



VIRGINIA DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the Department of Alcoholic Beverage Control (ABC) for the year ended June 30, 2015, found:

- the financial statements are presented fairly, in all material respects;
- internal control findings requiring management's attention; however, we do not consider them to be material weaknesses; and
- instances of noncompliance or other matters required to be reported under Government Auditing Standards.

We have audited the basic financial statements of the Department of Alcoholic Beverage Control as of and for the year ended June 30, 2015, and issued our report thereon, dated September 30, 2015. Our report is included in the ABC's Annual Report that it anticipates releasing in December 2015.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Implement Automated User Access System

In 2013, we recommended ABC improve their internal review of user access across their many systems. The lack of review put ABC at risk for undetected and unauthorized changes to system data, which could result in an increase of fraud and abuse risk. In response, ABC conducted a manual user access review in April of 2014, finding the process labor intensive and time consuming. As a result, they commenced development of an internal system called Identity Manager. The system includes functionality that allows business system owners to access and conduct system reviews and cross system reviews with ease. Unfortunately, due to low prioritization of this project in addition to other obligations placed on ABC's Information Technology Staff, Identity Manager was not fully implemented.

We understand it is the ABC's goal to have the application complete by March 2016 and we recommend they allocate the appropriate amount of resources needed to complete this project as scheduled.

Improve Web Application Security

ABC does not secure the agency's website with some of the minimum security controls required by the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard). Their new website allows citizens to purchase alcohol products, apply for an alcohol license, and review store and product information.

We addressed specific control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 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 dedicate the necessary resources to implement the additional controls discussed in the communication marked FOIAE in accordance with the Security Standard in a timely manner.

Finalize Security Exception Requests for Unsupported Databases

ABC continues to operate two unsupported databases that contain sensitive information without having an approved security exception request. Exception requests, which outline temporary compensating controls, are valid for one year at a time. This is the second consecutive year that ABC has been in the process of applying for an exception request with the Virginia Information Technologies Agency (VITA).

The Security Standard, Section 1.5, requires that agency heads submit a request to deviate from specific Security Standard requirements, also known as a COV Information Security Policy &

Standard Exception Request, and outline the proposed mitigating safeguards to compensate for any control weaknesses.

Without an approved exception request from VITA, ABC does not have an independently verified and accepted compensating method to protect data confidentiality, integrity, and availability in the two databases. Operating these databases with unsupported software and without approved mitigating safeguards increases the risk of a data breach through an attack that exploits known vulnerabilities in an unpatched or outdated system.

ABC executive management made a decision to accept the risks of running unsupported databases and apply for the security exception requests. ABC determined the applications utilizing the unsupported databases will not support an upgrade without a significant impact to the business. Also, during the process of reviewing ABC's security exception requests VITA determined ABC must implement two additional security requirements before VITA will formally approve them.

While ABC has implemented certain compensating controls, it should continue working with VITA and implement the remaining two additional security requirements in order to receive approval for the Security Standard exception request. ABC should also prioritize the upgrade efforts to ensure the database versions are running on current releases that continuously patch known vulnerabilities.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 30, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
And Review Commission

Alcoholic Beverage Control Board
Department of Alcoholic Beverage Control

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 **Department of Alcoholic Beverage Control (ABC)** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise ABC's basic financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ABC'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 ABC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ABC'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 identified certain deficiencies in internal control over financial reporting entitled “Implement Automated User Access System,” “Improve Web Application Security,” and “Finalize Security Exception Requests for Unsupported Databases,” 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 ABC’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 “Internal Control and Compliance Findings and Recommendations” in the findings entitled “Improve Web Application Security,” and “Finalize Security Exception Requests for Unsupported Databases.”

ABC’s Response to Findings

We discussed this report with management at an exit conference held on October 23, 2015. ABC’s response to the findings identified in our audit is described in the accompanying section titled “Agency Response.” ABC’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

ABC has not taken adequate corrective action with respect to the previously reported finding titled “Finalize Security Exception Requests for Unsupported Databases.” Accordingly, we included this findings in the section entitled “Internal Control and Compliance Findings and Recommendations.” ABC 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.

AUDITOR OF PUBLIC ACCOUNTS

KKH/alh



COMMONWEALTH of VIRGINIA

Department of Alcoholic Beverage Control

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November 12, 2015

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

Dear Ms. Mavredes:

Attached are the Department of Alcoholic Beverage Control's (ABC) responses to the audit for the Fiscal Year ending June 30, 2015. As in prior years, the Department appreciates the professionalism of your staff and their diligence in assisting our Leadership Team in identifying opportunities for improvement in our internal control framework. Our responses to the findings in the Report on Internal Controls follow.

Implement Automated User Access System

ABC recognizes the need for user access reviews, and the business owners at ABC are currently conducting periodic reviews of user access to their systems. And as stated, ABC did conduct one cross system access review in FY 14.

As the APA has recognized, ABC has made substantial progress since the original finding was identified. ABC is mitigating its risk by eliminating network and VPN access for separated employees, and has also completed development of nearly 80% of the Identity Manager functionality necessary to standardize user access reviews and conduct cross system reviews. Beginning in November 2015, ABC will have the resources available to begin to complete the final functionality for Identity Manager. We hope to have the application complete by March 2016. Finally, ABC maintains a separation checklist, initiated by the separated employee's supervisor, that ensures agency supplied equipment is returned and serves as a vehicle to initiate system access removal. This process further mitigates ABC's risks involving separated employees as noted above.

Improve Web Application Security

ABC is currently addressing the website security concerns identified by the APA. ABC has already internally remediated one of the issues, is in process of addressing more long term solutions for the remaining 4 items with solutions planned for January 2016, and has implemented some interim, compensating controls to address the residual risk.


ABC is currently in the procurement process for Phase 2 of the website redesign project, and the project should begin in December 2015. The remaining security issues that internal ABC personnel are not addressing are included in the requirements for Phase 2 of the web redesign and will be incorporated into the second phase of the project.

Finalize Security Exception Requests for Unsupported Databases

ABC applied to VITA for two Security Exception Requests on May 8, 2015. Initially, ABC had obtained verbal approval; VITA then subsequently asked that two additional requirements be completed before VITA will formally grant the exceptions. ABC has completed one of the requirements and is in the process of completing the other. VITA has again provided a provisional verbal approval and we hope to have the formal, written approval in December 2015.

As the APA has stated, ABC has implemented several compensating controls to mitigate the risks and is in the process of replacing the applications that reside on the servers.

Sincerely,



Jeffrey L. Painter
Chairman

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

BOARD MEMBERS

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Commissioner

OFFICIALS

As of June 30, 2015

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