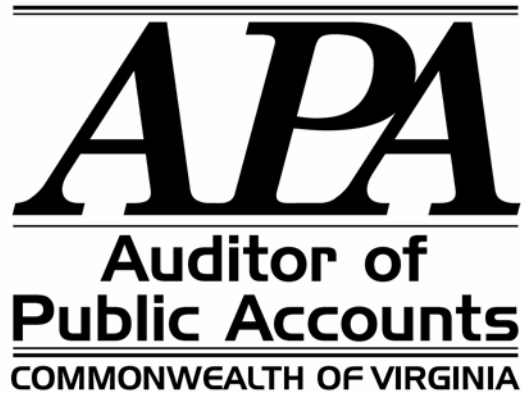


**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2006**



## **AUDIT SUMMARY**

Our audit of the Department of Alcoholic Beverage Control for the year ended June 30, 2006, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider reportable conditions; however, we do not consider any of these to be material weaknesses; and
- an instance of noncompliance required to be reported under Government Auditing Standards.

These matters are reported fully in the section of the report entitled “Internal Control and Compliance Findings and Recommendations.”

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## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

As part of the annual financial audit and a statewide review, we reviewed the data security measures, policies, and procedures of the Department of Alcoholic Beverage Control (ABC). In connection with the review, our staff has administered an information security review questionnaire and conducted on-site evaluations of agency data security measures, policies, and procedures.

During our review, we found that ABC met the majority of the requirements and best practices. However, we have provided several suggestions to implement best practices over data security as discussed below. We also found an issue of noncompliance that warrants management's attention.

### Increase Preventative Maintenance Measures

ABC cannot ensure that critical automated systems and data will remain stable and secure due to a lack of system preventative maintenance measures. We identified the following concerns.

- ABC has not changed administrative accounts passwords timely as required by agency policy. Unchanged passwords increase exposure of critical systems to security breaches. ABC should institute a periodic system review by an internal third party to ensure administrators adhere to policy.
- ABC does not use audit-monitoring features for one of their critical systems. Without logging enabled, ABC may not be able to detect or analyze a security breach. ABC should institute recommended logging for these systems.
- ABC does not require or perform regularly scheduled tests of critical database backups. ABC should perform restore tests in order to ensure that the data contained within the backups is viable and to ensure proper planning of the restore process.
- ABC does not have a threat detection program. A threat detection program defines the process required for evaluating and responding to threats to a system. The lack of a threat detection program leaves administrators to implement a possibly inconsistent set of detection measures. Management should develop and implement a documented program.

We recommend that management establish policies and procedures needed to minimize security risks to an acceptable level as determined by management. Without adequate preventive maintenance for information systems security, management risks loss of availability, integrity, and confidentiality of critical data.

### Establish and Implement an Incident Response Plan

ABC does not have an incident response plan as required by Commonwealth of Virginia Security Standard (COV SEC2001). Without a documented response plan, ABC may not effectively handle security incidents leading to improper reporting, response, or future prevention. Management should establish a documented incident response plan to ensure proper employee notification and action occurs in the event of a security incident.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

October 1, 2006

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
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 the financial statements of the Virginia Department of Alcoholic Beverage Control as of and for the year ended June 30, 2006, and have issued our report thereon dated October 1, 2006. 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 the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled "Increase Preventative Maintenance Measures" and "Establish and Implement an Incident Response Plan," are described in the section titled "Internal Control and Compliance Findings and Recommendations."

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 an instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance, entitled "Establish and Implement an Incident Response Plan," is described in the section titled "Internal Control and Compliance Findings and Recommendations."

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, the Alcoholic Beverage Control 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.

### Exit Conference

We discussed this report with management at an exit conference held on October 30, 2006.

AUDITOR OF PUBLIC ACCOUNTS

DBC:jab  
jab:29



# COMMONWEALTH of VIRGINIA

## Department of Alcoholic Beverage Control

### COMMISSIONERS

ESTHER H. VASSAR, CHAIR  
PAMELA O'BERRY EVANS  
SUSAN R. SWECKER

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

October 24, 2006

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FAX: (804) 213-4411  
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Mr. Walt J. Kucharski  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Mr. Kucharski:

Thank you for the opportunity to provide the Department of Alcoholic Beverage Control's comments and action plans to address the findings identified as part of your audit of ABC's financial records for fiscal year ending June 30, 2006.

The Department strives to maintain a strong and effective system of internal controls to ensure we remain good stewards of the public's funds. We take great pride in having a long history of compliance but welcome the APA's identification of any opportunities for improvement. While there were no material weaknesses or repeat findings, this year's audit identified several opportunities for improvement in the information security environment. Listed below is a summary of ABC's plan to address these comments:

APA Comment	ABC's Response
<b>Increase Preventative Maintenance Measures</b>	
Periodic Changing of Passwords— <i>ABC has not changed administrative passwords in a timely manner.</i>	ABC concurs with the finding and has already instituted a policy to require administrative password changes every 60 days. ABC Internal Auditing will monitor this activity.
System Audit Monitoring-- <i>ABC does not use audit-monitoring features for one of their critical systems</i>	ABC concurs with the finding and has activated recommended logging for these systems on Monday, October 16, 2006.
Testing of Critical System Backup Processes-- <i>ABC does not require or perform regularly scheduled tests of critical database backups.</i>	ABC has demonstrated over the past year the ability to restore data in the wake of various systems problems. ABC does not currently have the manpower or the hardware capacity to initiate and support a full schedule of backup and restore testing, but is currently performing a preliminary gap analysis and assessment of requirements for this program. This will be completed by December 31, 2006.
Threat Detection Program-- <i>ABC does not have a threat detection program.</i>	ABC concurs with this recommendation and we are currently awaiting guidance from VITA and Northrop Grumman.

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**Establish and Implement an Incident Response Plan**

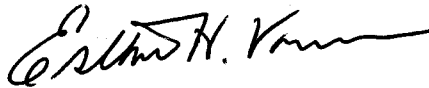
*ABC does not have an incident response plan as required by the Commonwealth of Virginia Security Standard (COV SEC2001).*

The ABC Security Incident Response Plan was revised and provided to the auditor on September 27, 2006. A copy of the plan is included with this submission.

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Again, we appreciate the diligence and professionalism of your staff, along with the opportunity to provide the Department's comments as part of your office's report on ABC's financial records for the year ending June 30, 2006.

Sincerely,



Esther H. Vassar  
Chairman



DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

BOARD MEMBERS

As of June 30, 2006

Esther H. Vassar  
Chairman

Pamela O'Berry Evans

Susan R. Swecker