

**DEPARTMENT OF ALCOHOLIC  
BEVERAGE CONTROL**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2013**

## **AUDIT SUMMARY**

We have audited the basic financial statements of the Department of Alcoholic Beverage Control as of and for the year ended June 30, 2013 and issued our report thereon, dated October 1, 2013. Our report is included in the Department's Annual Report that it anticipates releasing in December 2013.

Our audit of the Department of Alcoholic Beverage Control for the year ended June 30, 2013, 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.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	1
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	2-3
AGENCY RESPONSE	4-6
AGENCY OFFICIALS	7

## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Continue to Improve IT Governance Model and IT Project Prioritization Processes**

The Department of Alcoholic Beverage Control's (ABC) business process owners have not been adequately involved in the development, planning, and requirements gathering processes of ABC's ongoing information technology (IT) projects. The lack of involvement by business process owners has resulted in an environment in which ABC's IT function is leading the business, rather than being incorporated to achieve ABC's business strategy and goals.

ABC's IT strategic plan does not consistently link to its current project listing or project tracking matrix. We also found that numerous projects have conflicting project sponsors, leading to ambiguous accountability among ABC's project managers. The lack of project prioritization among IT initiatives is a primary factor preventing ABC's IT governance model from moving from a reactive state to a proactive and strategic environment. Additionally, ABC's IT project prioritization methodology does not include or consider information security and corrective action plans from previous audits.

During the course of the audit, we identified control deficiencies indicative of the weaknesses in ABC's current IT governance model and project prioritization process. The specific elements of these deficiencies have been communicated to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia, but are summarized as follows:

- *Database Security*, as noted in the finding "Improve Database Security," is not adequately implemented for several of ABC's mission critical systems.
- *Risk, Continuity, and Disaster Recovery Management Plans* continue to remain incomplete for ABC software applications that contain confidential and mission critical data.
- *User Access Reviews* across systems are not performed and used to assess and correct potential concerns regarding inappropriate segregation of duties.
- *Change Control Management* policies and procedures do not include requirements to update operating documentation, user procedures, or system documentation after changes are implemented in the IT environment.

We recommend that ABC position business process owners to take ownership in the IT project prioritization process. We also recommend that ABC business owners become more actively involved in the IT project planning and requirements gathering processes. This will enable ABC's IT governance model to continue to improve and properly align with ABC's business strategy and goals. Additionally, we recommend that ABC dedicate the necessary resources to rectify the specific control deficiencies identified above and communicated to management.

### **Improve Database Security**

ABC does not adequately protect its Oracle databases that support mission critical applications and store sensitive information. Inadequate Oracle security controls can create vulnerabilities that expose sensitive data to possible compromise and potential financial fraud.

Our review noted six areas of weakness that we have communicated in detail 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.

The weaknesses identified significantly weaken the layered controls protecting the confidential and mission critical agency data. We recommend that ABC implement the controls discussed in our recommendation in accordance with the current Commonwealth Information Security Standard and industry best practices, such as those published by the Center for Internet Security.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

October 1, 2013

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable John M. O'Bannon, III  
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, 2013, and the related notes to the financial statements, which collectively comprise ABC's basic financial statements and have issued our report thereon dated October 1, 2013.

### 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 an 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 the 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting entitled “Continue to Improve IT Governance Model and IT Project Prioritization Processes” and “Improve Database 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 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 “Continue to Improve IT Governance Model and IT Project Prioritization Processes” and “Improve Database Security.”

#### ABC’s Response to Findings

We discussed this report with management at an exit conference held on November 6, 2013. ABC’s response to the findings identified in our audit is included in the 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 partially implemented corrective action with respect to the previously reported finding “Update IT Risk Management and Contingency Plans.” Accordingly, we included this finding as part of the current year finding “Continue to Improve IT Governance Model and IT Project Prioritization Processes,” which is included in the section entitled “Internal Control and Compliance Findings and Recommendations.” ABC has completed 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

EMS/clj



# COMMONWEALTH of VIRGINIA

## *Department of Alcoholic Beverage Control*

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CHIEF OPERATING OFFICER/SECRETARY TO THE BOARD  
W. CURTIS COLEBURN, III

November 9, 2013

Ms. Martha Mavredes, CPA  
Auditor of Public Accounts  
101 N. 14<sup>th</sup> St.  
Richmond, VA 23219

Dear Ms. Mavredes:

Attached are the Department of Alcoholic Beverage Control's responses to the audit for the Fiscal Year ending June 30, 2013. As in prior years, the Department appreciates the professionalism of your team and their diligence in helping our management team identify opportunities for improvement. The following are our responses to the findings in the internal controls report:

### **Continue to Improve IT Governance and IT Project Prioritization Processes**

The agency recognizes the need to improve technology governance. Prior to the conclusion of the audit, the agency had realigned technology oversight and established a defined and repeatable process for managing technology resources. Changes were made to improve governance and accountability while reducing the risk associated with managing one of the agency's most significant expenditures.

The agency's technology management process is based on industry best practices and requires business units to submit project requests with required standard elements such as identification of key business objectives, linkage to strategic priorities, potential service and process improvements. Using this information as well as risk factors such as technology complexity and clarity of business case, the Information Technology Steering Committee has prioritized a list of over 20 projects down to a manageable number that address strategic priorities and critical infrastructure needs. A few of the current priorities include: Upgrading the Point of Sale System, replacing the Licensing, Case Management and Tax Collection Systems, planning for the replacement of the agency's financial system, implementing a business intelligence platform and redesigning the agency's web presence. Projects do not receive authorization to proceed without defined requirements, budget and project milestones and any significant changes requires approval by the IT Steering Committee.

The agency agrees with the recommendation to position business units to take additional ownership in the technology management process. ABC recognizes this will require a significant investment in resources since many business units currently lack expertise in business analysis and project leadership (including identifying requirements, developing project budgets and establishing project

deadlines). The agency is currently developing a plan to enhance these capabilities along with a process for monitoring project health and managing change requests. The plan will also include the identification of the skill sets and competencies necessary that will factor in to future agency hiring and employee development requirements. ABC will address these issues by June 30, 2014.

The agency has made significant progress in improving information security and audit remediation this past year and we agree with the recommendation to establish formal projects surrounding information security and audit remediation. While the current prioritization matrix contained placeholder projects and resource allocation, further definition of the requirements for these projects along with clarity around deliverables, milestones and resource needs are currently being developed. These will be developed by January 1, 2014.

The agency has also made significant progress in areas such as risk management, user access reviews and change control management and will continue to improve efforts in the coming months.

- Disaster Recovery Planning:
  - ABC relocated the majority of its servers to the Commonwealth Enterprise Solutions Center in mid September of 2013.
  - ABC is currently developing a preliminary IT disaster recovery plan and is exploring options for using outside resources to develop a more comprehensive Disaster Recovery Plan.
  - ABC completely revised its Business Impact Analysis by completing a new Business Process Analysis and identifying Mission Essential Functions and the systems that support them.
  - ABC conducted a table exercise of its Continuity Plan in September 2013, identified gaps and a corrective action plan to enhance the execution of the plan in areas tested.
- Risk Assessment:
  - A three year systems risk assessment project plan has been completed. The schedule has been prioritized by business impact and mission criticality. Several major risk assessments have been completed and the risk management process has been implemented into software development lifecycle processes.
- Access Control:
  - The agency already performs quarterly reviews of all sensitive systems. A project was just completed that compiles all user access levels for each employee for all sensitive systems. By January 1, 2014, the agency will complete the review of this data and start requirements gathering to develop a more cost effective approach to conducting cross system reviews.
- Change control management:
  - ABC's current policy and procedures will be modified to include provisions to address system documentation requirements. This policy revision will be done by January 1, 2014.

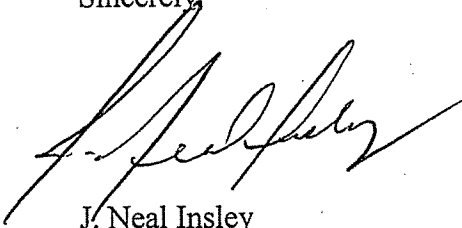
### **Improve Database Security**

The Department concurs with this finding. ABC Data Services team will implement procedural controls by April 30, 2014. Many of the technical security issues outlined in the point are due to limitations of the agency's aging commercial off-the-shelf financial system. Any technical controls implemented by ABC would void support and potentially impact on of the agency's most important core business processes.



ABC has an extended plan to upgrade the financial system to modern technology that incorporates standard security controls. However, this is an extended plan that requires significant planning, resources, and time along with General Assembly approval of funding. Replacement of this system is not planned until FY 2016. Until that project is complete, ABC is investigating strategies to reduce the impact of potential risk events such as breach insurance offered through the Department of Treasury. This insurance will mitigate the impact of a breach to the financial system and any other system (e.g. credit card environment, licensing, criminal records, etc.). ABC is planning on having this in place by March 1, 2014.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Neal Insley", written in a cursive style.

J. Neal Insley  
Chairman

c:

The Honorable Bryan M. Rhode, Secretary of Public Safety  
David Von Moll, Comptroller

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL BOARD MEMBERS

As of June 30, 2013

J. Neal Insley  
Chairman

Sandra C. Canada  
Commissioner