

VIRGINIA STATE LOTTERY DEPARTMENT

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010**



AUDIT SUMMARY

Our audit of the Virginia State Lottery Department (Lottery) for the year ended June 30, 2010, found:

- the financial statements are presented fairly, in all material respects;
- certain matters involving internal control findings requiring management's attention; however, we do not consider them to be material weaknesses; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards

We have audited the basic financial statements of the Virginia State Lottery Department (Lottery) as of and for the year ended June 30, 2010, and issued our report thereon, dated September 8, 2010. Our report is included in the Lottery's Annual Report that it anticipates releasing on or around October 31, 2010.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Information Systems Security Program

The Lottery's incident response plan lacks sufficient detail regarding the specific actions its information technology (IT) staff should follow when responding to common information security events. Once a security event is suspected, IT staff can refer to an incident response plan that details the specific actions to be taken to determine the potential impact of the event, notify the appropriate parties, contain or eradicate the event, analyze the actual impact, and restore normal operations. While it is impossible to plan for every potential security event, Lottery can plan for the most commonly occurring events, which will help minimize damage to data and forensic evidence through a prompt and careful response.

We recommend that Lottery improve documentation and provide training for its incident response plan to include specific processes staff should follow when responding to common security events. Implementing this recommendation will improve Lottery's controls surrounding IT security and ensure compliance with the Commonwealth's Information Security Standard which requires agencies to maintain a documented and implemented incident response plan.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

September 8, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
And Review Commission

Members
Virginia State Lottery Board

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the basic financial statements of the **Virginia State Lottery Department** (Lottery) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 8, 2010. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lottery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lottery's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency entitled “Improve Information Systems Security Program”, which is described in the section titled “Internal Control Finding and Recommendation,” that we consider a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Lottery’s response to the finding identified in our audit is included in the section titled “Agency Response.” We did not audit the Lottery’s response and, accordingly, we express no opinion on it.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, Virginia State Lottery Board and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on September 14, 2010.

AUDITOR OF PUBLIC ACCOUNTS

KKH/clj

Robert F. McDonnell
Governor

Paula I. Otto
Executive Director

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September 27, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
101 North 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

Attached is the Virginia Lottery's response to the Auditor of Public Accounts Internal Control and Compliance Findings and Recommendations for inclusion in the auditor's report for the period ended June 30, 2010.

Improve Information Systems Security Program

The security and integrity of the Lottery's information systems has been critical to our operations since inception in 1988. We believe our consistently reliable and secure operations are reflective of our commitment to information systems security. We also acknowledge and understand that the landscape of best practices and risks continue to evolve even more quickly in today's technological world, and we must continue to review and improve upon our practices and documented programs.

The Lottery's Incident Response Plan was revised extensively in 2009. In accordance with the Commonwealth's Information Security Standard, our current plan contains an Incident Handling Procedures appendix, which outlines detection, analysis, notification, containment/eradication, and restoration actions that applicable staff should take, based on incident severity and impact. While the Lottery believes that these procedures offer sufficient guidance for our experienced and tenured staff, we do agree that the procedures could be more detailed. As such, the Lottery will enhance the documented procedures by including more specificity regarding the most commonly occurring incidents. The more detailed procedures will be documented by December 31, 2010. In addition, Incident Response Plan training for the Computer Incident Response Team members and other applicable IT staff will occur by December 31, 2010.

Again, Lottery management reiterates its commitment to ensuring our Information Systems Security Program remains effective. Prioritization and allocation of resources for this initiative will continue to occur based on areas of greatest risk and business necessity.

Please contact me if you have any questions.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Paula I. Otto".
Paula I. Otto

Helping Virginia's Public Schools.

VIRGINIA STATE LOTTERY DEPARTMENT

BOARD MEMBERS

As of June 30, 2010

Cynthia D. Lawrence
Chairman

Gilliam M. Cobbs
Vice-Chairman

Susan Smith Feaster David H. Hallock, Jr.
James M. Wofford

AGENCY OFFICIALS

Paula I. Otto
Executive Director

Richard E. Williams, Jr.
Deputy Director