



# VIRGINIA LOTTERY

  

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
[www.apa.virginia.gov](http://www.apa.virginia.gov)  
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## AUDIT SUMMARY

Our audit of the Virginia Lottery for the year ended June 30, 2014, 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 a material weakness; and
- an instance of noncompliance required to be reported under Government Auditing Standards.

We have audited the basic financial statements of the Virginia Lottery as of and for the year ended June 30, 2014, and issued our report thereon, dated August 15, 2014. Our report is included in the Virginia Lottery's Annual Report that it anticipates releasing in October 2014.

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## INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

### Improve End User Computer Controls

The Virginia Lottery (Lottery) does not use the principle of least privilege to restrict permissions for end user computers. Allowing excessive computer permissions increases the risk that malware is unintentionally downloaded and installed on employees' computers. Once installed, this malware may propagate throughout Lottery's internal computers and can make them unavailable. Certain malware is also designed to collect information processed on infected computers and send it to a server outside the organization; thereby making the confidential data available to unauthorized entities.

We have communicated the details of this finding to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of security controls.

While Lottery is running a mature information security program, this finding weakens the layered information security controls protecting confidential and mission critical agency data.

We recommend that Lottery implement the controls discussed in our recommendation in accordance with the Commonwealth's Information Security Standard, SEC 501-08.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

August 15, 2014

The Honorable Terence R. McAuliffe  
Governor of Virginia

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

Virginia Lottery Board  
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 **Virginia Lottery** as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Virginia Lottery's basic financial statements, and have issued our report thereon dated August 15, 2014.

### 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 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 Virginia Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Virginia Lottery'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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting entitled "Improve End User Computer Controls," which is described in the section titled "Internal Control and Compliance Finding and Recommendation," that we consider to be a significant deficiency.

### **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, and contracts, 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 that is required to be reported under Government Auditing Standards and is described in the section titled "Internal Control and Compliance Finding and Recommendation" in the finding entitled "Improve End User Computer Controls."

### **The Virginia Lottery's Response to Findings**

We discussed this report with management at an exit conference held on September 22, 2014. The Virginia Lottery's response to the finding identified in our audit is described in the accompanying section titled "Agency Response." The Virginia Lottery'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 Virginia Lottery 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

AC/clj



September 22, 2014

Martha S. Mavredes, CPA  
Auditor of Public Accounts  
101 North 14<sup>th</sup> Street  
Richmond, Virginia 23219

Dear Ms. Mavredes:

Below is the Virginia Lottery's response to the Auditor of Public Accounts Internal Control Finding for inclusion in the auditor's report for the period ended June 30, 2014.

**Improve End User Computer Controls**

The Lottery's Information Technology Security Committee recognized this concern regarding end user permissions in FY2014, and to that end, had already opened up a project to address these concerns.

We communicated the details of our risk mitigation solutions to the Auditor of Public Accounts under a separate document also marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of security controls.

You will find the separate document attached to this letter.

Please contact me if you have any questions.

Very truly yours,

Paula I. Otto  
Executive Director



## AGENCY OFFICIALS

### VIRGINIA STATE LOTTERY DEPARTMENT

As of June 30, 2014

Paula I. Otto  
Executive Director

### BOARD MEMBERS

As of June 30, 2014

Cynthia D. Lawrence  
Chairman

Kevin D. Smith

Fred P. Helm

Robert Howard

Albert H. Poole