



VIRGINIA LOTTERY

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2025

Auditor of Public Accounts
Staci A. Henshaw, CPA

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AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Lottery as of and for the year ended June 30, 2025, and issued our report thereon, dated December 12, 2025. Our report, included in the Virginia Lottery's Annual Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the Virginia Lottery's website at www.valottery.com. Our audit found:

- the financial statements are presented fairly, in all material respects;
- four matters involving internal control and its operation requiring management's attention that also represent instances of noncompliance with applicable laws and regulations that are 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 the prior audit finding 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.

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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 Reported: Fiscal Year 2023

The Virginia Lottery (Lottery) made progress with its corrective action by documenting and approving a Systems and Services Acquisition Policy (Acquisition Policy), effective June 12, 2025, and a Cloud Terms and Conditions contract addendum (Cloud Contract Addendum) to govern its maintenance and oversight of its information technology (IT) third-party service providers (providers) in accordance with the Commonwealth's Information Security Standard, SEC530 (Security Standard). However, Lottery did not ensure all current service acquisition policies and procedures align with the Security Standard nor did it consistently implement the approved Cloud Contract Addendum, resulting in the following issues remaining:

- Lottery's Acquisition Policy, which should align with the Security Standard, does not address maintaining a list of providers nor does Lottery have documented procedures for verifying the accuracy and completeness of the list. Without a formal policy and documented procedures to maintain an accurate list of all providers, Lottery is unable to validate all providers are complying with their contractual requirements, including implementing security controls to protect Lottery's sensitive data. Lottery elected to delay creating related policies and procedures until it developed a complete and accurate list of providers and determined the best procedures for maintaining the list in the future.
- Lottery created language within its Cloud Contract Addendum to contractually require providers to follow the Security Standard and its Acquisition Policy, but Lottery did not apply the Cloud Contract Addendum to its existing providers operating under a current contract. The Security Standard and Lottery's Acquisition Policy requires Lottery to include specific requirements, descriptions, and criteria in the acquisition contract for the information system, system component, or information system service. This includes, but is not limited to, strength of mechanism requirements, security and privacy assurance requirements, security and privacy documentation requirements, and requirements for protecting security and privacy documentation. Without requiring a Cloud Contract Addendum to ensure the consistent application of contractual language requirements to provider agreements, Lottery's agreements may not include requirements to protect Lottery's sensitive data. Also, Lottery may not be able to compel a provider to give Lottery certain documentation to verify the provider implemented specific security measures to comply with the Security Standard and Lottery's Acquisition Policy.
- Lottery's Cloud Contract Addendum includes language to require its providers to supply Lottery with independent audit assurance reports on an annual basis, but Lottery does not apply nor enforce this contractual requirement to its existing providers. Additionally, Lottery

does not conduct annual security audits nor review independent audit assurance reports for certain providers. Lottery's Security Operation Control Report Review Process requires, in accordance with the Security Standard, Lottery to perform an annual security audit of the environment or review the annual audit report of the environment conducted by an independent, third-party audit firm on an annual basis. Without applying and enforcing contractual language to obtain annual independent audit assurance from providers, Lottery is unable to consistently conduct reviews to verify whether providers implemented the necessary security controls and processes as required by the contract agreements. Additionally, Lottery is unable to review the list of complementary controls typically included in a provider's independent audit assurance report to determine whether Lottery needs to implement applicable security controls to mitigate potential risks.

- Lottery's Cloud Contract Addendum includes contractual language that providers, consistent with Lottery's Acquisition Policy, can only process, transmit, and store Lottery's sensitive information within the borders of the continental United States (U.S.). Additionally, providers are to confirm to Lottery monthly the exact location of its sensitive data. However, Lottery does not apply and enforce this contractual language to its existing providers. By not restricting its data to the continental U.S., 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.
- Lottery's Cloud Contract Addendum includes contractual language, consistent with Lottery's Acquisition Policy, to require its providers to supply Lottery with the outputs of vulnerability scan reports at least every 90 days, but Lottery does not apply and enforce its Cloud Contract Addendum requirement to existing providers. The Acquisition Policy also requires Lottery to review the vulnerability scan reports provided by the vendor, but Lottery has not implemented a procedure to review the vulnerability scan reports to verify providers are applying patching and mitigation efforts in a timely manner in accordance with the contractual requirements. By not obtaining and reviewing the vulnerability scan reports and enforcing remediation requirements, Lottery increases its risk of being impacted by a successful cyberattack, exploit, and data breach in its providers' environments.
- Lottery's Cloud Contract Addendum includes a data escrow requirement and an exit plan 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; however, Lottery does not apply this requirement to its existing providers. Without a data escrow requirement with an exit plan, Lottery is at risk of not having its data recovered as needed or ensuring the data is removed from the providers systems at the end of the contract.

Lottery made significant progress to complete the foundational steps of corrective action for the prior year finding, but Lottery's focus to revise its formal policies and procedures to align with the updated version of the Security Standard shifted resources away from efforts to implement and enforce the Acquisition Policy through appropriate contract language modifications.

Lottery should continue to implement its policies, procedures, and processes to maintain oversight of all new and existing providers. Lottery should include, as part of its policies and procedures, a formal process for maintaining the list of providers to ensure it is accurate and current. Additionally, Lottery should apply the Cloud Contract Addendum to all necessary contracts to communicate security control expectations, and ensure providers fulfill their contractual obligations. Furthermore, Lottery should request and evaluate the necessary security documentation from each of its providers to ensure the provider has effective operating controls to protect Lottery's sensitive data. 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.

Improve Wireless Local Area Network Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Lottery does not ensure certain security controls are implemented for its wireless local area network (WLAN) as required by the Security Standard and its internal policies. We communicated three 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 Lottery to implement certain security controls to safeguard systems that contain or process sensitive data. By not meeting the minimum requirements in the Security Standard and industry best practices, Lottery cannot ensure the confidentiality, integrity, and availability of data within its system.

The weaknesses described in the FOIAE communication occurred because Lottery did not ensure its current WLAN had the capabilities to comply with the minimum-security controls before procurement nor has Lottery implemented compensating controls to meet the control requirements of its internal policies and the Security Standard. Lottery is currently dedicating resources to an ongoing project to address these weaknesses.

Lottery should implement the controls identified in the FOIAE communication or determine, document, and implement compensating controls to meet the minimum-security requirements in its internal policies and the Security Standard. Implementing the required controls will protect the confidentiality, integrity, and availability of the mission-critical systems that reside on Lottery's internal network.

Improve IT Asset Management Documentation and Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

First Reported: Fiscal Year 2024

Lottery has made progress since the prior year audit to update its IT asset management policies and procedures to include controls required by the Commonwealth's Removal of Commonwealth Data and Electronic Media Standard, SEC514 (Data Removal Standard). While Lottery resolved one of the weaknesses we communicated to management during the prior year audit, Lottery has not implemented required controls, as of the end of fiscal year 2025, to resolve the remaining three weaknesses. We communicated the three control weaknesses to management in a separate document marked 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 implement certain controls to safeguard the disposal of IT assets. By not implementing the controls in the Data Removal Standard and its internal policies and procedures, Lottery increases the risk of not removing all data or making the data unreadable prior to surplus and disposal, and Lottery may inadvertently surplus IT assets with sensitive information that may be accessible to malicious parties.

Lottery focused on revising its formal policies and procedures to align with the updated version of the Security Standard and Data Removal Standard, which led to delays in it implementing the required controls. Therefore, Lottery was unable to implement the new policies and procedures until after the fiscal year under review. We will evaluate whether Lottery's remaining corrective actions achieved the desired results during the fiscal year 2026 audit.

Lottery should continue its efforts to implement its new IT asset management controls in accordance with its new policy and procedures and address the weaknesses identified in the communication marked FOIAE. Implementing the required asset management controls will increase Lottery's security posture and help protect the confidentiality, integrity, and availability of sensitive and mission-critical data.

Improve Physical and Environmental Security Program

Type: Internal Control and Compliance

Severity: Significant Deficiency

Lottery does not document procedures nor implement certain physical and environment security controls as required by its Physical and Environmental Protection Policy (Protection Policy) and the Security Standard. We communicated two control weaknesses to management in a separate document marked FOIAE under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

The Security Standard requires Lottery to implement certain controls to safeguard its IT assets. By not meeting the minimum requirements in the Security Standard and industry best practices, Lottery

cannot ensure the confidentiality, integrity, and availability of data within its system. A recent change in contractors and lack of oversight led to the weaknesses outlined in the FOIAE communication.

Lottery should review and revise its procedures and implement the necessary controls to address the weaknesses identified in the FOIAE communication and meet the minimum requirements outlined in the Security Standard and its Protection Policy. Implementing the required physical and environmental security controls will help ensure Lottery protects the confidentiality, availability, and integrity of its sensitive and mission-critical data.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 12, 2025

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 the **Virginia Lottery** as of and for the year ended June 30, 2025, 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 December 12, 2025.

Report on 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 (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 the Virginia Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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," "Improve Wireless Local Area Network Security," "Improve IT Asset Management Documentation and Process," and "Improve Physical and Environmental Security," 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 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 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," "Improve Wireless Local Area Network Security," "Improve IT Asset Management Documentation and Process," and "Improve Physical and Environmental Security."

Virginia Lottery's Response to the Findings

We provided management of the Virginia Lottery with a draft of this report for review on January 16, 2026. Government Auditing Standards require the auditor to perform limited procedures on the Virginia Lottery's response to the findings identified in our audit, which is included in the accompanying section titled "Virginia Lottery Response." The 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

The Virginia Lottery has not taken adequate corrective action with respect to the prior reported findings identified as ongoing in the [Findings Summary](#) included in the Appendix. The Virginia Lottery has taken adequate corrective action with respect to the prior audit finding 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

GDS/clj

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	Fiscal Year First Reported
Review and Update Information Security Policies and Procedures	Complete	2024
Improve Procedures and Process for Oversight of Third-Party IT Service Providers	Ongoing	2023
Improve Wireless Local Area Network Security	Ongoing	2025
Improve IT Asset Management Documentation and Process	Ongoing	2024
Improve Physical and Environmental Security Program	Ongoing	2025

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



February 2, 2026

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

Re: Virginia Lottery Fiscal Year 2025 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, 2025. I appreciate the thorough work of your team in 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

During fiscal year 2025, we addressed previous audit recommendations by documenting a Systems and Services Acquisition Policy and a Cloud Terms and Conditions contract addendum. We will continue to improve our process by reviewing and updating all service acquisition policies and procedures to ensure alignment with the Security Standard. While progress has been made on implementation of enforcement of contractual obligations to include submission and review of audit assurance reports, confirmation of data location, vulnerability scans, and data escrow provisions in our third-party provider relationships through the Cloud Terms and Conditions contract addendum, this effort depends on contract renewal cycles and is still ongoing.

Improve Wireless Local Area Network Security

The Lottery mitigates access risks for the vendor-managed WLAN portal through layered administrative controls and will evaluate additional enhancements to align with Commonwealth security standards SEC530. Integration improvements are being made between platforms for monitoring and retention capabilities.

Several controls have been updated, and the remaining enhancements will be incorporated into ongoing security monitoring activities upon project completion, no later than 6/30/2026.

February 2, 2026

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Improve IT Asset Management Documentation and Process

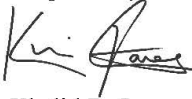
As noted, we have made significant progress updating our IT asset management policies and procedures to comply with the Commonwealth's Removal of Commonwealth Data and Electronic Media Standard, SEC514. While we recognize that certain processes were not fully implemented by the end of the 2025 fiscal year, we have completed all corrective action identified in the report; we will have adequate surplus events for testing during the planned follow-up in the FY26 audit.

Improve Physical and Environmental Security Program

We recognize the importance of maintaining comprehensive and up-to-date procedures to implement our physical and environmental protection policy, particularly at the Lottery's primary data center location. In response, we are currently developing and formalizing documented procedures. These actions will strengthen our physical control environment and help safeguard the confidentiality, availability, and integrity of our sensitive and mission critical data. We will have this work completed no later than 6/30/2026.

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