

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

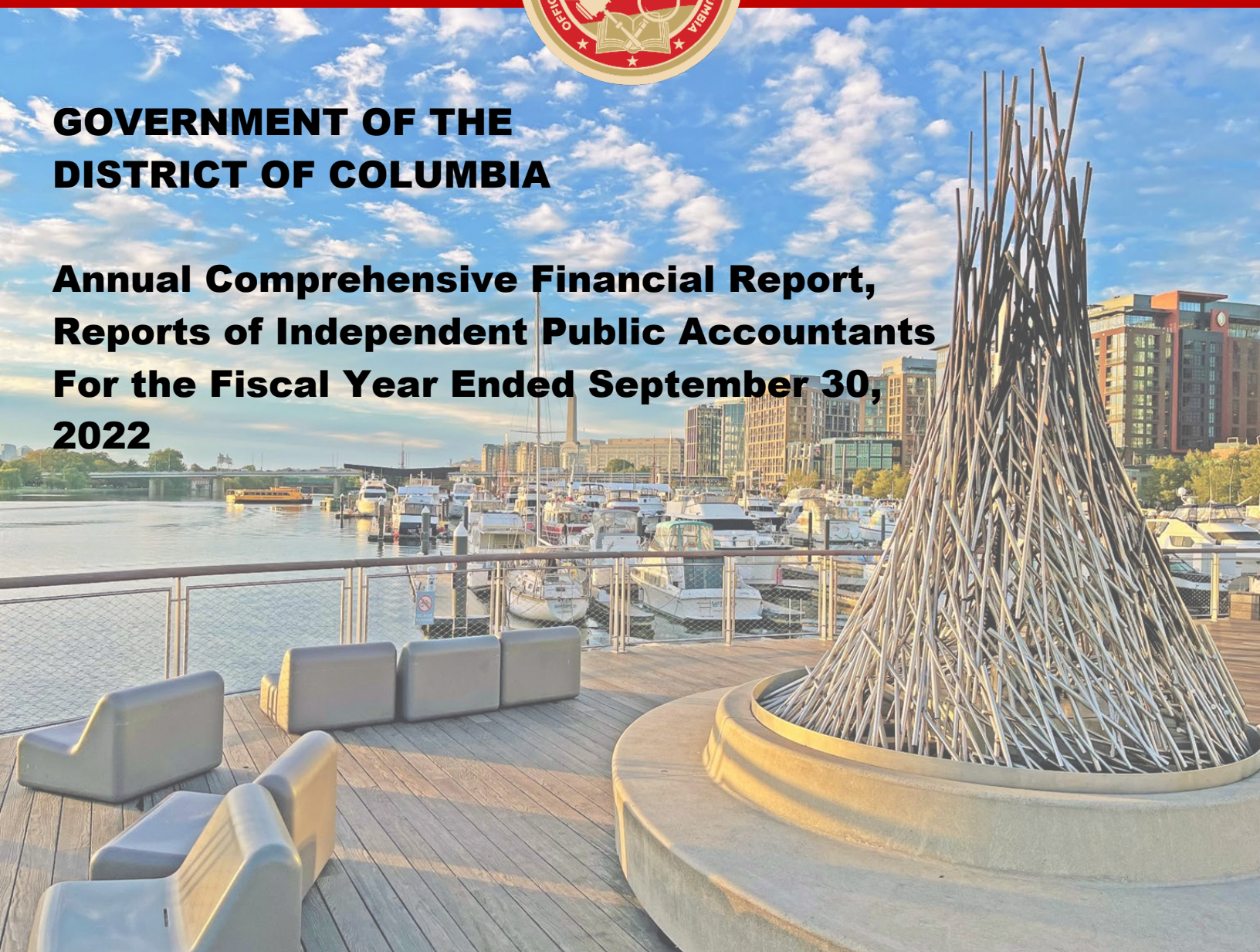
OIG Project No. 22-1-26MA

January 2023



GOVERNMENT OF THE DISTRICT OF COLUMBIA

Annual Comprehensive Financial Report, Reports of Independent Public Accountants For the Fiscal Year Ended September 30, 2022



GUIDING PRINCIPLES

*ACCOUNTABILITY * INTEGRITY * PROFESSIONALISM*

*TRANSPARENCY * CONTINUOUS IMPROVEMENT * EXCELLENCE*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order 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.

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!

Core Values

Accountability * Integrity * Professionalism
Transparency * Continuous Improvement * Excellence



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



January 31, 2023

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

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Government of the District of Columbia Annual Comprehensive Financial Report, Reports of Independent Public Accountants for the Fiscal Year Ended September 30, 2022* (OIG No. 22-1-26MA). 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 2022.

On January 24, 2023, MJ issued its opinion and concluded that the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia are presented fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Although MJ was engaged to audit, MJ does not express an opinion on the financial statements of the aggregate discretely presented component units because it could not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. However, MJ identified 6 material weaknesses and made 10 recommendations to strengthen internal control over the financial reporting of the aggregate discretely presented component units (see schedule of findings No. 2022-01 through 2022-06 of this letter). MJ also made 34 recommendations intended to improve the effectiveness of internal control over District operations and programs (see OIG No. 22-1-26MA(a)).

If you have questions about this report, please contact me or Fekede Gindaba, 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. Jed Ross, Director and Chief Risk Officer, Office of Risk Management
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, 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, 2022, and the related notes to the financial statements. We were engaged to audit the financial statements of the aggregate discretely presented component units. 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, each major fund, and the aggregate remaining fund information of the District, as of September 30, 2022, 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.

Disclaimer of Opinion on Aggregate Discretely Presented Component Units

We were engaged to audit the accompanying financial statements of the aggregate discretely presented component units of the District, as of and for the year ended September 30, 2022, and the related notes to the financial statements.

We do not express an opinion on the accompanying financial statements of the aggregate discretely presented component units of the District. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on Aggregate Discretely Presented Component Units section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on those financial statements.

Basis for Disclaimer of Opinion on Aggregate Discretely Presented Component Units

During the fiscal year ended September 30, 2022, the Washington Convention and Sports Authority, a major component unit of the District, was subjected to a ransomware cyber-attack, which resulted in a significant amount of financial data of the Authority being encrypted and made unavailable for access by the Authority. As a result of this situation, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Authority's financial statements as of and for the year ended September 30, 2022.



Because the Authority is a material part of the District's discretely presented component units, we are unable to render an opinion on the District's aggregate discretely presented component units' financial statements as of and for the year ended September 30, 2022.

Report on Summarized Comparative Information

We have previously audited the District's 2021 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the and the aggregate remaining fund information in our report dated January 24, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 12 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.

Our responsibility is to conduct an audit of the District's financial statements 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 and to issue an auditor's report.

However, because of the matter described in the Basis for Disclaimer of Opinion on Aggregate Discretely Presented Component Units section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units financial statements.

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 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, 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.

Emphasis of Matter

As discussed in note IY to the financial statements in the year 2022, the District adopted the provisions of GASB Statement No. 87, *Leases*. As a result of the implementation of GASB Statement No. 87, the District showed the cumulative effect of the recognition of the right-to use assets, lease liabilities, leases receivables, and deferred inflows of resources related to the lease contracts and did not restate the fiscal year 2021 amounts. Our opinion is not modified with respect to matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 27 to 50), schedules of employer contributions – Pension (pages 159 and 160), and schedules of changes in net pension liability (asset) and related ratios (pages 161 and 162) for the Teachers' Retirement Fund and the Police Officers' and Firefighters' Retirement Fund, and schedule of employer contributions – Other Post Employment Benefits (OPEB) (page 164) and schedule of changes in net OPEB liability (asset) and related ratios (page 165) 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 170 to 172), nonmajor governmental funds (pages 178 to 180), fiduciary funds (pages 182 to 183), and budgetary supporting schedules (pages 188 to 198) 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 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, 2023, 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.

Washington, D.C.
January 24, 2023



**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***

Independent Auditor's Report

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, 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, 2022, and the related notes to the financial statements. We were engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the District's basic financial statements, and we have issued our report thereon dated January 24, 2023.

We were engaged to 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, the financial statements of the aggregate discretely presented component units of the District as of and for the year ended September 30, 2022, and we have issued our report thereon dated January 24, 2023. Our report disclaims an opinion on the financial statements of the aggregate discretely presented component units because we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Washington Convention and Sports Authority (Events DC).

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. We did identify certain deficiencies in internal control over the aggregate discretely presented component units' financial reporting, specifically Events DC as described in the Summary Schedule of Findings and Responses as Findings No. 2022-01 through 2022-06, that we consider to be material weaknesses.



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 Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Events DC's responses to the findings identified in our audit and described in the accompanying Summary Schedule of Findings and Responses as shown in Findings No. 2022-001 through 2022-006. At the conclusion of our audit, we received Event DC's views on our findings, recommendations, and conclusions in writing, which were incorporated under views of responsible officials included in the accompanying Summary Schedule of Findings and Responses. Events DC's responses include partial concurrence by management with our audit findings and reasons for such differences. However, Events DC's responses did not provide sufficient evidence to support its partial concurrence. Based on Events DC's responses, we re-examined our facts and conclusions and determined that the Summary Schedule of Findings and Responses is fairly presented. The responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on Management's Responses.

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 District'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.

Washington D.C.
January 24, 2023

Summary Schedule of Findings and Responses

Year Ended September 30, 2022

FINDINGS – MATERIAL WEAKNESSES

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

Condition

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. Given the significant amount of documentation unavailable to be audited, management has made a commitment to hire a forensic firm to reconstruct the books and records of Events DC for fiscal year 2022.

Criteria

Management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. In addition, management is responsible for implementing and evaluating its internal control system, including internal controls to meet reporting objectives related to the preparation of reports for use by Events DC, its stakeholders, or other external parties. This includes performing information system back-ups, testing and restoring data in a manner that ensures recovery of systems and continuity of operations in the event of a disaster.

Cause

Events DC did not have a policy for back-ups and failed to properly back up and test data to ensure that in the event of data loss, a full recovery is possible.

Effect

Events DC had a significant cyber event, which resulted in financial data loss and our inability to perform sufficient audit work to render an opinion on Events DC's financial statements as of and the year ended September 30, 2022. The cyber event resulted in a significant amount of financial data being lost.

As a result, we elected to issue a disclaimer of opinion on the fiscal year 2022 financial statements of the aggregate discretely presented component units.

Recommendation

Management should ensure internal controls are maintained to achieve reliable financial reporting. We recommend that Events DC's management:

1. Update its policies and procedures to include proper back-up of data based on the guidance set forth in NIST 800-53 standards CP-9 and CP-10.
2. Perform regular backups of IT system data and store those backups in an offsite location
3. Regularly test the ability to restore critical systems and data, and document and mitigate any irregularities identified by the tests.

Management's Response

Disputed in part. Events DC disputes that it "did not have a documented backup policy". Events DC acknowledges, however, that its offsite storage policy was not fully adhered to and that the policy may have contained functional deficiencies. In response, Events DC has, among other measures: (i) updated policies and procedures to include proper backup of databases on NIST 800-53 standards CP-9 & CPI 10, (ii) modified its offsite backup policy for backups to occur weekly, (iii) adopted practices and processes designed to at least minimize, if not eliminate, human error, and (iv) scheduled a test restore of critical data to detect and document irregularities.

Summary Schedule of Findings and Responses

Year Ended September 30, 2022

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

Condition

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.

Criteria

Management has a responsibility to safeguard Events DC's network, data, and system infrastructure from all threats; both internal and external by detecting and preventing threat actors from accessing the network, stealing data, and causing disruption.

Cause

Events DC did not have a documented automated threat detection system that would automatically detect, alert, and remove malicious code.

Effect

Critical systems within Events DC's network were compromised, causing disruption and data loss. Notably the system of record was compromised, and logs were lost that reduced the ability to depend on system generated reports.

Recommendation

We recommend that Events DC's management:

4. Document and implement an automated threat detection system that will automatically detect, alert, and remove malicious code.
5. Document and implement a continuous monitoring process to assess risk to Events DC from emerging threats and make necessary adjustments.

Management's Response

Concur in part. Events DC has upgraded its EPP solution from Palo Alto Traps to Carbon Black and implemented a third party 24x7 Security Operations Center (SOC). The contention that Events DC "did not have a documented continuous monitoring process. ..." is not completely accurate. It must be noted that the cyber incident that occurred during FY22 was quickly detected and contained by Events DC, and its immediate response - which involved the assembly of an incident response team comprising cybersecurity forensic and restoration experts, breach counsel, and supplemental information technology staffing, ensured that business operations were minimally disrupted and damage to Events DC's technology environment was non-crippling.

Summary Schedule of Findings and Responses Year Ended September 30, 2022

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

Condition

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

Criteria

Management has a responsibility to ensure that audit logs are created, maintained, and safeguarded against threats to information systems.

Cause

Events DC did not have policies, procedures, and tools to protect and retain system logs, including both systems of record.

Effect

Subsequent to a system compromise, no logs were available to determine the full extent of the breach and its effect on data in both the new and old financial systems. As a result, the auditors were not able to gain sufficient comfort that all remnants of the intruders were removed and that the data within the system was not compromised.

Recommendation

6. We recommend that Events DC management develop and implement a policy that identifies, based on risk and compliance, system logs that should be retained and for how long. This includes logs generated by third-party software. In cases where the third party does not retain for the entity defined timeframe, management should implement a system of retention outside of the third-party network.

Management's Response

Concur in part. Events DC is currently reviewing its log management posture and will be modifying it to include log archiving to meet these criteria; however, it was previously explained to the auditors that Oracle does not retain more than seven days of system logs, hence information from September 2022 is not available. Events DC did furnish McConnell Jones with alternate logs to demonstrate that its environment was not further compromised.

Finding No. 2022-04 – Weak Vulnerability Management Program

Condition

Events DC did not follow its policy of performing semi-annual vulnerability scanning, which was noted as a prior year finding and closed in the subsequent year. A scan was performed in March 2022, but no further scans were performed during fiscal year 2022. No additional scans were performed immediately following the September 2022 cyber-attack until January 2023 in direct response to our inquiries. Without regular scans, or a vulnerability scan being performed in a timely manner after the cyber-attack, the possibility remains that there are vulnerable software(s), backdoors, and other vulnerabilities or weaknesses in the environment.

Criteria

Management has a responsibility to conduct regular vulnerability scanning to safeguard against threats to the network. Events DC's vulnerability management program did not provide auditors with assurance that the system is properly protected from threat actors.

Summary Schedule of Findings and Responses

Year Ended September 30, 2022

Cause

Events DC did not comply with its information technology policy on performing semi-annual vulnerability scans to safeguard the network.

Effect

Management was unable to provide the auditor with a recent vulnerability scan to provide reasonable assurance that the system and system data are properly safeguarded from attack. As a result, we were unable to gain comfort that all remnants of the intruders were removed and that the data within the system was not compromised.

Recommendation

We recommend that Events DC's management:

7. Develop and implement a stronger policy to ensure that Events DC performs regular vulnerability scanning based on risk to the environment. These scans should ensure that all the potential sources of vulnerabilities—such as infrastructure components (e.g., switches, routers, guards, sensors), networked printers, scanners, and copiers—are covered.
8. Consider performing additional scans during fiscal year 2023 in response to the cyber-attack to ensure that all remnants of the intrusion have been found and eliminated.

Management's Response

Events DC disputes this finding. The auditor asserts that Events DC "did not follow [its] policy of performing semi-annual vulnerability scanning". See "Condition". It notes, however, that a scan "was performed in January 2023 in direct response to the auditor's inquiries". As a result, the auditor maintains, "management was not able to provide the auditor with a *recent* vulnerability scan to give reasonable assurance that the system and system data are properly safeguarded from attack, a statement which clearly contradicts the previous assertion. Moreover, it was explained to the auditors that Events DC does conduct semi-annual scans, and that a scan was performed at the end of March 2022, with the next scan scheduled for October 2022, followed by a scan in February 2023. After the cyber incident in September 2022, Events DC's cyber forensics consultants worked to detect any existing or latent vulnerabilities as part of its overall investigation. Events DC completed its most recent vulnerability scan in January 2023. A scan and penetration test are scheduled for April 2023.

The auditors also note an inability "to get comfort that all remnants of the intruders were removed and that the data within the system was not compromised". Such a statement is highly subjective whereas here, it was not effectively communicated to Events DC as to what exactly would merit "comfort" to the auditors. Moreover, the statement is not accurate. On the contrary, it was only after multiple requests from Events DC that the auditors finally clarified what would suffice as acceptable "attestation" of a secure system. As a result, on January 9, 2023, the auditors were provided a letter from Stroz Friedberg, the cybersecurity forensics firm retained by Events DC, describing in detail the containment, remediation, and restoration work completed by Stroz and its partner, PCS.

Summary Schedule of Findings and Responses

Year Ended September 30, 2022

Finding 2022-05 – Lack of Risk Management Framework

Condition

Events DC does not have a risk management framework to govern and manage risk to its information systems.

Criteria

Management has a responsibility to properly safeguard Events DC's systems and data against unauthorized access, use, disclosure, and/or destruction.

Cause

Events DC has not adopted a risk management standard or framework to govern its information systems.

Effect

Events DC had ad hoc policies and procedures in place which led to inadequate controls and procedures. These ad hoc control policies and procedures did not operate effectively to prevent or detect and protect Events DC from threat actors discussed above.

Recommendation

9. We recommend that Events DC adopt a risk management framework relevant to its position as a quasi-government organization (e.g., NIST 800-53 rev 5). Events DC should adopt a risk-based approach based on the selected standard and ensure that its policies, procedures and controls adhere to that standard and that they enable controls which are adequately designed to effectively prevent or detect and protect against cyber intrusions.

Management's Response

Concur in part. Events DC is currently reviewing NIST 800-53 rev 5, and its Technology Management Division will be implementing this in February 2023. Further, Events DC has upgraded its EPP solution from Palo Alto Traps to Carbon Black and has implemented a third party 24x7 Security Operations Center (SOC). The contention that "Events DC does not have a risk management framework to govern and manage IT risks" (see "Condition") is not accurate. In fact, the auditor contradicts this very statement by noting that Events DC indeed "had ad hoc control policies and procedures". While the auditor further asserts that the framework "did not operate effectively to prevent or detect and protect Events DC from threat actors" (see "Effect"), it is indisputable that the cyber incident that occurred during FY22 was detected by Events DC, and the immediate actions taken - which involved the assembly of an incident response team comprising cybersecurity forensic and restoration experts, breach counsel, and supplemental information technology staffing, ensured that business operations were minimally disrupted and damage to Events DC's technology environment was non-crippling, as evidenced by the fact that email and SaaS solutions (e.g., Oracle, Ultipro, and Ungerboeck) were not affected. The incident notwithstanding, Events DC was able to reproduce all but a portion of its FY22 financial information, which Events DC contends would have no material impact on completing the audit.

Summary Schedule of Findings and Responses

Year Ended September 30, 2022

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

Condition

Events DC had a significant cyber event, which resulted in financial data loss and our inability to perform sufficient audit work to render an opinion on Events DC's financial statements as of and the year ended September 30, 2022.

Criteria

Management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. In addition, management is responsible for implementing and evaluating its internal control system, including internal controls to meet reporting objectives related to the preparation of reports for use by Events DC, its stakeholders, or other external parties.

Cause

We were provided with two sets of trial balances. Additionally, Events DC was not ready for the audit as multiple items were not provided to us to complete our audit procedures in a timely manner.

Effect

The cyber event resulted in a significant amount of financial data being lost. Under Generally Accepted Government Auditing Standards, as set forth by the Government Accountability Office and Generally Accepted Auditing Standards, issued by the American Institute of Certified Public Accountants, we elected to disclaim an opinion on the financial statements due to the overall lack of evidence to support an opinion.

Recommendation

10. We recommend that Events DC reconstruct its accounting records for fiscal year 2022 and generate financial statements based on the reconstructed accounting records. Further, we recommend that Events DC prepare schedules that reconcile to the financial statements and other supporting documentation in order for us to complete the audit.

Management's Response

Events DC, working with the OCFO has completed a scope of work for the hiring of forensic accountants to assist in the reconstructing of the fiscal year 2022 accounting records. The procurement vendor selection process has begun. In addition, the Finance Division will begin saving reports and supporting financial data independent of the Oracle financial system monthly, beginning with October 2022. This will provide additional backups to offsite cloud storage and Oracle Fusion system. Our process will include saving in PDF format our monthly General Ledger, Trial Balance, Journal Entry, Disbursement, Cash Receipt, Fixed Assets and any other financial reports in a secured folder on the OneDrive Cloud Directory. We will also begin saving in hard copy form the following: AP Vouchers and Supporting Documentation, Cash Receipt Journals and Supporting Documentation, and Journal Entries and Supporting Documentation in an off-site storage facility.

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