



# VIRGINIA LOTTERY

  

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
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## AUDIT SUMMARY

Our audit of the Virginia Lottery for the year ended June 30, 2019, found:

- the financial statements are presented fairly, in all material respects;
- an internal control finding requiring management's attention; however, we do not consider it to be a material weakness; and
- one instance of noncompliance or other matters required to be reported under Government Auditing Standards.

We have audited the basic financial statements of the Virginia Lottery as of and for the year ended June 30, 2019, and issued our report thereon, dated October 23, 2019. Our report is included in the Virginia Lottery's Annual Report that it anticipates releasing on or around January 2020.

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## STATUS OF PRIOR YEAR FINDINGS

### **Improve Server Operating System Security**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued in fiscal year 2018)

Lottery made progress to remediate weaknesses since the prior year audit for one of the server operating systems that support Lottery's primary financial management system but continues to implement the remaining security controls. These missing controls are requirements in Lottery's information security policies and the Commonwealth's Information Security Standard, SEC 501 (Security Standard). Further, industry best practices, such as the Center for Internet Security (CIS), also recommend certain controls to protect data confidentiality, integrity, and availability.

The missing controls relate to least functionality and system monitoring. We communicated details about the specific control weaknesses to management in a separate document marked Freedom of Information Act Exempt under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

Not configuring the server according to least functionality and using inadequate monitoring controls increases the risk that Lottery will not be able to prevent, detect, or mitigate security incidents involving the server in a timely manner that also complies with Lottery's policy and the Security Standard.

Lottery should update their server configuration process to include the missing controls so that they align with Lottery's policy, the Security Standard, and industry best practices. Implementing these controls will help maintain the confidentiality, integrity, and availability of the sensitive and mission critical data stored and processed on the server.



# Commonwealth of Virginia

*Auditor of Public Accounts*

Martha S. Mavredes, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

October 23, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit  
And Review Commission

Virginia Lottery Board  
Virginia Lottery

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the **Virginia Lottery** as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Virginia Lottery's basic financial statements, and have issued our report thereon dated October 23, 2019.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Virginia Lottery's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Virginia Lottery's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting entitled “Improve Server Operating System Security,” which are described in the section titled “Status of Prior Year Findings,” that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Virginia Lottery’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled “Status of Prior Year Findings” in the finding entitled “Improve Server Operating System Security.”

### **The Virginia Lottery’s Response to Findings**

We discussed this report with management at an exit conference held on November 13, 2019. The Virginia Lottery’s response to the findings identified in our audit is described in the accompanying section titled “Agency Response.” The Virginia Lottery’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Status of Prior Findings**

The Virginia Lottery has not taken adequate corrective action with respect to the previously reported finding “Improve Server Operating System Security.” Accordingly, we included this finding in the section entitled “Status of Prior Year Findings.” The Virginia Lottery has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Audit Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martha S. Mavredes  
AUDITOR OF PUBLIC ACCOUNTS

KJS/clj



November 6, 2019

Martha S. Mavredes, CPA  
Auditor of Public Accounts  
101 North 14th Street  
Richmond, Virginia 23219

Dear Ms. Mavredes:

Thank you for this opportunity to respond to the annual audit of the Virginia Lottery for the year ended June 30, 2019.

As noted in your Status of Prior Year Findings, the Lottery made progress in applying the noted controls to the server supporting our primary financial system during the fiscal year. The few remaining controls were applied and implemented by September 12, 2019.

As is the case every year with your audit, I am reassured that the combination of the Lottery's commitment and thorough APA reviews will continue to safeguard the Lottery's assets and the integrity of Lottery systems.

The Lottery remains committed to continuous improvement, integrity, and the security of all of our operations.

Sincerely,

Kevin Hall

c: Mr. Ferhan Hamid, Chairman, Virginia Lottery Board  
Ms. Cynthia Lawrence, Chairman, Virginia Lottery Board Audit Committee



## **VIRGINIA STATE LOTTERY DEPARTMENT**

As of June 30, 2019

Kevin Hall  
Executive Director

### **BOARD MEMBERS**

Ferhan Hamid  
Chairman

Scott A. Price  
Vice Chairman

Christopher Tsui

Cynthia D. Lawrence