



An Audit Report on

Enforcement Activities at the Department of Licensing and Regulation

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State Auditor

- The Department promptly prioritized consumer complaints based on the potential risk allegations posed to the public.
- The Department had adequate processes for managing the investigation and resolution of consumer complaints, but it should strengthen its monitoring of certain investigation activities.

The Department of Licensing and Regulation (Department) established adequate processes to review, investigate, resolve, and report on high-priority consumer complaints. The Department promptly prioritized complaints according to the potential risks that the allegations posed to the public, as statutorily required.

However, the Department should strengthen its monitoring of investigation activities to ensure that it consistently verifies a complaint is assigned the correct priority rating before starting an investigation and that it monitors the progress of investigations.

- *Background* | p. 4
- *Audit Objectives* | p. 13

This audit was conducted in accordance with Texas Government Code, Sections 321.013 and 321.0132.

LOW

COMPLAINT PRIORITIZATION AND MANAGEMENT

The Department established adequate processes for managing the receipt and prioritization of consumer complaints.

[Chapter 1 | p. 6](#)

MEDIUM

ENFORCEMENT ACTIVITIES

The Department had processes to investigate and resolve complaints and report accurate complaint statistics, as required. However, the Department should strengthen oversight of its investigation activities.

[Chapter 2 | p. 8](#)

NOT RATED

PERFORMANCE MEASURES

The Department reported reliable performance measure results for the three key performance measures tested relating to its complaint investigation process. Those measures were **certified**.

[Chapter 3 | p. 11](#)

Note on Confidential Findings

To minimize security risks, auditors communicated details about audit findings related to certain security weaknesses in a separate report.

PRIORITY

The findings presented in that report are rated Priority because the issues identified present risks or effects that if not addressed could critically affect the Department's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concerns and reduce risks to the Department.

The separate report references confidential information. Pursuant to Standard 9.61 of the U.S. Government Accountability Office's *Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

Summary of Management's Response

Auditors made recommendations to address the issues identified during this audit, provided at the end of Chapter 2 in this report. The Department agreed with the recommendations.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objectives.

PRIORITY: Issues identified present risks or effects that if not addressed could *critically affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

HIGH: Issues identified present risks or effects that if not addressed could *substantially affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

MEDIUM: Issues identified present risks or effects that if not addressed could *moderately affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

LOW: The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks *or* effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on the methodology for issue ratings, see [Report Ratings](#) in Appendix 1.

Background Information

Department of Licensing and Regulation

The Department of Licensing and Regulation (Department) provides oversight through its inspection and licensing processes and adopts rules for a broad range of occupations, businesses, facilities, and equipment, as authorized in Chapter 51 of the Texas Occupations Code. The Department's goal is to protect the health and safety of Texans and ensure that they are served by qualified professionals. The Department's programs are shown in Figure 1.

Figure 1

The Department's Programs as of August 2025

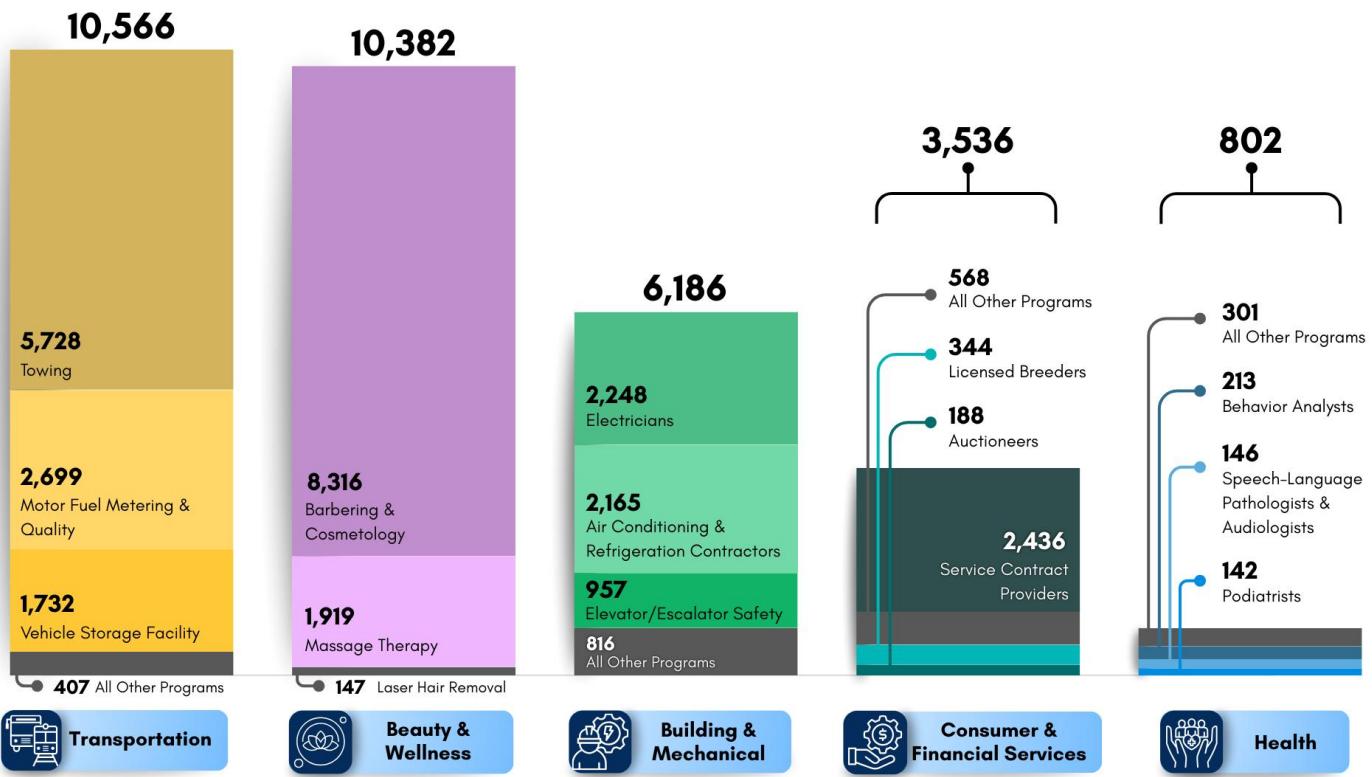


Source: The Department.

Between August 1, 2023, and July 31, 2025, the Department had 31,472 consumer complaints (either active or closed) related to its programs (see Figure 2).

Figure 2

Total Complaints by Program (August 1, 2023–July 31, 2025)



Source: The Department.



DETAILED RESULTS

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LOW

Chapter 1

Complaint Prioritization and Management

The Department of Licensing and Regulation (Department) established adequate processes for managing the receipt and review of high-priority consumer complaints.

However, significant weaknesses were identified with certain controls over information technology that were communicated in a separate report to Department management.

The Department effectively tracked the complaints it received.

The Department received 26,379 consumer complaints through its online portal between August 1, 2023, and July 31, 2025. A total of 25,862 (98 percent)¹ of the complaint tracking numbers recorded in the online portal were traced to either the Department's complaint management system, Legal Files®, or its Intake Log. If a complaint included sufficient, detailed information about an alleged violation, the Department recorded the complaint in the Legal Files system for further review by intake staff to determine whether an investigation was warranted. If a complaint lacked sufficient details for further review, the Department recorded the complaint in the Intake Log.

¹ While 25,862 complaints could be traced from the Department's online portal to the Legal Files system, only 25,535 complaints records were created in that system. The Department explained that it may consolidate complaints from the online portal into a single complaint record in the Legal Files system if several complaints involve the same party.

The Department also performed quarterly reviews of sampled selections of complaints it received as required. The Department completed the eight required reviews for the quarterly periods tested from June 1, 2023, through May 31, 2025, to verify whether complaints were accurately documented either in the Legal Files system or its Intake Log.

The Department promptly prioritized complaints.

The Department established a process to prioritize complaints (see text box for priority levels) that may pose a risk to the public and require immediate attention. For 24,790 (97 percent) of the 25,535 complaints the Department added to the Legal Files system from August 1, 2023, through July 31, 2025, the complaints were reviewed and assigned a priority rating on the same day they were recorded in that system. Most of the remaining complaints were prioritized within 30 days.

The Department also properly authorized and documented its reasons for changing the priority level for 10 (77 percent) of 13 complaints tested as required. For the remaining three complaints, the Department did not record the authorization or reason for changing the priority rating.

Additionally, the Department's review ensured that complaints that did not warrant an investigation were dismissed. For 16 dismissed complaints tested, the Department properly authorized and documented its reason for closing the complaint without investigation.

Prioritizing Complaints

The Department is required to assign priorities and investigate complaints based on the public risk posed by the alleged conduct.

The Department assigns each complaint received one of the following four priority ratings:

- **Priority 1** – Complaints alleging bodily injury, death, financial loss, or human trafficking.
- **Priority 2** – Complaints alleging economic damages or a condition that may pose an imminent threat of harm to the public's health, safety, or economic welfare.
- **Priority 3** – Complaints alleging issues that may pose a general threat of harm to the public's health, safety, or economic welfare.
- **Priority 4** – Complaints that receive this rating are not investigated because of the low risk to the public.

If the Department determines that an allegation made or formal complaint submitted is inappropriate or without merit, the Department will dismiss the complaint.

Sources: Texas Occupations Code, Section 51.2521, and the Department.

MEDIUM

Chapter 2

Enforcement Activities

The Department had adequate processes for investigating and resolving high-priority consumer complaints in accordance with applicable requirements. The Department took appropriate enforcement actions on investigated complaints, including documenting its actions taken in the Legal Files system. Additionally, the Department posted on its website accurate complaint statistics on complaints and penalties assessed for fiscal year 2024 on seven licensing programs tested, as required by Texas Occupations Code, Section 51.255(a).²

However, the Department should strengthen its processes to support consistent performance and documentation of certain investigation and enforcement activities.

The Department investigated most complaints in accordance with its requirements.

From August 1, 2023, through July 31, 2025, the Department had 31,472 active complaints.³ The Department verified that it had completed its investigations according to its requirements for all 47 applicable complaints tested. In addition, the Department verified that 37 (86 percent) of 43 applicable complaints tested were correctly rated as high priority before initiating an investigation; for the remaining 6 complaints, the Department lacked documentation to show that the verification was performed.

² The complaint statistics tested included the total number of consumer and Departmental complaints for fiscal year 2024.

³ The total number of active complaints includes 5,937 complaints received prior to August 1, 2023, but active from August 1, 2023, through July 31, 2025.

The Department monitored the progress of investigations as required.

The Department completed 60 (91 percent) of 66 required monitoring reviews between September 1, 2024, and July 31, 2025 (see text box for information on monitoring reviews)⁴. For the remaining six monitoring reviews, the Department asserted that three reviews were not completed due to limited staffing and three reviews had actually been completed but the associated documentation was not retained.

Monitoring Reviews

On the 1st and 15th of each month, the Department generates a report from the Legal Files system to identify any complaint investigations that had been inactive for more than 60 days. The Department reviews the complaints identified to determine the reason for the inactivity.

Source: The Department.

The Department properly resolved and closed complaints.

The Department ensured that closed complaints tested were authorized for closure by appropriate staff, and the reason for closing the complaint was correctly recorded for 35 (97 percent) of 36 applicable closed complaints tested. Additionally, the Department closed complaints that did not result in enforcement actions and prepared and issued a Notice of Alleged Violation (see text box) to violators when appropriate.

The Department also properly developed, authorized, and issued agreed orders and default orders for all nine applicable complaints tested as required. The Department sent a copy of the order to 8 (89 percent) of 9 complainants as required. For the remaining agreed order, the Department indicated that it inadvertently omitted one of several parties to the complaint when sending the copies.

Notice of Alleged Violation

If after an investigation, the Department determines that a violation occurred, it will issue a notice of alleged violation that provides:

- (1) A brief summary of the alleged violation;
- (2) The amount of the recommended administrative penalty; and
- (3) That the respondent to the complaint has the right to a hearing to contest the alleged violation, the amount of the penalty, or both.

Source: Texas Occupations Code, Section 51.303.

⁴The period tested included the months that reviews should have been completed for fiscal year 2025 at the time of the audit. The Department's retention schedule requires it to maintain documentation from the prior fiscal year and to the end of the current fiscal year.

Additionally, the Department accurately recorded collection activities for penalties assessed for those 9 applicable complaints, including verifying that settlements or penalty payments were received and collection referrals were documented, before closing a complaint.

Recommendations

The Department should consistently verify and document that:

- Complaints are assigned the appropriate priority rating before being investigated.
- Complaint investigations are receiving monitoring reviews when required.

Management's Response

The Department agrees that it should consistently verify and document that the appropriate priority rating has been assigned before being investigated. The Department currently has procedures that this be done, but it will ensure that it is verified and documented by establishing a new requirement that a reconciliation report be run monthly to verify that the required information was entered.

Responsible Party: Enforcement Intake Manager

Implementation Date: February 28, 2026

The Department agrees and has instituted policy changes to ensure the periodic case reviews performed by the Investigator team are documented and audited, to correct the previous policy which did not require verification of these reviews performed by investigators to be reported.

Responsible Party: Enforcement Investigation Manager

Implementation Date: November 25, 2025

NOT RATED

Chapter 3

Performance Measures

The Department reported reliable results into the Automated Budget and Evaluation System of Texas (ABEST)⁵ for three key performance measures tested for fiscal year 2024. The three performance measures tested were **certified**, as shown in Figure 3.

Figure 3

Summary of Performance Measure Results at the Department

Performance Measure	Fiscal Year	Results Reported in ABEST ^a	Certification Results ^b
Percent of Complaints Closed Within 6 Months	2024	57.67 percent	
Number of Complaints Opened	2024	12,578	
Number of Complaints Closed	2024	13,449	

^aThese measures were reported quarterly; the amount shown in the table is the final year-to-date amount.

^bA measure is **certified** if reported performance is accurate within 5 percent of actual performance and controls to ensure accuracy were identified over the activities for collecting, calculating and reporting performance data.

The Department fully implemented two prior audit recommendations.

Figure 4 on the next page shows the implementation status of two recommendations from *An Audit Report on Performance Measures at the Department of Licensing and Regulation*, SAO Report No. 23-011, November 2022.

⁵ State agencies and higher education institutions report their key performance measures quarterly or annually, depending on the measure type, to the Legislative Budget Board using ABEST.

Figure 4

Implementation Status of Prior Audit Recommendations

Prior Audit Recommendations	Implementation Status Determined by Auditors
The Department should:	
<ul style="list-style-type: none">• Ensure that its executive management and division management consistently conduct and document their reviews of performance measure results prior to submitting that information into ABEST.• Retain documentation of its divisions' managers' reviews of performance measure results in accordance with the State of Texas Records Retention Schedule.	 Fully Implemented

Auditor Comment:

The Department reported accurate results for the performance measures tested and retained documentation of its reviews for 7 (88 percent) of the 8 quarters tested from June 1, 2023, through May 30, 2025. For one review, the Department could not find the documentation and asserted that measures results were verbally approved for submission into ABEST due to changes in the staff position responsible for approval.



APPENDICES

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Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Department of Licensing and Regulation (Department) has processes and related controls to review, investigate, resolve, and report upon complaints in accordance with applicable requirements.
- As applicable, determine the status of selected prior audit recommendations issued by the State Auditor's Office.

The following members of the State Auditor's staff performed the audit:



- Arnton Gray, CPA, CIA (Project Manager)
- Gabrielle Magadia, MAcy, CFE (Assistant Project Manager)
- Michael Capps
- Charlotte Carpenter, CPA
- Karmalita Fults
- Andrew Mohr
- Kristen Thurman
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Willie Hicks, CIA, CISA, CGAP, MBA (Audit Manager)

Scope

The scope of this audit covered the Department's enforcement processes and related controls for consumer complaints received and enforcement actions taken from August 1, 2023, through July 31, 2025. The scope also included a review of significant internal controls related to the Department's enforcement processes.

Methodology

We conducted this performance audit from June 2025 through January 2026 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Department management for consideration.

Addressing the Audit Objectives

During the audit, we performed the following:

- Interviewed and conducted walkthroughs with Department management and staff to gain an understanding of processes and controls related to complaints and enforcement actions.
- Analyzed complaint data from Legal Files®, the Department's complaints management system, and the Department's online submission portal to determine whether all complaints were given a priority level and to verify that selected complaint data was recorded.
- Reviewed complaint intake, investigation, and enforcement records.
- Identified the relevant criteria:
 - Texas Occupations Code, Chapter 51.
 - Texas Administrative Code, Title 16, Chapters 55 and 60.
 - Department of Information Resources' *Security Control Standards Catalog*, version 2.2.
 - The State Auditor's Office *Guide to Performance Measure Management*, December 2022 edition.
 - Department policies and procedures.
- Tested whether the Department conducted reviews of complaints in accordance with its policy.

- Tested user access to the Legal Files system.
- Tested relevant performance measures to determine whether the Department reported accurate performance measure data as required.
- Tested the following samples:
 - A nonstatistical sample of high-priority consumer complaints to determine whether the Department processed complaints in accordance with applicable requirements and Department policies. This included determining whether the Department prioritized, investigated, and either closed or took enforcement action on high-priority complaints in accordance with applicable requirements.
 - A sample of the Department's programs to determine whether statistical information on selected programs' complaints was accurately reported.

See Figure 5 for details.

Figure 5

Populations and Samples Selected

Description	Population	Sample Size	Methodology
High-priority Consumer Complaints Received	2,993	60 random, 5 targeted	Used a combination of sampling techniques ^a
Department-administered Programs	39	7 targeted	Selected a targeted sample of 7 programs to identify and address risk factors within the population ^b

^aAuditors tested a nonstatistical random sample of 60 high-priority consumer complaints. Auditors selected five additional complaints to address specific risk factors identified in the population. The test results as reported are not representative of the population; therefore, it would not be appropriate to project the test results to the population.

^bAuditors selected seven programs to address specific risk factors identified in the population, including the volume and proportion of high-priority complaints received. The test results as reported are not representative of the population; therefore, it would not be appropriate to project the test results to the population.

Data Reliability and Completeness

Auditors determined that the Department's data population of high-priority complaints obtained from the Legal Files system was sufficiently reliable for the purposes of this audit. To determine the reliability of the dataset used, auditors:

- Reviewed data queries and applicable reporting requirements.
- Analyzed the population for reasonableness and completeness.
- Tested controls over user access to the Legal Files system.

Report Ratings

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings.

Auditors also identified and considered other factors when appropriate.



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The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Department of Licensing and Regulation

Members of the Texas Commission of Licensing and Regulation
Ms. Courtney Arbour, Executive Director



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