



DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, 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, 2017, and issued our report thereon, dated October 2, 2017. Our report is included in the ABC's Annual Report that it anticipates releasing in December 2017.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Database Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

ABC does not secure two sensitive systems supporting databases with certain minimum security controls required by the Commonwealth's Information Security Standard, SEC 501-09, (Security Standard) and industry best practices. We communicated the control weaknesses to management in separate documents marked Freedom of Information Act (FOIA) Exempt under §2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The Security Standard and industry best practices require the implementation of certain controls that reduce unnecessary risk to data confidentiality, integrity and availability in systems processing or storing sensitive information. ABC should test and implement the controls discussed in the documents marked FOIA Exempt in accordance with the Security Standard and industry best practices in a timely manner.

Upgrade or Decommission End-of-Life Operating Servers

Type: Internal control and Compliance

Severity: Significant Deficiency

Repeat: Yes

Prior Title: Develop and Adopt a Comprehensive IT Strategic Plan to Modernize Systems

ABC has several production servers running end-of-life operating systems in their information technology environment. The Commonwealth's Information Technology (IT) Infrastructure Partnership with Northrop Grumman (Partnership) provides agencies with installation, maintenance, operation, and support of IT infrastructure components, including server operating systems. Due to the age of ABC's applications, they will not run on current server operating systems. Therefore, the Partnership cannot upgrade the server operating systems until ABC upgrades their application software components.

The Security Standard, section SI-2-COV, prohibits the use of products designated as "end-of-life" by the vendor. A product that has reached its end-of-life no longer receives critical security updates that rectify known vulnerabilities that malicious parties can be exploit. Using unsupported server operating systems increases the risk that existing vulnerabilities will persist in the server operating systems without the potential for patching or adequate mitigation. These unpatched vulnerabilities increase the risk of cyberattack, exploit, and data breach by malicious parties. Additionally, vendors do not offer operational and technical support for server operating systems designated as end-of-life, which increases the difficulty of restoring system functionality if a technical failure occurs.

ABC is aware of this issue and has plans in place to upgrade or decommission the end-of-life server operating systems by the end of calendar year 2017. ABC should continue to upgrade or decommission all of the end-of life server operating systems as soon as possible. Doing this will further reduce the risk to the confidentiality, integrity, and availability of sensitive Commonwealth data and achieve compliance with 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 2, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
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, 2017, and the related notes to the financial statements, which collectively comprise ABC's basic financial statements, and have issued our report thereon dated October 2, 2017.

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 did identify certain deficiencies in internal control over financial reporting entitled "Improve Database Security" and "Upgrade or Decommission End-of-Life Operating Servers," 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 Database Security" and "Upgrade or Decommission End-of-Life Operating Servers."

ABC's Response to Findings

We discussed this report with management at an exit conference held on November 2, 2017. 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 "Upgrade or Decommission End-of-Life Operating Servers." Accordingly, we included this finding 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/clj



COMMONWEALTH of VIRGINIA

Department of Alcoholic Beverage Control

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November 2, 2017

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

Dear Ms. Mavredes,

Attached are the Virginia Department of Alcoholic Beverage Control's (VABC) responses to the audit for the fiscal year ended June 30, 2017. VABC 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 follow.

Improve Database Security

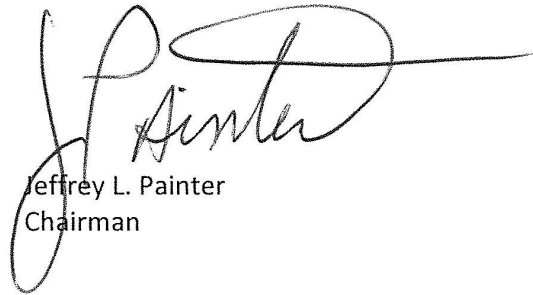
VABC concurs that database security is an important component of our internal control framework. VABC recently upgraded our primary databases to the most current version; after the upgrade, VABC requested that the APA review the databases to ensure that we had the proper hardening and controls implemented. The APA provided a list of potential deficiencies and benchmark standards. VABC has implemented the controls and configurations that we were able to, and for any that may remain, VABC will document our business need, will explore mitigating, compensating controls, and will pursue security exceptions as may be necessary.

ABC has recently hired an Enterprise Data Manager that will greatly aid VABC in continuing to implement and enhance controls.

Upgrade or Decommission End-of-Life Operating Servers

VABC was aware of this issue and has upgraded or decommissioned the identified end-of-life server operating systems since the conclusion of the audit. VABC has made a concerted and substantial effort over the past year to replace, upgrade, and decommission end-of-life server operating systems and by the time of the audit had already decommissioned six servers to include an upgrade of all of our Oracle databases to supported versions. ABC's effort is now complete. Additionally, we continue to a vulnerability scan report to act as a targeted effort to ensure no systems are excluded and we are aware of our portfolio landscape.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Painter", with a long horizontal flourish extending to the right.

Jeffrey L. Painter
Chairman

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

As of June 30, 2017

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Chairman

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Commissioner

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Chief Operating Officer