

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 23-1-05MA

January 31, 2024



Government of the District of Columbia Annual Comprehensive Financial Report

Reports of Independent Public
Accountants for the Fiscal Year
Ended September 30, 2023

GUIDING PRINCIPLES

ACCOUNTABILITY * INTEGRITY * PROFESSIONALISM

TRANSPARENCY * CONTINUOUS IMPROVEMENT * EXCELLENCE



OUR MISSION

We independently audit, inspect, and investigate matters pertaining to the District of Columbia government to

- prevent and detect corruption, mismanagement, waste, fraud, and abuse.
- promote economy, efficiency, effectiveness, and accountability.
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

OUR VISION

Our vision is to be a world-class Office of the Inspector General that is customer-focused and sets the standard for oversight excellence!

OUR GUIDING PRINCIPLES

- Accountability
- Continuous Improvement
- Excellence
- Integrity
- Professionalism
- Transparency





DISTRICT OF COLUMBIA | OFFICE OF THE INSPECTOR GENERAL

January 31, 2024

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
John A. Wilson Building
1350 Pennsylvania Avenue NW, Suite 316
Washington, DC 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Subject: **Government of the District of Columbia Annual Comprehensive Financial Report | 23-1-05MA**

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report *Government of the District of Columbia Annual Comprehensive Financial Report, Reports of Independent Public Accountants for the Fiscal Year Ended September 30, 2023* (OIG No. 23-1-05MA). McConnell Jones, LLP (MJ) conducted the audit as part of our contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2023.

On January 24, 2024, MJ issued its opinion and concluded that the financial statements are presented fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America. MJ identified one significant deficiency in internal control as described in the attached schedule of findings as Finding 2023-001 (see page seven of the attached report). MJ also made 24 recommendations intended to improve the effectiveness of internal control over District operations and programs (see OIG Report No. 23-1-05MA(a)).

If you have questions about this report, please contact me or Eileen Shanklin-Andrus, Acting Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

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Mr. Wayne McConnell, Managing Partner, McConnell & Jones LLP



INDEPENDENT AUDITOR'S REPORT

The Mayor and the Council of the Government of the District of Columbia, and
The Inspector General of the Government of the District of Columbia

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia (the "District"), as of and for the year ended September 30, 2023, and the related notes to the financial statements. These financial statements collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District, as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General and Federal and Private Resource Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Report on Summarized Comparative Information

We have previously audited the District's 2022 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and we did not express an opinion on the financial statements of the aggregate discretely presented component units, in our report dated January 24, 2023. A disclaimer of opinion on the financial statements of the aggregate discretely presented component units occurred since we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the 2022 financial statements of the Washington Convention and Sports Authority, a major component unit of the District. The Washington Convention and Sports Authority has subsequently issued its 2022 financial statements and we expressed unmodified opinions on them in our report dated November 15, 2023. In our opinion, the summarized



comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 1S to the financial statements, effective October 1, 2022, the District adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. As a result of the implementation of GASB Statement No. 96, the District restated its fiscal year 2022 government-wide financial statements for the change in accounting principle. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an



opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 27 to 52), schedules of employer contributions – Pension (pages 162 and 163), and schedules of changes in net pension liability (asset) and related ratios (pages 164 and 165) for the Teachers' Retirement Fund and the Police Officers' and Firefighters' Retirement Fund, and schedule of employer contributions – Other Post Employment Benefits (OPEB) (page 166) and schedule of changes in net OPEB liability (asset) and related ratios (page 167) for the OPEB, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information presented for the general fund (pages 171 to 178), nonmajor governmental funds (pages 179 to 181), fiduciary funds (pages 183 to 185), and budgetary supporting schedules (pages 187 to 199) is presented for purposes of additional analysis and is not a part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information for the general



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fund, nonmajor governmental funds, fiduciary funds, and budgetary supporting schedules, referred to above, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance on them.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

McConnell Jones LLP

Washington, DC
January 24, 2024



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor, Members of the Council of the Government of the District of Columbia and
Inspector General of the Government of the District of Columbia

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia (the "District") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 24, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2023-001 that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 financial statements. 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*.

Management's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on management's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. Management's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

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 Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConnell Jones LLP

Washington, DC
January 24, 2024



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GOVERNMENT OF THE DISTRICT OF COLUMBIA SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED SEPTEMBER 30, 2023

Finding No. 2023-001 – Ineffective Controls over Purchase Card Transactions

Emergency and regular purchase card (P-Card) transactions were not reviewed and approved by the designating approving officials in a timely manner, and they were not posted to the appropriate expenditure accounts within the general ledger.

Condition:

During our internal control testing, we selected 75 P-Card transactions, and requested supporting documentation including the receipt of goods and/or services, evidence of approval of the disbursement, and reviewed the posting of transactions to the appropriate expenditure account within the general ledger, and we noted the following:

- 1. P-Card holders did not submit expense reports in the District Integrated Financial System (DIFS), and the designated approving officials did not review and approve the expense reports in DIFS in a timely manner.** Ten of the 75 selected P-card transactions were not posted to the appropriate general ledger accounts due to the P-Card holders' failure to submit the expenses on DIFS in a timely manner. There were also an additional 10 P-Card transactions which were not posted pending approval by the designated approving officials. These transactions were recorded in a clearing account that holds all P-Card transactions that have not been fully approved and assigned to the appropriate expense accounts within the general ledger. DIFS reallocates P-Card transactions from the clearing account to the appropriate expenditure account(s) provided on the expense report, only after the expense report is fully approved. The clearing account is a temporary holding account, used to track expenditure transactions incurred but not yet posted to the appropriate expenditure GL accounts.

As a result of the preliminary internal control testing outcome, we expanded the scope of the internal control testing and requested the District to provide (1) the details of the total Emergency and Regular P-Card payments made to the Bank; (2) total payments posted to the appropriate expenditure GL accounts; (3) transactions pending approval; and (4) transactions in the clearing account by agency, as of July 31, 2023. On August 25, 2023, we received a District-wide trial balance report that shows P-Card activities by agency. The report showed total payments of \$90,308,628 for P-Card transactions between the period of October 1, 2022, and July 31, 2023. Of this amount, \$47,076,161 remained in the clearing account as of August 25, 2023. We noted that some of these transactions had been outstanding in the clearing account since December 2022. As a result, these clearing account transactions were not accurately recorded in the appropriate expense accounts within the general ledger.

- 2. P-Card holders assigned inaccurate expense accounts when expenses were submitted in DIFS; and the designated approving officials did not ensure the proper assignment of general ledger accounts prior to recording.** We noted that 4



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out of the 40 Emergency P-Card transactions selected, were coded to the incorrect GL account (miscellaneous). These transactions, totaling \$366,670, were for hotel lodging, contractual labor services, and transportation services.

Criteria:

According to the District's *DIFS, P-Card Program Processing, Version 1.1 (pg. 18)*, all transactions must have an associated expense report, approved within ten business days of the close of each month. If the transactions are not associated with an expense report, the Office of Contracting and Procurement (OCP) will suspend the P-Card until all transactions are cleared.

The District Integrated Financial System, Manage Clearing Accounts Version: 0.06 (pg.3) also states that clearing accounts and other related reconciliation reports should be reviewed at least monthly, to monitor account balances.

Cause:

District P-Card holders did not submit the expense reports in DIFS, and the designated approving officials did not review and approve the P-Card transactions, in a timely manner. In addition, the appropriate personnel (accounting officers and/or controllers) are not reviewing and approving expenditures' general ledger accounts assigned to P-Card transaction in DIFS. As a result, the GL errors made by P-Cardholders could not be prevented before posting to general ledger.

Effect:

Such internal control weaknesses could result in:

1. The failure to submit and approve the expense reports in a timely manner may result in understatement of expenditures recorded within the general ledger accounts that are impacted by P-Card transactions.
2. Significant delays in expense submission and subsequent approvals could result in posting and approval of a large volume of transactions in DIFS towards the end of the fiscal year. This may result in inadequate reviews and erroneous posting of P-Card transactions in the general ledger accounts.
3. Significant pending transactions in the clearing accounts that are not reflected in the appropriate expenditure GL accounts may result in incomplete DIFS expenditure populations as of interim reporting dates.
4. Interim expenditure reports extracted from DIFS and interim Financial Statements remain incomplete and inaccurate while P-Card transactions remain in the clearing accounts.

Recommendations:

Our recommendations on how to prevent; or detect and correct, the noted conditions above, are as follows:

1. The District needs to design and implement effective and practical internal controls to ensure that P-Card transactions are posted to the appropriate GL accurately and timely.
2. The District needs to ensure that the internal controls surrounding the P-Card disbursements are being implemented and operating effectively. All P-Card



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transactions must have an associated expense report, approved within ten business days of the close of each month. The P-Card holders must review and verify the accuracy of the transactions, before submitting the expense report; and the designated approvers must review and approve the expense reports in a timely manner.

3. The DIFS P-Card expense report approval flow process should be updated to include the accounting officers and/or controllers.
4. The District needs to assign dedicated personnel to monitor the status of P-Card transactions in DIFS, enforce internal controls, and take the appropriate action in order to prevent posting errors and delays.

Management's Response:

We recognized the existence of the issues reported and therefore, concur with the findings as noted by the independent auditors. Upon implementation of DIFS in October 2022, it became apparent that actions were needed to help users better understand the process flow associated with purchase card transactions and expense reports. Accordingly, the following actions were taken:

- Prepared job aids and other quick help resources to better guide users through the processes associated with Expense Entry for Employees and Approvers and Purchase Card Holders and Approvers and made such materials readily available to all system users.
- Conducted additional training and established virtual “office hours” to better assist users who needed additional guidance.
- Distributed additional communication via email to remind users of the policies and required procedures.

To resolve the deficiencies noted and maximize internal controls, we will take the following additional measures:

- Engage and collaborate with key stakeholders to address the reported issues.
- Re-evaluate the current process to identify the underlining issues related to the system and system users.
- Assess the adequacy and effectiveness of the design of internal controls over emergency and regular purchase card disbursements.
- Based on the outcome of the assessment, develop and implement measures to strengthen internal controls and address process gaps.
- Update policies and procedures and implement the necessary changes to business processes and daily practices.
- Develop and implement objective, specific, and practical corrective actions to ensure all purchase card transactions are posted to the correct expenditure GL accounts within a set number of days.



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GOVERNMENT OF THE DISTRICT OF COLUMBIA STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS YEAR ENDED SEPTEMBER 30, 2023

Finding No. 2022-01 – Improper Back-up Recovery Procedures

During the prior audit, the Washington Convention and Sports Authority (T/A “Events DC”) did not have a documented policy and procedure for performing information system back-ups and failed to properly back-up and test data. In addition, Events DC did not have the ability to recover data supporting six months of financial transactions subsequent to a cyber incident that resulted in data loss.

During the current audit, we noted Events DC strengthened its controls over information systems to include back-ups and disaster recovery processes. Similar exceptions were not noted during our current year audit and this finding was remediated.

Finding No. 2022-02 – Insufficient Safeguards Against Malicious Code and Software

During the prior audit, Events DC did not have a documented continuous monitoring process and did not have proper controls and/or tools in place to detect, alert, and remove threat actors and malicious software.

During the current audit, we noted Events DC strengthened its controls over information systems to include continuous monitoring processes to prevent/detect intrusions. Similar exceptions were not noted during our current year audit and this finding was remediated.

Finding No. 2022-03 – Insufficient Controls to Properly Maintain and Protect Logs

During the prior audit, Events DC did not have adequate controls and policies and procedures for proper audit log creation, security, and maintenance.

During the current audit, we noted Events DC implemented policies and procedures for proper audit log creation, security, and maintenance. Similar exceptions were not noted during our current year audit and this finding was remediated.

Finding No. 2022-04 – Weak Vulnerability Management Program

During the prior audit, Events DC did not follow its policy of performing semi-annual vulnerability scanning.

During the current audit, we noted Events DC performed semi-annual vulnerability scanning. Similar exceptions were not noted during our current year audit.



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Finding No. 2022-05 – Lack of Risk Management Framework

During the prior audit, Events DC did not have a risk management framework in place to govern and manage risk to its information systems.

During the current audit, we noted Events DC put in place a risk management framework to govern and manage risk to its information systems. Similar exceptions were not noted during our current year audit and this finding was remediated.

Finding No. 2022-06 – Internal Control over Financial Reporting

During the prior audit, Events DC had a significant cyber event, which resulted in financial data loss, and an inability to substantiate amounts in its financial statements.

During the current audit, we noted Events DC strengthened its internal controls and were able to appropriately substantiate amounts in its current year financial statements and this finding was remediated.

REPORT WASTE, FRAUD, ABUSE, AND MISMANAGEMENT.

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