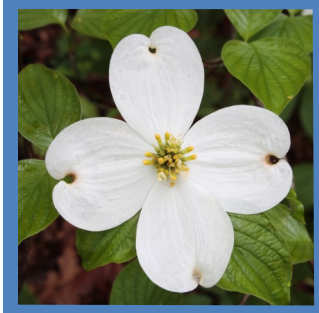


VIRGINIA LOTTERY

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2024

Auditor of Public Accounts
Staci A. Henshaw, CPA
www.apa.virginia.gov
(804) 225-3350

AUDIT SUMMARY

We have audited the basic financial statements of Virginia Lottery as of and for the year ended June 30, 2024, and issued our report thereon, dated October 29, 2024. Our report, included in Virginia Lottery's Annual Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at Virginia Lottery's website at www.valottery.com. Our audit found:

- the financial statements are presented fairly, in all material respects;

- three internal control findings requiring management's attention that also represent instances of noncompliance or other matters required to be reported under Government Auditing Standards; however, we do not consider them to be material weaknesses; and

- adequate corrective action with respect to prior audit findings and recommendations identified as complete in the Findings Summary included in the Appendix.

In the section titled "Internal Control and Compliance Findings and Recommendations" we have included our assessment of the conditions and causes resulting in the internal control and compliance findings identified through our audit as well as recommendations for addressing those findings. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the findings and develop and appropriately implement adequate corrective actions to resolve the findings as required by the Department of Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendations.

– TABLE OF CONTENTS –

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Procedures and Process for Oversight of Third-Party IT Service Providers
Type: Internal Control and Compliance
Severity: Significant Deficiency
First Issued: 2023

The Virginia Lottery (Lottery) does not have certain elements in its policies and process to consistently maintain oversight of its information technology (IT) third-party service providers (providers) in accordance with the Commonwealth's updated Information Security Standard, SEC530 (Security Standard). Since the prior audit, Lottery made progress by updating its list of providers and drafting a Systems and Services Acquisitions policy, which includes requirements for maintaining the providers list and creating a Cloud Terms and Conditions agreement template (Cloud Terms Agreement) with information security requirements. However, as of the end of fiscal year 2024, the following weaknesses still exist:

- Lottery has not documented its process to maintain a list of providers to verify its accuracy and completeness. Without documenting the process to maintain an accurate list of all providers, Lottery may be unable to validate all providers are complying with contractual requirements and implementing security controls to protect Lottery's sensitive data (Security Standard, sections: CA-3 Information Exchange, CA-3-COV*).*

- Lottery has not formally documented its policy and procedure that outlines contractual agreement language requirements for providers based on the service procured. While Lottery created a Cloud Terms Agreement, it lacks a formal policy and procedure to enforce the application to new procurements and renewals with existing providers. The Security Standard requires Lottery to include specific requirements, descriptions, and criteria in the acquisition contract for an information system, system component, or information system service. A formal policy and process will help Lottery ensure the consistent application of contractual language requirements to provider agreements, to assist with protecting sensitive Lottery data. Also, a Cloud Terms Agreement will allow Lottery to require providers to give Lottery documentation that verifies compliance with Lottery's internal policies and the Security Standard, ensuring implementation of specific security measures (Security Standard, section: SA-4 Acquisition Process).

- Lottery has not contractually required all its providers to provide independent audit assurance reports on an annual basis nor has Lottery conducted annual security audits or reviews of all providers' independent audit assurance reports. Since the prior year audit, Lottery conducted annual reviews of independent audit assurance reports for four of its 20 (20%) providers and subservice providers. Lottery's Security Operation Control Report Review Process requires, in accordance with the Security Standard, Lottery to perform or review the results of an annual security audit of the environment of its service providers. Without conducting an annual review of the independent audit assurance reports for all

providers, Lottery is unable to verify the providers implemented the necessary security controls and processes as required by the contract agreements and the Security Standard to protect Lottery's sensitive data. Additionally, Lottery is unable to review the list of complimentary controls traditionally included in a provider's independent audit assurance report to determine whether Lottery needs to implement applicable security controls to mitigate potential risks (Security Standard, sections: SA-9-COV-3 External System Services).

- Lottery has not contractually restricted the location of information processing, data, and information system services to locations within the continental United States (U.S.), nor have they formally documented processes to monthly confirm the exact location of sensitive data after implementation. By not restricting its data to the U.S. borders and confirming the location of its data monthly, Lottery increases the risk that its data may be offshored and not governed by Commonwealth and U.S. laws and regulations (Security Standard, sections: SA-9-COV-1, SA-9-COV-3 External System Services).

- Lottery has not contractually required its providers to provide vulnerability scan reports at least every 90 days, nor has Lottery formally documented its process to review the vulnerability scan reports to verify providers are applying patching and mitigation efforts in a timely manner in accordance with its internal policies and the Security Standard. By not requiring the vulnerability scan reports and enforcing remediation requirements, Lottery increases its risk of being subject to a successful cyberattack, exploit, and data breach in its providers' environments (Security Standard, sections: SA-9-COV-1, SA-9-COV-3 External System Services).

- Lottery has not established a data escrow policy to address the data recovery process in case of system failure or facility issues to ensure providers return all copies of data to Lottery at the end of the contract. Without establishing a data escrow policy or other exit plan, Lottery is at risk of not having its data recovered or removed from the providers systems at the end of the contract (Security Standard, section SA-9-COV-2 External System Services).

Lottery's delay in completing corrective action is due to focusing its resources to revise its formal policies and procedures to align with the updated version of the Security Standard, effective March 2024, including requirements for Lottery's acquisition and oversight of its providers. Additionally, Lottery has not completed contract negotiations to apply the new Cloud Terms Agreement with all providers as of the end of the fiscal year.

Lottery should continue to improve its policies and procedures to align with the Security Standard and outline its requirements and process for consistently procuring and maintaining oversight of its providers on an ongoing basis. Employing appropriate processes, methods, and techniques to monitor providers' security control compliance on an ongoing basis will help address the weaknesses listed above and ensure the confidentiality, integrity, and availability of Lottery's sensitive and mission-critical data.

Review and Update Information Security Policies and Procedures
Type: Internal Control and Compliance
Severity: Significant Deficiency

Lottery has not annually reviewed and updated several of its information security policies and procedures and as a result, the documents do not reflect the requirements of the Security Standard. The Virginia Information Technologies Agency updated the Security Standard in September 2023 with a compliance date of March 31, 2024, superseding the previous Security Standard, SEC501, and Hosted Environment Information Security Standard, SEC525. Specifically, Lottery did not annually review policies and procedures ranging from password and firewall management to information system access, logging, and monitoring. Lottery's last review of the policies range from May 2019 to January 2023.

The Security Standard requires Lottery to perform a review of information technology (IT) policies on an annual basis or more frequently if required to address environmental changes (Security Standard, sections: AC-1, AU-1, CM-1, and IA-1). By not having current policies and procedures, Lottery increases the risk that its control and process requirements do not align with the Security Standard's requirements and staff are not able to perform security procedures consistently.

In response to the publication of the new Security Standard, Lottery decided to combine all existing policies and procedures into one master document. Lottery's review is taking longer than expected and other competing priorities led to Lottery not completing updates to its policies and procedures. Lottery should continue reviewing and updating its information security policies, and procedures to ensure the documents align with the Security Standard. Lottery should also implement a process to consistently review its policies and procedures annually as required by the Security Standard, which will help to protect the confidentiality, integrity, and availability of Lottery's mission-critical and sensitive data.

Improve IT Asset Management Documentation and Process
Type: Internal Control and Compliance
Severity: Significant Deficiency

Lottery does not include certain elements in its IT asset management policies and procedures as required by the Commonwealth's Removal of Commonwealth Data and Electronic Media Standard, SEC514 (Data Removal Standard). Additionally, Lottery does not consistently implement all requirements outlined in its Surplus Property Policy, its Surplus Property Procedure, and the Data Removal Standard. We communicated four 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 Data Removal Standard requires Lottery to require and implement certain controls to safeguard the disposal of IT assets. By not implementing the controls in the Data Removal Standard and its Surplus Property Policy and Surplus Property Procedure, Lottery increases the risk of not removing all data or making the data unreadable prior to surplus and disposal. As a result, Lottery may inadvertently surplus IT assets with sensitive information that is accessible to external parties.

Lottery's absence of requirements in its Surplus Property Policy and Surplus Property Procedure occurred due to Lottery not performing annual reviews of its policies and procedures, as mentioned in a separate finding. Additionally, while Lottery does have a policy in place, Lottery was not fully adhering to its policy during the period of review.

Lottery should review and revise its Surplus Property Policy and Surplus Property Procedure to meet the requirements of the Data Removal Standard. Lottery should also improve its IT asset management documentation and process to address the weaknesses identified in the communication marked FOIAE. This will increase Lottery's security posture and help protect the confidentiality, integrity, and availability of sensitive and mission critical data.

Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 29, 2024

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Virginia Lottery Board
Virginia Lottery

Khalid Jones
Executive Director, 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 governmental activities, the business-type activities, and each major fund of **Virginia Lottery** as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Virginia Lottery's basic financial statements, and have issued our report thereon dated October 29, 2024.

Report on Internal Control Over Financial Reporting

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

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 that we consider to be material weaknesses. We did identify certain deficiencies in internal control titled "Improve Procedures and Process for Oversight of Third-Party IT Service Providers," "Review and Update Information Security Policies and Procedures," and "Improve IT Asset Management Documentation and Process," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. 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 "Internal Control and Compliance Findings and Recommendations," in the findings titled "Improve Procedures and Process for Oversight of Third-Party IT Service Providers," "Review and Update Information Security Policies and Procedures," and "Improve IT Asset Management Documentation and Process."

Virginia Lottery's Response to the Findings

We discussed this report with management at an exit conference held on December 2, 2024. Government Auditing Standards require the auditor to perform limited procedures on Virginia Lottery's response to the findings identified in our audit, which is included in the accompanying section titled "Virginia Lottery Response." Virginia Lottery's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Status of Prior Findings

Virginia Lottery has not taken adequate corrective action with respect to the prior reported finding identified as ongoing in the Findings Summary included in the Appendix. Virginia Lottery has taken adequate corrective action with respect to prior audit findings identified as complete in the Findings Summary included in the Appendix.

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 Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

LDJ/clj

FINDINGS SUMMARY

Finding Title	Status of Corrective Action	First Reported for Fiscal Year
Improve Database Security	Complete	2023
Improve System Access Policies and Procedures for Critical Systems	Complete	2023
Improve Procedures and Process for Oversight of Third-Party IT Service Providers	Ongoing	2023
Review and Update Information Security Policies and Procedures	Ongoing	2024
Improve IT Asset Management Documentation and Process	Ongoing	2024

*A status of **Complete** indicates adequate corrective action taken by management. **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.

GLENN YOUNGKIN, GOVERNOR | KHALID REEDE JONES, EXECUTIVE DIRECTOR
Virginia Lottery | 600 E. Main St. | Richmond, VA 23219 | ph: 804.692.7100 | valottery.com

December 9, 2024

Ms. Staci A. Henshaw, CPA
The Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Re: Virginia Lottery Fiscal Year 2024 Internal Control Report

Dear Ms. Henshaw,

Thank you for the opportunity to respond to the annual audit of the Virginia Lottery for the year ended June 30, 2024. I appreciate the thorough work of your team and the APA's recommendations. Below please find the Lottery's response to the items included in your report.

Improve Procedures and Process for Oversight of Third-Party IT Service Providers
The Lottery continues to improve our third-party provider oversight program, but work remains to fully comply with the recently updated Information Security Standard requirements. Our approach involves both establishing baseline contract terms and conditions, as well as prioritizing the major third-party service providers for incorporation of requirements and monitoring protocols. Due to the scope of work, full corrective actions are not expected to be complete until June 30, 2026. Corrective action plans will include interim milestones to monitor ongoing progress to full compliance. That being said, we are moving with the utmost alacrity in this category to hasten that timeline as much as possible while ensuring complete alignment with the Standards.

Review and Update Information Security Policies and Procedures
In response to the new VITA Information Security Standards (effective March 2024), the Lottery has made a substantive change to consolidate and update all information security policies and procedures to ensure they both comply with the requirements and provide the best and most effective approach to secure operations. We expect that this process will be complete by June 30, 2025.

Improve IT Asset Management Documentation and Process
While IT Asset Management will be part of the overall update to the Lottery's information security policies and procedures, the execution of IT asset management and disposal will include documentation of completion of the key requirements included in the policy. We anticipate that this process will be complete by June 30, 2025.

The Virginia Lottery remains diligently committed to continuous improvement, integrity, and effective accountability over all our business functions and regulatory responsibilities, including compliance with information security standards.

Respectfully,

Khalid R. Jones