An Audit Report on

Internal Controls and Financial Processes at the Board of Barber Examiners

October 2003

Report No. 04-006

State Auditor's Office
Lawrence F. Alwin, CPA
State Auditor

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Overall Conclusion

The Board of Barber Examiners (Board) does not ensure that its licensing and enforcement functions are efficient, effective, and managed in accordance with laws and regulations designed to protect the public. In addition, the Board has not ensured that its financial processes and controls enable it to maintain financial records that present a true picture of performance and provide reliable information for decision making. Specifically:

> **The Mission of the Board of Barber Examiners**
>
> The Board of Barber Examiners' mission is to promote a safe and clean environment for the general public through education, examinations, licensing, and regulation of all barbers in Texas.
>
> The Board received $1,139,555 in total appropriations for the 2002–2003 biennium and is allowed up to 14 full-time equivalent positions. The Board issues licenses for barbers, manicurists, barber technicians, barber teachers, shops, booth rental permits, and barber schools.

- The Board does not ensure that all practicing barbers have current licenses. Eighty-three percent of Board-issued penalties that are past due are for practicing without a license or with an expired license. In addition, the Board does not ensure that licensees with outstanding penalties are prevented from renewing their licenses. Weaknesses in the Board's information system prevented us from determining the number of unlicensed shops and barbers still practicing.

- The Board's current enforcement activities are ineffective in ensuring that licensees comply with laws and regulations. As a result, the Board has not collected $99,000 (47 percent) of the $208,000 in administrative penalties assessed in fiscal years 2000 through 2003, based on information in the Board's licensing and enforcement system. Inadequate enforcement reduces licensees' incentive to comply with laws and regulations.

- Inaccurate or missing inspection records in the Board's licensing and enforcement system prevent the Board from effectively monitoring to determine whether inspectors are inspecting shops. The Board has not ensured that its inspectors comply with its policy to (1) inspect each shop at least every six months and (2) conduct follow-up inspections at least monthly until violations are resolved at shops that have a history of violations or that are operating without a license or with an expired license. Although we recommended in 1998 that the Board perform a risk analysis of all shops to identify high-risk shops and repeat offenders (SAO Report No. 98-035, *1998 Small Agency Management Control Audit*, April 1998), the Board did not implement that recommendation.

- In fiscal years 2001 through 2003, the Board erroneously issued 58 licenses for four-year periods instead of the two-year period required by statute.

- Weaknesses in the Board's financial controls resulted in missing documentation for all of its fiscal year 2002 journal vouchers and omissions in its fiscal year 2002 financial statements. The sample of journal vouchers we reviewed made accounting adjustments totaling $824,000. These weaknesses increase the risk that unauthorized transactions will be processed and that financial data is unreliable. In addition, the Board lacks policies and procedures and does not have adequate segregation of duties over accounting activities.

Summary of Information Technology Review

Our review of information technology focused on the Board's licensing and enforcement system. As noted previously, the Board has not ensured that this system has the data necessary to enable the Board to function effectively and efficiently. In addition, our review of network access identified weaknesses in access rights and password controls that reduce the Board's ability to protect the security of operational and financial data.

Summary of Management's Response

The Board generally agrees with the issues and recommendations in this report. The Board's responses indicate that it plans to take corrective action.

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Detailed Results

Chapter 1

The Board Does Not Ensure that Its Licensing and Enforcement Functions Are Efficient, Effective, and Managed in Accordance with Laws and Regulations

The Board of Barber Examiners (Board) does not ensure that its licensing and enforcement functions are efficient, effective, and managed in accordance with laws and regulations designed to protect the public. Specifically:

- The Board does not ensure that all practicing barbers have current licenses. Eighty-three percent of Board-issued penalties that are past due are for practicing without a license or with an expired license The Board does not ensure that licensees with outstanding penalties are prevented from renewing their licenses, as required by Texas Administrative Code (TAC), Title 22, Subchapter A, Section 51.5. We noted instances in which the Board renewed licenses that had been blocked for renewal in its licensing and enforcement system because of unpaid penalties. Weaknesses in the Board's information system prevented us from determining the number of unlicensed shops and barbers still practicing.

- Inaccurate or missing inspection records in the Board's licensing and enforcement system prevent the Board from effectively monitoring to determine whether inspectors are inspecting shops. Conducting these inspections is necessary to ensure that the public is protected (see text box). The Board has not ensured that its inspectors comply with its policy to (1) inspect each shop at least every six months and (2) conduct follow-up inspections at least monthly until violations are resolved at shops that have a history of violations or that are operating without a license or with an expired license. Although we recommended in 1998 that the Board perform a risk analysis of all shops to identify high-risk shops and repeat offenders (SAO Report No. 98-035, *1998 Small Agency Management Control Audit*, April 1998), the Board did not implement that recommendation.

  Inspection records are missing from the Board's licensing and enforcement system because, at the time we began this audit, the Board had a four-month backlog in entering inspection data into this system. Furthermore, the Board purchased $39,000 in portable computer hardware and software in fiscal year 2001 to enable its inspectors to enter inspection and violation data directly into the licensing and enforcement system from the field. At the time we began this audit, however, this hardware and software was stored in the Board's offices and was not being used. Management attributes this to the absence of wireless towers in the regions where inspectors work, which means that inspectors cannot transmit data remotely. This suggests poor planning on the part of Board management.

What Is the Purpose of Inspections?

Inspectors are required to:

- Determine whether licenses and shop permits are current and displayed.
- Determine whether shop facilities are in good repair and restrooms are sanitary.
- Ensure that no businesses not related to barbering are operating in the shop.
- Ensure that combs and other implements are properly sterilized.
- Ensure that no pets are in the shops.

- The Board's current enforcement activities are ineffective in ensuring that licensees comply with laws and regulations. As a result, the Board has not collected $99,000 (47 percent) of the $208,000 in administrative penalties assessed as a result of hearings at the State Office of Administrative Hearings or conferences with the Board's executive director in fiscal years 2000 through 2003, based on information in the Board's licensing and enforcement system. Inadequate enforcement reduces licensees' incentive to comply with laws and regulations.

  The Board can refer delinquent penalties to the Office of the Attorney General (OAG) for collection, and the OAG can also issue an injunction to close a shop. Discussions with OAG staff indicated that the outstanding penalties, which average $350 each, are below its threshold for collections. Although the Board has the authority to assess a penalty of up to $1,000 per day for continuing violations until the violation is corrected, it does not require inspectors to use this authority. The Board's current penalties range from warnings for not displaying a shop permit to $1,000 for a third offense of practicing without a license. The table below shows a sample of the penalties set by the Board in Texas Administrative Code, Title 22, Part 2, Section 51.3 (b).

Examples of Penalties Set by the Board

Violation	First Offense	Second Offense	Third Offense
Practicing with an expired license	$100	$300	$500
Shop operating with an expired permit	$100	$300	$500
Practicing without a license	$500	$750	$1000
Shop operating without a permit	$500	$750	$1000
Failure to display license or permit	$50	$100	$150

- In fiscal years 2001 through 2003, the Board erroneously issued 58 licenses for periods of four years instead of the two-year period required by the Texas Occupations Code, Section 1601.402 (a). These errors were the result of a programming error in the licensing and enforcement system that the Board had identified as early as June 2002 but still had not corrected at the time we began this audit in May 2003. In addition to violating statute, this issue results in lost revenue if errors are not corrected because the Board collects the license fee for two years instead of four. The fees for those licenses ranged from $30 for a manicurist license to $86 for a barber license.

Although the Board has not ensured all practicing barbers have current licenses and that inspection records are complete and correct, the Board uses some of its resources to perform inspections for the Cosmetology Commission without reimbursement. Specifically, to comply with a requirement in the General Appropriations Act, the Board executed an agreement with the Cosmetology Commission under which the Board inspects all "dual shops," where both barbers and cosmetologists operate.[1]

[1] See Rider 2, page VIII-12, the General Appropriations Act (77th Legislature).

The Board presented information indicating that cosmetologists accounted for 15,194 (33.7 percent) of the 45,021 individuals operating at shops it inspected in fiscal year 2002. However, the agreement between the Cosmetology Commission and the Board does not require the Cosmetology Commission to reimburse the Board for its inspections of dual shops. (The requirement in the General Appropriations Act does not specify which agency would inspect the dual shops or how the two agencies would share the cost of dual shop inspection.) Without such reimbursement, the Board may not have the resources it requires to effectively inspect both the barber shops for which it is responsible and the dual shops it has agreed to inspect.

Recommendations

The Board should:

- Implement corrections to its licensing and enforcement system to ensure that it has accurate and up-to-date information to monitor whether inspectors are inspecting barber shops as required.
- Perform a risk assessment on barber and dual shops to identify high-risk or repeat offenders on which to focus inspection resources.
- Develop and implement a plan to ensure effective enforcement. This may include performing more frequent follow-up inspections, increasing the amounts for individual penalties, and monitoring inspectors' results. The Board should also use the full range of sanctions available to it, including imposing penalties for each day a violation remains uncorrected and revoking licenses.
- Implement corrections to the licensing and enforcement system to ensure that licenses are renewed for the statutorily required period and that blocked licenses are not renewed.
- Determine and implement the most efficient and effective option for putting the portable computers to use.
- When its agreement with the Cosmetology Commission is renewed, consider whether that agreement should require the Cosmetology Commission to reimburse the Board for a portion of the costs it incurs in inspecting dual shops.

Management's Response

The Texas State Board of Barber Examiners (Board) understands and appreciates the benefits of having an independent entity such as the State Auditor's Office (SAO) conduct periodic reviews of the agency's operations, processes, and controls. The Board values the recommendations that resulted from the SAO's review of this agency and, after careful review and consideration, accepts all of the recommendations presented to it by the SAO. The Board will begin immediately to take actions to implement all of the recommendations as resources allow.

While agreeing with the recommendations brought by the SAO, the Board also believes that it is carrying out its licensing and enforcement functions reasonably *well, given the financial and statutory constraints within which it operates. The Board also agrees and understands that there are improvements to its operations that need to be made. Prior to the audit, Management already had identified and begun addressing some of the issues raised in the SAO recommendations. Working within its fiscal and statutory constraints, the Board will aggressively pursue the implementation of the recommendations made by the SAO.*

The Board's responses to specific licensing and enforcement recommendations follow.

LICENSING & INSPECTION RECOMMENDATIONS:

SAO Recommendation #1.1: Implement corrections to its licensing and enforcement system to ensure that it has accurate and up-to-date information to monitor whether inspectors are inspecting barber shops as required.

Management Response: The Board agrees with the recommendation. The agency will review its database to identify processes and specific records that need to be either corrected or brought up to date. In addition, the agency will create and distribute to the inspectors a set of monthly or quarterly reports to identify by region those shops that are due for inspection or are past due. The agency will also ensure that all inspection reports are entered into the database within 15 working days after having been received in the Austin office and that periodic reviews of each inspector's work will be conducted by the Staff Services Officer for Enforcement and by the Executive Director.

Implementation of this recommendation will begin November 1, 2003, with a target date of June 1, 2004, for full implementation. Shops that have not been inspected within agency time frames will be assigned a high priority for inspection until all, or essentially all, shops in the database have been inspected on a current basis. A factor that may limit the speed with which the recommendation can be implemented is a lack of funds to pay for any extensive changes to the database. The Executive Director, Staff Services Officer for Enforcement, all Inspectors, and the Chief Financial Officer will be responsible for implementing the recommendation.

SAO Recommendation #1.2: Perform a risk assessment on barber and dual shops to identify high-risk or repeat offenders on which to focus inspection resources.

Management Response: The Board agrees with the recommendation. The Board wrote a risk-based inspection policy in 1999 that defines the priorities for inspections of shops, schools, and licensees. However, the Board recognizes that it can do more to formalize the risk assessment process by quantifying the risk factors and producing reports that group and identify high-risk and repeat offenders.

Agency staff will review the available resources on how to create, implement, and conduct a formal risk-based inspections system. The implementation of an effective, efficient, risk-based inspections system will require changes to the database containing the licensing and enforcement files. Again, lack of available resources will impede the immediate implementation of this recommendation. Agency staff will begin the review process on November 1, 2003. The goal for the implementation of a formalized risk-based inspections system is June 1, 2004. The Executive Director, *Staff Services Officer for Enforcement, Investigators, and the Chief Financial Officer will be responsible for the implementation of this recommendation.*

SAO Recommendation #1.3: Develop and implement a plan to ensure effective enforcement. This may include performing more frequent follow-up inspections, increasing the amounts for individual penalties, and monitoring inspectors' results. The Board should also use the full range of sanctions available to it, including imposing penalties for each day a violation remains uncorrected and revoking licenses.

Management Response: The Board agrees with the recommendation. The Board will conduct a review of its entire enforcement function, to include the purpose of enforcement activities as well as the statutes, rules, available sanctions, policies, operational activities, and support functions. The purpose of the review will be to develop a plan to establish and operate an effective, efficient enforcement program. The Executive Director will guide the process, utilizing the Board and all staff members, including inspectors. The review process will begin November 1, 2003, and will continue until an effective, efficient enforcement program is in place. Improvements to the enforcement process will be implemented incrementally as they are finalized, with August 31, 2004, being the target date for full implementation.

SAO Recommendation #1.4: Implement corrections to the licensing and enforcement system to ensure that licenses are renewed for the statutorily required period and that blocked licenses are not renewed.

Management Response: The Board agrees with the recommendation. That portion of the recommendation concerning blocked licenses has already been implemented. In September, 2003, the agency had Northrop Grumman correct two "bugs" in the licensing system that had allowed some licenses to be updated even though the agency had placed a "block" on the file.

The Executive Director, the Chief Financial Officer, and the Administrative Assistant for Licensing will discuss the issue with Northrop Grumman to determine how best to eliminate the possibility of a license being renewed for an incorrect length of time. The agency will have to pay Northrop Grumman for any changes to the system. The implementation of this portion of the recommendation will depend on the nature and costs of the changes that will be necessary. Therefore, a firm date for the implementation of this portion of the recommendation is not known at this time. However, the agency will strive to have the necessary changes to the system designed and implemented no later than September 1, 2004. Until that time, the agency will require that a second employee visually review the renewal dates on the physical licenses before they are mailed out to the licensees.

SAO Recommendation #1.5: Determine and implement the most efficient and effective options for putting the portable computers to use.

Management Response: The Board agrees with the recommendation and already had begun a review of the wireless computer system prior to the audit. As a continuation of those efforts, the Executive Director will create a work group to include agency office employees, inspectors, and the network support employee from the Cosmetology Commission (who assists on a contractual basis), to identify specific problems that impede the use of the computers and software as originally planned *and to identify and recommend to the Executive Director options for maximizing their value to the agency. The work group will be formed no later than December 1, 2003 and will be directed to report its findings no later than March 31, 2004. Implementation of this recommendation will be affected by limitations on agency funds and employee time.*

SAO Recommendation #1.6: When its agreement with the Cosmetology Commission is renewed, consider whether that agreement should require the Cosmetology Commission to reimburse the Board for a portion of the costs it incurs in inspecting dual shops.

Management Response: The Board agrees with the recommendation. The agency will seek clarification from the Legislature on this issue during the 79th Legislative Session. The agency will also consider amending the agreement so that the Cosmetology Commission could provide services in kind of an approximately equal fiscal value.

The Board's Financial Processes Do Not Ensure that Financial Transactions Are Properly Supported, and They Allow Inaccurate and Unreliable Financial Information to Be Reported

The Board has not ensured that its financial processes and controls enable it to maintain financial records that present a true picture of performance and provide reliable information for decision making.

The Board Lacks Support for Important Financial Records

The Board lacks key information necessary to support its financial records. Specifically, it:

- Lacks supporting documentation for all fiscal year 2002 journal vouchers. We reviewed Uniform Statewide Accounting System (USAS) entries for a sample of nine of these vouchers, which made accounting adjustments totaling $824,000. Based on the information available, we determined that they appear to be for reasonable activities. However, the Board could not demonstrate that the transactions were properly authorized. Board staff asserted that the file containing the supporting documentation for these and all other fiscal year 2002 vouchers was missing.

- Could not provide support for the $19,135.79 it reported for accounts payable in its fiscal year 2002 financial statements.

> **What Are Journal Vouchers?**
>
> Journal vouchers are accounting journal entries made for the purpose of correcting or adjusting previous revenue or expenditure entries in USAS.
>
> For control reasons, all journal vouchers should contain explanations and references to the documentary evidence supporting the entry or entries. In addition, all journal vouchers should be approved by the appropriate, designated authority.
>
> An inappropriate journal voucher could result in (1) under- or overbilling a strategy, program, or fund and/or (2) the reporting of inaccurate financial information.

- Lacks an indirect cost allocation plan to allocate indirect costs across functions. The Board reports that it currently divides administrative expenses evenly between its licensing and enforcement functions, but it has no documented basis for this allocation.

The Board's Fiscal Year 2002 Financial Statements Were Incomplete

On its fiscal year 2002 financial statements, the Board:

- Did not report $19,966 in "Legislative Transfers In." As a result, it reported an ending fund balance that was understated by 78 percent.

- Did not report as accounts receivable the penalties it assessed, but did not collect, in fiscal year 2002. We estimate that the Board should have reported $7,000 in accounts receivable. Accounts receivable should be identified as revenues received within 60 days after the end of the fiscal year if the revenues are related to that fiscal year.

The Board also has not established other components of an accounts receivable function such as an allowance for doubtful accounts, a bad debt expense account, criteria defining uncollectible accounts, and procedures to age accounts receivable to determine which accounts receivable are not likely to be collected.

- Did not report $4,116 in fees it collected to set up the TexasOnline project as part of its accounts payable. Because it did not comply with requirements to pass the funds through to the Department of Information Resources/TexasOnline until September 2002 (the first month of fiscal year 2003), the Board should have included the amount of these fees in its fiscal year 2002 accounts payable.

The Board Has Not Implemented Certain Key Controls to Ensure the Integrity of Its Financial Data

The Board lacks certain key accounting controls to ensure the integrity of its financial data. Specifically, it:

- Has not properly segregated responsibilities for reviewing, entering, and approving expenditure transactions in USAS. Three employees have the ability to enter, revise, review, and approve USAS transactions. This increases the risk that inaccurate or inappropriate activity could occur without detection. In addition, the Board did not appropriately document approval for 22 of 30 expenditures we tested; however, we did not find that these expenditures were inappropriate or improperly recorded.

- Has not established adequate segregation of duties in the processing of funds received, the issuance of barber school permits, and the updating of enforcement information. A single employee both receives payments for the issuance and renewal of barber school permits and issues the related permits and renewals. Another employee both receives payments for administrative penalties and updates the licensing and enforcement system to indicate that the penalties have been paid. This creates the risk that a permit could be issued or renewed or that a penalty could be cleared without the related payment being deposited to the appropriate account. We tested a judgmental sample of penalties to ensure that they were properly deposited, and we found no indication that penalties were cleared without payment.

  Although the Board has established a procedure to independently reconcile barber and manicurist license fees with licenses issued and renewed, it has not established a similar safeguard for administrative penalties or barber school permits.

- Did not comply with the statute [Texas Government Code, Section 404.094(a)] that requires agencies to deposit revenue within three business days of receipt in nine instances in fiscal years 2002 and 2003. The average delay was two days beyond the three-day deadline. Because we used a judgmental sample, we cannot project this error to all revenue collected during those years. While our work showed that the depository interest lost due to noncompliance was insignificant, it is important that the Board comply with this statute in order to properly safeguard revenue by ensuring that it is deposited. The Board’s noncompliance with this statute is the result of its misinterpretation of what the statute requires.

- Lacks written policies and procedures for its financial operations. This makes it difficult to hold staff accountable and ensure that they carry out their responsibilities as the Board requires.

Recommendations

The Board should:

- Develop and implement policies and procedures for financial transactions to ensure that documentation is complete, duties are properly segregated, and transactions are appropriately approved.
- Ensure that its reports and records present a complete and accurate picture of its financial activities and position. Specifically, it should:
  - Implement a quality control process for preparing its financial statements. Board staff should examine financial data before submitting it to the contractor that prepares the annual financial statements.
  - Perform a quality control examination on the completed financial statements to detect and prevent errors.
  - Maintain supporting documentation for its financial activities in accordance with the state records retention policies.
- Establish an allowance for doubtful accounts, a bad debt expense account, criteria defining uncollectible accounts, and procedures to age accounts receivable to determine which accounts receivable are not likely to be collected.
- Periodically review its USAS user access capabilities, match user access with current job responsibilities, and revise necessary access accordingly.
- Implement a process to ensure that cash receipts are consistently deposited within three business days of receipt.

Management's Response

Management Comments: The Board agrees that proper documentation of all financial transactions and reports is necessary and has taken steps to ensure that required written records are created and preserved. The agency was without an accountant during the preparation of the Annual Financial Report for fiscal year 2002, which led to a number of the errors of omission cited by the SAO. Nevertheless, the Board accepts responsibility for the accuracy and completeness of its records.

The Board's responses to specific financial processes recommendations follow.

FINANCIAL PROCESSES RECOMMENDATIONS:

SAO Recommendation #2.1: Develop and implement policies and procedures for financial transactions to ensure that documentation is complete, duties are properly segregated, and transactions are appropriately approved.

Management Response: The Board agrees with the recommendation. The Chief Financial Officer, under the review and approval of the Executive Director, will be responsible for the immediate implementation of this recommendation to ensure the proper documentation and approval of all financial transactions. In addition, the CFO has begun reviewing the receipt and processing of funds and the associated updating of agency records so that an appropriate separation of duties can be established. The target date for the implementation of policies and procedures ensuring the proper separation of duties is December 1, 2003.

SAO Recommendation #2.2.0: Ensure that its reports and records present a complete and accurate picture of its financial activities and position. Specifically, it should:

SAO Recommendation #2.2.1: Implement a quality control process for preparing its financial statements. Board staff should examine financial data before submitting it to the contractor that prepares the annual financial statements.

Management Response: The Board agrees with the recommendation. The Chief Financial Officer has assumed responsibility for the preparation of the Annual Financial Report, effective immediately. The CFO has attended, and will attend, all meetings conducted by the Comptroller's Office to receive instructions and guidance for the preparation of the AFR. In addition, the CFO will meet individually with representatives of the Comptroller's Office as necessary to ensure that the agency's AFR is prepared in accordance with all Comptroller's Office instructions and requirements.

SAO Recommendation #2.2.2: Perform a quality control examination on the completed financial statements to detect and prevent errors.

Management Response: The Board agrees with the recommendation and will implement it immediately. The CFO and the Executive Director, working with the Comptroller's Office, will thoroughly review the AFR and associated working papers for accuracy and completeness before submitting the final report.

SAO Recommendation #2.2.3: Maintain supporting documentation for its financial activities in accordance with the state records retention policies.

Management Response: The agency agrees with, and has implemented, this recommendation effective September 1, 2003. The Chief Financial Officer is responsible for creating and/or maintaining all required supporting documentation for the agency's financial activities, in accordance with the state fiscal and records retention policies.

SAO Recommendation #2.3: Establish an allowance for doubtful accounts, a bad debt expense account, criteria defining uncollectible accounts, and procedures to age accounts receivable to determine which accounts receivable are not likely to be collected.

Management Response: The Board agrees with this recommendation. The CFO will implement the recommendation on or before November 20, 2003, in conjunction with the preparation and submittal of the Annual Financial Report for FY 2003, subject to approval by the Comptroller's Office.

SAO Recommendation #2.4: Periodically review its USAS user access capabilities, match user access with current job responsibilities, and revise necessary access accordingly.

Management Response: The Board agrees with the recommendation. The Executive Director and the Chief Financial Officer will review and revise all USAS access capabilities no later than November 30, 2003 to ensure that access rights match current job responsibilities.

SAO Recommendation #2.5: Implement a process to ensure that cash receipts are consistently deposited within three business days of receipt.

Management Response: The Board agrees with the recommendation. The Chief Financial Officer has already clarified with staff the requirement that all cash receipts be deposited no later than the third business day following the date of receipt and has instructed them to adhere to the requirement. A formal policy, with written procedures, will be issued by the CFO in conjunction with the issuance of the policy outlining the formal separation of duties concerning the handling of cash receipts and the updating of agency databases. This recommendation has been implemented informally, and will be implemented formally no later than December 1, 2003.

Chapter 3

The Board Has Not Implemented Certain Key Information Technology Controls to Protect the Security of Operational and Financial Data

Access and password control weaknesses associated with the Board's computer network could compromise the security of operational and financial data by allowing unauthorized users to gain access. Specifically:

- The Board has granted administrative access (the highest level of access) to three employees who do not work in information technology and do not require this level of access.
- The Board has not disabled 15 old user accounts.
- The Board has not instituted the following security features for passwords:
  - Standard password lengths
  - Forced password change at least every 90 days
  - Forced lockout after three failed attempts to enter a password

The Texas Administrative Code, Title 1, Section 202.2, requires state agencies to appropriately manage information resources to ensure only authorized use. Not developing and implementing a strong password security policy and not monitoring network access could result in unauthorized access to Board systems and applications.

Recommendations

The Board should:

- Ensure that it matches network access rights to employees' responsibilities and cancels old user accounts.
- Implement password security features including standard password lengths, forced password changes, and forced lockout.

Management's Response

The Board appreciates the audit team's work in identifying access and password control weaknesses in the agency's computer network. The Board's responses to the specific technology controls recommendations follow.

TECHNOLOGY CONTROLS RECOMMENDATIONS:

SAO Recommendation #3.1: Ensure that it matches network access rights to employees' responsibilities and cancels old user accounts.

Management Response: The Board agrees with the recommendation. The Executive Director and the Chief Financial Officer, working with the network support employee for the Texas Cosmetology Commission, will review all current accounts to ensure that all network access rights are appropriate. In addition, on or before November 17, 2003, a policy will be established to require the review and revision of network access rights anytime an employee is hired, transferred to new responsibilities, or leaves the agency.

SAO Recommendation #3.2: Implement password security features including standard password lengths, forced password changes, and forced lockout.

Management Response: The Board agrees with the recommendation. No later than December 1, 2003 the Executive Director and the Chief Financial Officer, working with the network support employee for the Texas Cosmetology Commission, will establish and implement password security features including standard password lengths, forced password changes, and forced lockout in accordance with system security functions available to the agency.

Appendix

Objective, Scope, and Methodology

Objective

Our objective was to determine whether the Board of Barber Examiners' (Board) processes and operations ensure that it is meeting statutory responsibilities, safeguarding resources, and complying with applicable laws and regulations. To accomplish that objective, we:

- Determined whether the Board's operational processes are effective and efficient.
- Determined whether the Board is complying with applicable laws and regulations.
- Determined whether the Board's financial processes ensure accurate, complete, and reliable financial information.

Scope

Our audit covered licensing, enforcement, and financial processes from fiscal years 2000 to 2003. Testing of transactions focused on fiscal years 2002 and 2003 and included licenses, revenues, expenditures, and journal vouchers. We also tested compliance with laws and regulations.

Methodology

The audit methodology consisted of collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests, and conducting interviews with the Board's management and staff.

<u>Information collected</u> included the following:

- Interviews with Board staff
- Board financial and operational files
- Automated data from the Board's licensing and enforcement system

<u>Procedures and tests conducted</u> included the following:

- Tests of expenditures, revenues, and journal voucher transactions to ensure accuracy
- Financial analysis of the Board's fiscal year 2002 Annual Financial Report
- Testing of licensing files for statutory compliance
- Review of controls over automated systems and tests of accuracy of the data

Criteria used included the following:

- Texas Occupations Code, Chapter 1601
- Texas Administrative Code, Title 22, Part 2, Chapter 51
- General Appropriations Act (77th Legislature)
- Board policies and procedures
- Comptroller of Public Accounts, *Reporting Requirements and Technical Guidance for Annual Financial Reports for State Agencies and State Colleges and Universities*, June 2002

Other Information

We conducted fieldwork from May 2003 through August 2003. This audit was conducted in accordance with generally accepted government auditing standards; there were no significant instances of noncompliance with these standards.

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

- Michael Dean, MPAff, CGAP, PMP (Project Manager)
- Beverly Bavousett, CPA (Assistant Project Manager)
- Lori Field
- Selvadas Govind, MPA, CIA
- Melissa Stice Larson, CIA, CISA
- Rebecca Tatarski
- Tony Patrick, MBA (Quality Control Reviewer)
- Sandra Vice, MPAff (Audit Manager)
- Frank Vito, CPA (Audit Director)

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Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Tom Craddick, Speaker of the House, Chair
The Honorable David Dewhurst, Lieutenant Governor, Vice Chair
The Honorable Teel Bivins, Senate Finance Committee
The Honorable Bill Ratliff, Senate State Affairs Committee
The Honorable Talmadge Heflin, House Appropriations Committee
The Honorable Ron Wilson, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Board of Barber Examiners

Mr. William 'Kirk' H. Kuykendall, Chair
Mr. Wayne Moore, Vice Chair
Mr. Ronald L. Brown, Board Member
Ms. Janie C. Garza, Board Member
Ms. Taren E. Hollister, Board Member
Ms. Janis E. Wiggins, Board Member
Dr. Douglas Beran, Executive Director