tracking the status of referrals from the ATU's Live Assignment Tracker spreadsheet to TDLR's Legal Files application. The Legal Files application has the ability for the ATU 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 ATU 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.

**Recommendation:** The ATU should add formal procedures to the Anti-Trafficking Unit Standard Operating Procedures that address:

- The requirement to inform and coordinate with TDLR's Enforcement Division and local LE agencies two weeks in advance of on-site inspections to allow for LE or Enforcement Division inspectors to accompany the ATU, if desired.

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

- The requirement to prioritize referrals received from external law enforcement agencies, and the requirements to flag the referral within Legal Files as received from a LE agency.
- The expectation for the timeframe by which administrative and prosecution referrals should be sent to the Enforcement Division and Law Enforcement, when applicable

Further, the policies and procedures of the ATU should be reviewed and approved by an appropriate level of TDLR management.

**Management Response:** We agree with the recommendation. TDLR's anti-trafficking work is being restructured with a new division of duties. The plan is to transfer all investigative duties to our Enforcement Division and Enforcement will communicate with law enforcement according to their standard operating procedures already in place. Enforcement prioritizes investigations on a risk-based scale, and they will handle trafficking referrals with high priority, as appropriate. The anti-trafficking team personnel have been realigned within the Compliance division and there they will develop new policies and procedures, which will be reviewed by management. The current procedures related to referrals are being evaluated and will be updated with the new structure and workflow.

**Responsible Party:** Senior Deputy Executive Director

**Implementation Date:** March 31, 2024

**Finding 2 – Moderate – Maintaining Supporting Documentation:** While the TDLR ATU has established practices and documented procedures, some processes and procedures are not consistently followed by ATU personnel. Currently, the ATU 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 ATU 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 ATU between June 1, 2021, through December 31, 2022 and tested the ATU'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 ATU 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 ATU practices

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

### 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

**Recommendation:** The ATU should communicate and reinforce the current procedures in place for documentation consistency and to ensure consistency and timeliness in completing the inspections process. Key items for reinforcement should include:

- The completion of pre-inspection research
- Submission of Notification of Investigative Inspections and Request for Assistance Forms to the Enforcement Division and LE agencies two weeks in advance
- Completion of inspection support in the file

Additionally, the ATU should develop a checklist for Investigative Inspection Documentation to ensure that consistent documentation is retained for all investigative inspections performed. Documentation should be centrally located in Legal Files and include the original complaint, evidence of pre-research performed, any Notice of Investigation or Request for Assistance Forms, proof of inspection, and the final report. Additionally, the final report should be in a PDF file format, document the report date, and have a space for a separate reviewer sign-off on the face of the report. All final reports should be sent to Enforcement and the OAG within the seven-day required timeline.

**Management Response:** We agree with the recommendation. The plan is for the investigation of trafficking complaints and reporting of those complaints to transfer to the Enforcement Division. Enforcement will follow the appropriate policies and procedures related to documentation, research, reports, and referrals.

**Responsible Party:** Senior Deputy Executive Director

**Implementation Date:** March 31, 2024

## Objective B: Effectiveness of Controls

Verify that controls over selected critical processes within anti-trafficking processes are operating efficiently, effectively, and resulting in complete information, appropriate transactions, timely reporting, and active monitoring.

### Intake Referral Processing

1. **Procedures Performed:** We selected a sample of 15 out of a total population of 110 intake referrals received during the period of April 1, 2022, through December 31, 2022 and verified:

- The complaint/referral was added to the ATU intake tracker within three business days of referral date.
- For referrals added to the tracker after December 1, 2022, a new file was created in Legal Files within three days of receiving the referral.

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

- If an inspection was performed, onsite assignments and associated data was entered into the Live Assignment Tracker within 90 business days of referral date.
- Referrals from law enforcement were prioritized.

**Results:** Referrals from law enforcement are not consistently prioritized and referrals are not set-up timely within Legal Files and in the Live Assignment Tracker, as outlined by the Anti-Human Trafficking Unit Standard Operating Procedures.

### Finding 1 – High – Standard Operating Procedures

#### Investigative Inspections

1. **Procedures Performed:** We selected a sample of 25 of 388 investigative inspections completed by the ATU during the period of June 1, 2021, through December 31, 2022 and verified:

- The ATU performed pre-research to determine if there was sufficient information to conduct an investigative inspection and if applicable, subsequent deep dive research performed.
- Prior to the onsite visit, the Notification of Investigative Inspections and Request for Assistance Form was sent to TDLR's Field Managers and Enforcement's Investigations Manager, as well as law enforcement agencies in the area at least two weeks prior to the upcoming investigative inspection.
- The investigative report was reviewed, finalized, and sent to Enforcement and the OAG within the required timeline.

**Results:** Documentation from investigative inspections is not consistently retained including evidence of pre-research and finalized reports. The Notification of Investigative Inspections and Request for Assistance Form is not consistently and appropriately used, as required by the Anti-Human Trafficking Unit Standard Operating Procedures.

### Finding 2 – Moderate – Maintaining Supporting Documentation:

#### Objective C: User Access

Ensure that user access to process and modify anti-trafficking transactions in applicable systems is restricted to appropriate personnel, and that access is periodically reviewed.

**Procedures Performed:** We selected a sample of 25 of 285 Versa users as of January 17, 2023, and verified the following:

- The user is an active TDLR employee and access is appropriate for the job duties assigned and performed.
- A user access review over Versa was performed and documented in the last 12 months.

**Results:** No exceptions identified.

# Appendix

# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

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 TDLR
- TDLR 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.



# Texas Department of Licensing and Regulation

## Audit Report over Anti-Trafficking Unit Activities

September 14, 2023

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

#### Moderate

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

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

#### Low

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

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