



# VIRGINIA ALCOHOLIC BEVERAGE CONTROL AUTHORITY

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## AUDIT SUMMARY

Our audit of the Virginia Alcoholic Beverage Control Authority (ABC) for the year ended June 30, 2018, 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 material weaknesses; and
- an instance of noncompliance or other matters required to be reported under Government Auditing Standards.

We have audited the basic financial statements of the Virginia Alcoholic Beverage Control Authority as of and for the year ended June 30, 2018, and issued our report thereon, dated October 15, 2018. Our report is included in the ABC's Annual Report that it anticipates releasing in December 2018.

## –TABLE OF CONTENTS–

### Pages

AUDIT SUMMARY

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

1

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

2-4

AGENCY RESPONSE

5

AGENCY OFFICIALS

6

## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Improve Logical Access Controls for Users with Privileged Access**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

ABC's account management processes for users with privileged access, such as database administrators, developers, and security analysts, does not meet certain minimum requirements in the Commonwealth's Information Security Standard, SEC 501 (Security Standard). ABC's currently legacy systems make it difficult to automate account management or achieve consistency across its technology infrastructure. ABC became an Authority on January 1, 2018, and, as such, will have autonomy from following the requirements in the Security Standard beginning October 1, 2018. After this date, ABC plans to develop and implement new policies and procedures based on the National Institute of Standards and Technology (NIST) Standard, 800-53 (NIST Standard).

We addressed specific control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under §2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The Security Standard requires agencies to implement specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability.

ABC should remediate the weaknesses discussed in the communication marked FOIAE in a timely manner, and ensure they meet all the requirements in the NIST Standard as they transition away from the Security Standard.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

October 15, 2018

The Honorable Ralph S. Northam  
Governor of Virginia

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

Alcoholic Beverage Control Board  
Virginia Alcoholic Beverage Control Authority

## 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 Alcoholic Beverage Control Authority** (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 15, 2018.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 a deficiency in internal control over financial reporting entitled "Improve Logical Access Controls for Users with Privileged Access," which is described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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 an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the section titled "Internal Control and Compliance Findings and Recommendations" in the finding entitled "Improve Logical Access Controls for Users with Privileged Access."

### **The Authority's Response to Findings**

We discussed this report with management at an exit conference held on October 31, 2018. The Authority's response to the findings identified in our audit is described in the accompanying section titled "Agency Response." The Authority'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 Authority has taken adequate corrective action with respect to audit findings reported in the prior year.

### **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.

AUDITOR OF PUBLIC ACCOUNTS

KKH/vks



October 31, 2018

Ms. Martha Mavredes, CPA  
Auditor of Public Accounts  
101 N. 14<sup>th</sup> Street  
Richmond, VA 23219

Dear Ms. Mavredes,

Attached are the Virginia Alcohol Beverage Control Authority (Virginia ABC) responses to the audit for fiscal year ended June 30, 2018. Virginia ABC appreciates the opportunity to respond to the findings noted and to strengthen our controls based on the recommendations. Our responses to the findings in the Report on Internal Controls follows.

**Improve Logical Access Controls for Users with Privileged Access**

Virginia ABC concurs with the finding. There are multiple efforts underway to modernize our information system technology to comply with industry best practices. Additionally, Virginia ABC is in the process of drafting new security policies and procedures that will address the proper management of users with privileged access. While the technology modernization will span multiple fiscal years, Virginia ABC expects new security policies and procedures to be implemented by the end of FY19. Virginia ABC will update our progress, on a quarterly basis, with the Virginia Department of Accounts (DOA).

Sincerely,

A handwritten signature in black ink, appearing to read "Travis G. Hill".

Travis G. Hill  
Chief Executive Officer





## **ALCOHOLIC BEVERAGE CONTROL AUTHORITY**

As of June 30, 2018

### **BOARD OF DIRECTORS**

Jeffrey Painter, Chairman

Maria J. K Everette, Vice Chairman

Beth Hungate-Noland, Member

Mark Rubin, Member

### **OFFICIALS**

Travis Hill, Chief Executive Officer

John Daniel, Government Affairs Officer

Cort Kirkley, Chief Administrative Officer

Jeff Reeder, Chief Retail Operations Officer

Paul Williams, Chief Information Officer

William Wirt, Chief Communications and Research Officer

Tom Kirby, Chief Enforcement Officer