



# VIRGINIA LOTTERY

  

## 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 Virginia Lottery 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 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, 2017, and issued our report thereon, dated September 22, 2017. Our report is included in the Virginia Lottery's Annual Report that it anticipates releasing in November 2017.

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## STATUS OF PRIOR YEAR FINDINGS

### **Improve Application and Database Controls over the Enterprise Resource Planning System**

During our last audit, we identified multiple internal control weaknesses as a result of the implementation of the Virginia Lottery's (Lottery) enterprise resource planning system.

We obtained a status update from Lottery on the corrective actions related to these weaknesses. As of our report date, the Lottery had implemented corrective actions with respect to this previously reported finding, but had not completely implemented all corrective actions. Lottery began updating and implementing new procedures during fiscal year 2017 and plans to fully implement all corrective actions during fiscal year 2018.

Lottery should continue to dedicate the necessary resources to implement the controls that will align Lottery's operations with industry best practices and the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard). We will review the implementation of management's completed corrective actions during our next audit.

## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Improve Vulnerability Mitigation Efforts**

The Lottery does not document the review and evaluation of vulnerabilities identified during vulnerability scanning of sensitive information technology systems nor timely mitigate vulnerabilities in accordance with Lottery's Vulnerability Scanning Standard (Policy) and the Security Standard.

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

While the Lottery holds periodic meetings to discuss the outcomes of the scans, the Lottery's Policy requires stakeholders to also document a review of the results of each vulnerability scan and establish a risk-based remediation schedule. However, Lottery could not provide documented evidence of either. Additionally, the Lottery identified multiple vulnerabilities during the April 2017 scan of its primary financial management system; however, Lottery did not mitigate these vulnerabilities within the required timeframe. While this control is not part of Lottery's Policy, the Security Standard requires remediation of legitimate vulnerabilities within 90 days of identification (*Security Standard section: RA-5 Vulnerability Scanning*).

By not documenting vulnerability evaluation or remediation plans, Lottery cannot verify that appropriate corrective action is taken to mitigate or reduce the risk associated with each vulnerability to a reasonable level. Additionally, by not remediating vulnerabilities in a timely manner, Lottery increases the risk that unauthorized actors may exploit these vulnerabilities to gain access to enterprise systems, which could result in financial, legal, or reputational damage.

Lottery did not produce supporting documentation or mitigate these weaknesses due to lack of enforcement of its Policy and not incorporating all of the requirements in the Security Standard. While the Lottery conducts the scans, the Lottery does not enforce the requirements related to the creation of an executive summary of the results, classification of the risk to its environment associated with each identified vulnerability, and execution of a remediation plan to mitigate the identified vulnerabilities within the 90-day window.

Lottery should update its Policy to include all elements required by the Security Standard. Additionally, Lottery should enforce the vulnerability scanning requirements defined in its Policy and the Security Standard. This includes clear documentation about the evaluation and remediation efforts for any vulnerabilities identified during the scanning process, a remediation schedule to mitigate legitimate vulnerabilities within 90 days, and an executive summary to communicate the outcome of these reviews and its remediation strategy to management. Lottery should review the vulnerabilities identified for the primary financial management system and mitigate the vulnerabilities based on a remediation schedule. Lottery should also review the scanning results for other sensitive and mission critical systems and mitigate vulnerabilities accordingly. By improving the vulnerability mitigation process, Lottery will

reduce the data security risk for sensitive systems and better protect the confidentiality, integrity, and availability of the data processed by those systems.

### **Properly Record Fixed Asset Additions**

Lottery did not properly record fixed asset additions in the month received or subsequently make a depreciation adjustment, if necessary. During our work, we selected a sample of 15 fixed asset additions and also tested a bulk purchase of 350 assets received in June 2017. We found that ten assets were not recorded in compliance with generally accepted accounting principles or with Lottery's written fixed asset policy. Additionally, adjustments to depreciation expense were not made, if necessary.

Lottery's fixed asset policy requires fixed assets to be recorded in the month that the asset is received and generally accepted accounting principles state that depreciation begins when an asset is placed in service. Lottery is currently identifying potential fixed assets based on when invoices are processed for payment. After the asset is identified as needing to be entered into the financial system, it is typically recorded in the month that the invoice is processed, which may be different than when the asset was received or placed in service. In some circumstances, the recording of the asset may be intentionally delayed and in these instances an adjustment to depreciation is necessary to properly account for the asset.

Improper recording of fixed assets increases the risk that asset balances including depreciation expense are misstated, which can affect Lottery's financial statements. To ensure consistent recording of fixed asset acquisitions, management should clarify current policies and procedures and ensure implementation. This should include retaining documentation of when assets are received and/or placed in service. Management should ensure personnel involved with fixed assets understand the importance of timely asset recording and any necessary adjustments as it affects both depreciation and asset balances.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

September 22, 2017

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrrock, Sr.  
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, 2017, and the related notes to the financial statements, which collectively comprise Virginia Lottery's basic financial statements, and have issued our report thereon dated September 22, 2017.

### 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. We did identify certain deficiencies in internal control over financial reporting entitled “Improve Vulnerability Mitigation Efforts” and “Properly Record Fixed Asset Additions” which are described in the section titled “Internal Control and Compliance Findings and Recommendations”; along with the finding entitled “Improve Application and Database Controls over the Enterprise Resource Planning System” which is described in the section titled “Status of Prior Year Findings” 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 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 sections titled “Internal Control and Compliance Finding and Recommendations” and “Status of Prior Year Findings” in the findings entitled “Improve Application and Database Controls over the Enterprise Resource Planning System,” “Improve Vulnerability Mitigation Efforts,” and “Properly Record Fixed Asset Additions.”

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

We discussed this report with management at an exit conference held on September 28, 2017. The Virginia Lottery’s response to the findings 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 is taking corrective action with respect to the previously reported finding “Improve Application and Database Controls over the Enterprise Resource Planning System.” Accordingly, we included this finding in the section entitled “Status of Prior Year Findings.”



### **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

AVC/alh



Terry McAuliffe, Governor | Paula I. Otto, Executive Director

Virginia Lottery | 600 East Main Street | Richmond, VA 23219 | ph: 804.692.7100 | fax: 804.692.7102 | valottery.com

October 6, 2017

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

Dear Ms. Mavredes:

Thank you for this opportunity to respond to the annual audit of the Virginia Lottery, for the year ended June 30, 2017. As noted in your status of prior year findings, the Lottery has continued to work towards improving application and database controls over the enterprise resource planning (ERP) system implemented in 2016. As is the case every year with your audit, I am reassured that the combination of the Lottery's commitment and your thorough reviews will continue to safeguard the Lottery's assets and integrity of Lottery systems.

I am pleased to provide the following responses to the issues contained in the internal control report:

**Improve Vulnerability Mitigation Efforts**

The Lottery did review the results of all vulnerability scans conducted; however, we acknowledge that the results of the review and subsequent decisions about mitigating factors were not fully documented for items identified as low and medium risks. The Lottery is making additional improvements to its vulnerability and patch management processes by modifying the Lottery Vulnerability Scanning Standard. This alignment will correspond with Commonwealth's Information Security Standard, SEC501. It will include the evaluation of all vulnerabilities identified on sensitive and mission critical systems, as well as provide clear documentation about the remediation efforts and schedule for any vulnerabilities identified. These refinements to the Lottery standard and practice will be complete by December 1, 2017.

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**Properly Record Fixed Asset Additions**

The Lottery does make depreciation timing adjustments when significantly valued asset acquisition activity occurs; however, we have not historically made these depreciation expense adjustments for lower-valued capital assets due to the low financial impact. In conjunction with the implementation of the ERP system last year, the Lottery's fixed asset policies and procedures have been updated. These updates now include provisions, effective July 1, 2017, to adjust depreciation to begin in the month that an identified capital asset was received.

The Lottery remains diligently committed to continuous improvement, integrity, and the security of all Virginia Lottery operations.

Sincerely,



Paula I. Otto

c: Mr. Fred Helm, Chairman, Virginia Lottery Board  
Mr. Ferhan Hamid, Chairman, Virginia Lottery Board Audit Committee

## **VIRGINIA STATE LOTTERY DEPARTMENT**

As of June 30, 2017

Paula I. Otto  
Executive Director

### **BOARD MEMBERS**

Fred P. Helm  
Chairman

Robert M. Howard  
Vice Chairman

Ferhan Hamid	Cynthia D. Lawrence
Scott A. Price	