National Aeronautics and Space Administration

**George C. Marshall Space Flight Center**
Marshall Space Flight Center, AL 35812

July 7, 2022

Reply to Attn of: RS03

TO: Marshall Child Development Center Board of Directors

FROM: RS03/Felicia H. Stovall

SUBJECT: Review of the Marshall Child Development Center Financial and Operating Activities

The Marshall Space Flight Center (MSFC) Office of the Chief Financial Officers' Quality Assurance and Controls Office conducted a review of the Marshall Child Development Center (MCDC) to assess whether sufficient controls over the management, financial, and operational activities are in place and provide reasonable assurance that resources are being used efficiently and effectively. To ensure that eligible families continue to have access to affordable childcare services, we analyzed MCDC payroll expenses and childcare tuition rates at two local childcare centers (Ardent Preschool and Daycare Redstone and Childcare Network) as well as NASA Child Care Centers at Goddard Space Flight Center (GSFC), Johnson Space Center (JSC), and Kennedy Space Center (KSC).

## Background

In April of 1990, the MCDC was incorporated under the laws of the State of Alabama as a nonprofit corporation for the purpose of providing quality childcare at reasonable rates to employees, both civil service and contractors, at MSFC. General membership consists of members of the corporation whose children either attend the MCDC or are on the MCDC waiting list. To increase enrollment, in 2011, the MCDC was opened to all families with Redstone Arsenal affiliation. MCDC's mission is to provide a safe and stimulating learning environment for young children and to work cooperatively with parents and the community.

The MCDC is governed by a seven-member board of directors, also known as the “board” in accordance with the Articles of Incorporation and Bylaws and operates under Roberts Rules of Order. Board positions are elected by members of the corporation. Voting members of the corporation include those on the waiting list and the parents of the enrolled children, with one voting member per household. The Board oversees the operations of the corporation while the MCDC Director reports to the Board. Both the Director and Assistant Director are non-voting members of the Board and lead the day-to-day operations of the MCDC. Both the Director and the Assistant Director comprise the MCDC management team, referred to as MCDC Management throughout the report. As a tax-exempt corporation, all donations to the MCDC are tax deductible. The MCDC contracts with the CPA firm, BMSS Advisors & CPAs, for federal income tax return preparation and payroll services only. In accordance with the National Aeronautics and Space Act (51 U.S.C. § 20113), MSFC entered into an agreement with the MCDC to provide on-site childcare as a benefit for the MSFC workforce. The National Aeronautics and Space Act states that NASA may "acquire, construct, improve, repair, operate, and maintain related accommodations for employees and dependents of employees of the Administration." It also states NASA may provide "other necessary facilities for the welfare of employees of the Administration at its installations and purchase and maintain equipment therefor." The MCDC was constructed for the sole purpose of providing childcare accommodations for MSFC employees with dependent children, which has proven to be invaluable to MSFC employees.

Although the transfer of funds between parties is prohibited by the Space Act Agreement, many of the associated fixed costs for MCDC are funded through MSFC's Center Operations budget (e.g., land and facilities, grounds maintenance, equipment and furniture, computer seats and related support, utilities, security support, etc.). When compared to other childcare centers, the MCDC has very few fixed costs to manage. In October 2011, MSFC's Center Operations terminated funding for janitorial services from its budget, and MCDC absorbed this cost. MSFC's Center Operations budget funds the majority of the MCDC facility related costs, significantly reducing the total cost of doing business and leaving payroll as the major expense. Payroll expenses and the number of enrollments are the two major cost drivers or key activities that directly impact business expenses for MCDC.

The MCDC is accredited by the National Accreditation Commission, which directs the curriculum and required staff-to-child ratios for the organization. While accreditation can offer various advantages, such as demonstrating quality performance, defining standards and requirements, and training and evaluating childcare employees and facilities, sustaining an accredited program can be time-consuming, complex, and painstaking. Accreditation may come at a substantial financial cost to parents and rising tuition costs will undoubtedly cause many families to consider other alternatives for childcare. Due to accreditation restrictions on staff-to-child ratios and group sizes, MCDC's program enrollment capacity is capped. As such, MCDC management and the board of directors will need to search for options to minimize expenses and increase revenues while keeping in mind the availability of other high-quality, low-cost childcare options (see Appendix A, Analysis of MCDC Operations).

## Scope and Methodology

During our review, we examined MCDC's internal control structure to determine if controls were adequate and provided reasonable assurance that transactions were properly recorded, processed, and summarized, assets were safeguarded, and financial transactions were executed in accordance with applicable laws and regulations. We evaluated the internal controls over the general ledger, cash accounts, and financial records for the period January 1, 2019 through December 31, 2020.

We examined MCDC's operations to include a review of their Small Business Administration (SBA) backed Paycheck Protection Program (PPP) Loan and Forgiveness application. PPP loans helped businesses keep the workforce employed during the COVID-19 crisis. Additionally, we performed an analysis of tuition rates for comparable childcare centers near the MCDC and the tuition rates of childcare facilities at NASA's Goddard Space Flight Center (GSFC), Johnson Space Center (JSC), and Kennedy Space Center (KSC). The initial fieldwork for our review was conducted from January 13, 2022, through February 11, 2022, and extended through April 29, 2022, to provide a final opportunity for MCDC management and the board to provide evidence so that we could have a full and complete understanding of the issues presented.

Since the MCDC did not prepare a statement of financial position and related statements of activities, functional expenses, and cash flows, we were not able to determine the financial condition of the MCDC as of December 31, 2019, and December 31, 2020.

## Prior Audit Coverage

Our previous review of the MCDC's financial and reporting activities, dated April 20, 2012, tested controls over the management, financial, and operating activities of the MCDC to provide reasonable assurance that resources were being used efficiently and effectively. We examined the MCDC's finances to determine if financial reporting processes were sound, activities were being accomplished in accordance with policies and procedures, and assets were being safeguarded against waste, loss, and misuse. We found that MCDC Management was involved in the day-to-day operations, understood their roles, and had their respective files in good order. In addition, we found policies to delineate roles between the MCDC Management and the Board. However, we found internal control weaknesses with the potential to adversely affect management controls throughout the financial operations of the MCDC. We also found instances where adequate key controls were not in place or existing controls were not being followed and improvements could be made. While we found evidence that a majority of the findings were corrected, we did note several recommendations from the prior audit report that were not satisfactorily resolved.

## Results

The MCDC Management is comprised of two managers who are responsible for all aspects of the business, including the financial operations. The Director is responsible for the daily operations of the business, including paying the respective bills; collecting tuition payments and making deposits; and establishing member accounts and setting billable rates. The Assistant Director is responsible for reviewing the timecards for accuracy; creating employee accounts and adjusting salary rates; and managing employee vacation accrual balances and manually adjusting balances and accrual rates. Both the Director and the Assistant Director make purchases in support of the business, with most of the purchases being made by the Assistant Director. There are three credit cards in use by MCDC. The first credit card is issued in the name of MCDC. The other two credit cards are issued in the names of the Director and Assistant Director and are used for purchases.

While managing MCDC's daily finances is the job of MCDC Management, the Board has ultimate responsibility and duty for financial oversight of the MCDC's financial affairs. This responsibility also includes approving the annual budget, compliance with financial controls, and frequently evaluating the MCDC's financial health and ensuring the MCDC's financial sustainability. Financial reporting on a regular basis will provide key information to the Board while also allowing Board members the opportunity to make sound financial decisions. Without key financial information, there is no way to determine whether assets, liabilities, revenues, and expenses are properly classified and recorded, net assets agree between statements, debt issuance is correct, expenditure amounts agree with the records, and balances agree with the financial statements.

Because of the COVID-19 Pandemic, MCDC faced a significant loss of revenue due to temporary closures, decreased enrollment, and pandemic-related guidelines limiting group sizes. In 2020 and 2019, labor costs were approximately 88% and 86% of the MCDC actual expenses (see **Figure 1A** below). At the same time, MCDC faced increased costs for pandemic and safety and health- related items such as personal protective equipment (PPE), cleaning supplies, and sanitization equipment. For MCDC, fixed labor costs like salaries and wages, employee benefits, payroll taxes, bonuses, and a 401(k) plan did not decline significantly from 2019 to 2020 (see **Figure 1B** below). Although MCDC applied for and received help from the federal Paycheck Protection Program (also known as PPP loans and grants), this, along with a limited one-month cash reserve for operations, was not sufficient for a prolonged crisis like the pandemic.

To help offset some of the loss in revenues and increased expenses, MCDC Management, the

Board, and membership recently approved an increase in childcare tuition rates. We performed an analysis of the MCDC childcare tuition rates with Ardent Preschool and Daycare Redstone (hereinafter referred to as “Ardent”) and Childcare Network. We found that MCDC is in alignment with Ardent. However, it was not in alignment with Childcare Network and may not be so with other childcare centers in the surrounding area (see **Figure 2A** below). Additionally, we found that MCDC's childcare tuition rates exceeded those of NASA's JSC and KSC (see **Figure 2B** below). MCDC childcare tuition rates were only slightly lower than those at GSFC Child Development Center. Nevertheless, MCDC has little to no room remaining to pass along rising costs to parents and will have to address its present business model by balancing services and expenses.

Overall, we identified opportunities to strengthen internal controls and to implement additional checks and balances. Implementation of the recommendations in this report represents, in our judgement, those most suitable to provide a greater likelihood that the MCDC's objectives are achieved by strengthening internal controls over financial management; increasing the effectiveness and efficiency of operations; ensuring the safeguarding of assets; and providing reasonable assurance that the MCDC is operating in compliance with applicable laws, policies, procedures, rules, and regulations.

## Findings and Recommendations

### Financial Reporting and Controls

**Control 1 - Deposit Accounts Concentration Risk.** We found that $142,559 and $45,535 of MCDC's cash deposits into the ServisFirst Bank accounts were not insured. The FDIC (Federal Deposit Insurance Corporation) is a US government institution that provides deposit insurance of up to $250,000 per ownership category against bank failure. FDIC deposits held under each name are not separately insured but combined to determine whether a depositor has exceeded the $250,000 federal deposit insurance limit per deposit for each account ownership category. As of December 31, 2019, and 2020, the uninsured balances of the ServisFirst bank accounts were more than the FDIC insured limits by $142,559 and $45,535 respectively, and account balances never fell below the $250,000 FDIC insured limit for 2019 or 2020. As a result, cash deposit bank accounts at ServisFirst Bank expose the MCDC to a concentration of credit risk.

**Recommendation:**

1. The MCDC Management should examine account balances monthly to verify that cash levels do not exceed the FDIC limit. We propose increasing the frequency with which funds are disbursed from these accounts or transferring the amount that exceeds the FDIC account limit to another account if the balances are constantly above the federally insured limit. To ensure compliance with the Department of Treasury's Financial Manual (TFM), Volume 1, Part 5, and Section 9040 - Securing Agency Accounts (including subsections) FDIC Regulation, we recommend the MCDC Board increase its oversight and monitoring of MCDC's cash holdings.

**MCDC Board's Comments:**

MCDC will increase its oversight and monitoring of cash holdings. MCDC will open account(s) at additional financial institutions(s) no later than 1 August 2022. Additionally, MCDC will add the requirement to ensure funds do not significantly exceed the FDIC account limit to the MCDC Business Practice Manual. Updates to the Business Practice Manual will be finalized after the MCDC bylaws are updated in the coming months.

**Evaluation of the MCDC Board's Response:**

The Board's proposed actions are responsive to the intent of the recommendation; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

**Control 2 - Large Expenditures and Purchases (Over $1,000).** We found that MCDC Management did not follow the MCDC Business Manual (dated May 31, 2013) policies and procedures for segregation of duties and proper authorization of large expenditures. We identified five separate checks (shown below), each exceeding $1,000, two of which were counter checks "made out to cash" with only one signatory (or signature). We determined that the same individual that can sign expense checks also has the authority to approve payment for these checks. Additionally, one individual can write checks payable to "cash" without an additional signature and act as the payor, writing and signing checks on behalf of MCDC operations. The duties of authorization (signing a check), custody (having access to the blank check stock or ability to transfer to another account), and recordkeeping (ability to record the transaction in the accounting system) should be separated so that one individual cannot complete a transaction from start to finish.

Check #10556 to Halsey Food Service, dated July 30, 2020, in the amount of $1,238.19, signed by Kelli Wright, Memo - None.

Counter check to Cash, dated July 22, 2020, in the amount of $1,050, signed by Kelli Wright, Memo-35-$20's, 35-$10's.

Check #10533 to Layne & Kelli Thompson, dated June 12, 2020, in the amount of $2,511.00, signed by Kelli Wright, Memo-None.

Counter Check to Cash, dated May 17, 2019, in the amount of $1,329.00, signed by Kelli Wright, Memo - None.

Check #10524 to Halsey Food Service, dated April 15, 2020, in the amount of $2,179.13, signed by Kelli Wright, Memo-None.

**Recommendations:**

1. The MCDC Management should obtain MCDC Board approval and keep records of such consent prior to making large expenditures or purchases.

2. The MCDC Board should require MCDC management to have proper authorization and supporting documentation for large expenditures and purchases.

**MCDC Board's Comments:**

MCDC is updating our Business Practices Manual and will include updated policies and procedures for segregation of duties and proper authorization of large expenditures, as well as improved recordkeeping for all expenditures. While the expenditures noted above were all signed by the MCDC Director, the authority for those expenses was given by the MCDC Board through the annual budget and day-to-day operating procedures of the MCDC.

We are working with BMSS Advisors & CPAs to update our billing practices through Bill.com, which will enable dual authentication procedures on all expenditures. In the event a check transaction is required, the MCDC Director will be required to obtain MCDC President or Treasurer approval for all transactions equal to or exceeding $5000. The Business Practices Manual will include procedures for proper record keeping, including proper authorization, and supporting documentation for all expenditures. For checks less than $5000, the MCDC Director will have authority for both authorization and custody, and the treasurer will have recordkeeping responsibility. For checks equal to or greater than $5000, the MCDC Board will authorize all payments, the MCDC Director will have custody of the checks, and the treasurer will have recordkeeping responsibility. The MCDC Director or Treasurer will present all written checks during the monthly budget discussion.

**Evaluation of the MCDC Board's Response:**

The Board's proposed actions are partially responsive to the intent of the recommendation. While we believe the proposed action is responsive, we were not provided an expected date of completion to update the Business Practices Manual and policies and procedures for segregation of duties, authorization of large expenditures, supporting documentation for all expenditures, as well as improved recordkeeping for all expenditures, or the planned implementation date for Bill.com and the update to the billing practices, which enable dual authentication procedures on all expenditures. This recommendation will be closed upon completion and verification of the proposed actions.

**Control 3 - Reconciling Bank Statements.** For 2019 and 2020, we found that the CPA company, BMSS Advisors & CPAs, did not reconcile the monthly bank statements for the ServisFirst Bank and Redstone Federal Credit Union bank accounts within a reasonable timeframe. We further examined MCDC management's bank reconciliations to determine whether bank statements had been reconciled within 30 days of the statement date. We reviewed 96 bank statements from four separate bank accounts over the course of a two-year period (2019 and 2020). Thirty-four of the 96 bank statements were not reconciled within 30 days of the statement's date. The reconciliations took anywhere from 32 to 63 days for the 34 bank statements that were reconciled 30 days or more after the bank statement dates. Since bank reconciliations reveal discrepancies between bank account statements and bank balances shown in the general ledger, at a specific point in time, they should be reconciled in a timely manner. Policy and procedures should specify a standard timeframe for these reconciliations that should be followed for all bank accounts, and the reason for any deviations from the deadline should be documented.

**Recommendation:**

1. The MCDC Management and the Treasurer of the Board of Directors should conduct monthly validations or verifications of bank reconciliations and accompanying documentation.

**MCDC Board's Comments:**

Existing business practices of the MCDC Director manually providing bank statements to BMSS resulted in the delayed reconciliation. Effective 27 June 2022, BMSS has read-only access to our accounts at ServisFirst and Redstone Federal Credit Union, which has streamlined our business practices and will eliminate future delays in reconciliation. MCDC will add a requirement to our bylaws for the Treasurer to present monthly validations and verifications of bank reconciliations, and for the Secretary to record such discussions. MCDC will also reflect an expectation of timely engagement with BMSS to the MCDC Director's performance plan.

**Evaluation of the MCDC Board's Response:**

The Board's proposed actions are partially responsive to the intent of the recommendation. While we believe the proposed action is responsive, we were not provided an expected date of completion for adding the requirement to the bylaws for the Treasurer to present monthly validations and verifications of bank reconciliations; a recording of such discussions by the Secretary; and an update of the MCDC Director's performance plan of expectations for timely engagement with BMSS. This recommendation will be closed upon completion and verification of the proposed actions.

**Control 4 - Preparing the Operating Budget.** We found that comprehensive financial discussions around the preparation and approval of the MCDC annual budget were not always documented. The MCDC Business Manual (dated May 31, 2013) policies and procedures and bylaws require the Treasurer to prepare a monthly budget spreadsheet summary or report of the MCDC's financial condition for presentation at the monthly board of director's meeting. The Treasurer is also required to prepare the annual budget, in consultation with the Board, to be approved at the general membership/open forum meeting. While we were provided board meeting minutes that briefly mentioned finances, the discussions contained within these documents primarily focused on childcare issues and lacked details for the monthly and annual financial reporting.

We reviewed the Board minutes provided for the years 2019 and 2020 and did not find evidence of a report of MCDC's budget on a monthly or annual basis. Furthermore, the documentation lacked specificity to determine whether the documentation was presented and/or approved at the annual meeting. The annual budget proposal presentations lacked details as to the date of the presentation, the date of the general membership/open forum meeting, who presented the budget proposal, whether the budget proposal was presented and approved at the general membership meeting, the budget proposal option, which option was approved and adopted, the vote count, and if votes were in-person or absentee.

**Recommendations:**

1. The MCDC Board should dedicate a portion of the Board's meeting time to discussing monthly budget issues. The Board should ask the MCDC Management to compare the approved budget against the actual results, including developing a concrete plan to address any deviations.

2. The MCDC Board Treasurer should provide a monthly budget spreadsheet summary of MCDC's budget and financial position for discussion at the monthly board meeting and an annual budget report for presentation at the general membership/open forum meeting.

3. The MCDC Board and MCDC Management should maintain adequate supporting documentation for the approval and adoption of the annual budget and retain records of the budget discussions.

**MCDC Board's Comments:**

Effective 1 July 2022, the MCDC Treasurer will present a monthly budget update to the Board, which will include a detailed report of actuals and comparison with the approved budget and a discussion of any substantial deviations. This requirement will be added to the MCDC bylaws. The MCDC Director will present the status of late tuition payments at all Board meetings, in keeping with the Board responses to the 2012 audit.

While these presentations and discussions have been occurring as required, the MCDC Board Secretary did not adequately reflect those discussions or the annual budget process in the minutes. The MCDC Board will ensure future minutes reflect all financial discussions, including attaching the budget update to the final approved minutes. Purchasing not directly related to the day-to-day operations of the MCDC will be reflected as being approved in the meeting minutes. The MCDC Board will ensure adequate supporting documentation for approval and adoption of the annual budget is maintained going forward.

**Evaluation of the MCDC Board's Response:**

The Board's proposed actions are partially responsive to the intent of the recommendation. While we believe the proposed action is responsive, we were not provided an expected date of completion for updating the bylaws to include the requirement that the Treasurer present a monthly budget update to include a detailed report of actuals and comparison with the approved budget and a discussion of substantial deviations. This recommendation will be closed upon completion and verification of the proposed actions.

**Control 5 - Records Management.** We found that MCDC Management did not maintain adequate records or provide requested documentation for governance and business operations, including MCDC Board meeting minutes for 2019, credit card and accounts payable statements for 2019 -2020, and the CPA firm engagement letter describing the statement of work for payroll and monthly accounting for 2019 -2020.

**Recommendation:**

1. The MCDC Board should evaluate current record-keeping processes and make modifications to ensure that MCDC Management complies with federal and statutory record-keeping standards.

**MCDC Board's Comments:**

MCDC's current record-keeping processes are inadequate. The MCDC Director and MCDC Board have not kept adequate records and cannot provide historical documentation upon request. The MCDC BOD is updating our bylaws and business practices to require that recordkeeping comply with federal and statutory record-keeping standards and are working with MSFC to identify the best way to implement those processes and associated policies no later than 1 October 2022.

**Evaluation of the MCDC Board's Response:**

The Board's proposed actions are responsive to the intent of the recommendation; therefore, the recommendation is resolved and will be closed upon verification of the proposed actions.

**Control 6 - MCDC 401(k) Defined Contribution Plan.** We found that MCDC provides a 401(k) defined contribution plan as defined by the Internal Revenue Code for all qualifying employees and permits employee contributions up to the maximum allowable, as determined by the Internal Revenue Service. The plan agreement provider is BlueStar Retirement Services, Inc. While we were not provided with the plan documents for the calendar years 2019 -2020, MCDC Management provided us with the plan restatement with an effective date of January 1, 2022. The plan permits current contributions for elective deferrals, employer nonelective contributions, and rollover contributions. Note that the plan document for current contributions is not marked for “employer matching contributions”.

BlueStar was paid $12,823 with a net expense to MCDC of $2,950 for 2019 and paid $12,152 with a net expense to MCDC of $2,863 for 2020, respectively. Administrative fees for 2019 and 2020 were billed to MCDC by BlueStar quarterly at a total of $500 and $12.50 per participant account. These administrative fees exceed 23% of the total payments to the plan provider. MCDC Management informed us that they were no longer making contributions to staff members' defined contribution accounts as of 2011. While we were provided documentation with details of the current defined contribution plan effective January 1, 2022, we could find no evidence or records that an audit of the defined contribution has ever been performed.

**Recommendations:**

1. The MCDC Board should review the retirement plan to verify that the rules and regulations are current.

2. The MCDC Board should ensure that periodic audits are performed to verify that plan documents are current and accurate, the payroll system calculates deferrals correctly, and participant contributions are deposited on a timely basis.

**MCDC Board's Comments:**

The MCDC Board will review the BlueStar retirement plan no later than 1 October 2022 to verify that the rules and regulations are current, and review whether BlueStar Retirement Services, Inc. remains the best provided for MCDC staff. The MCDC Board will update our Business Practice Manual to require bi-annual audits. The first audit will be completed no later than 1 October 2022.

**Evaluation of the MCDC Board's Response:**

The Board's proposed actions are responsive to the intent of the recommendation; therefore, the recommendation is resolved and will be closed upon verification of the proposed actions.

**Control 7 - Operating Reserves.** We found that MCDC did not have sufficient restricted cash reserves set aside and available for operations in 2019 and 2020. In 2020, MCDC was operating with no cash reserves (cash and assets that can readily be turned into cash). To gain a better understanding of the business cycles and cash difficulties, we looked at income, revenue, expenses, and enrollment over a 2-year period (2019 and 2020). MCDC's current requirement of one month of operating reserves is not adequate to cover MCDC's obligations based on its monthly cash flows.

**Recommendations:**

1. The MCDC Board should consider increasing the operating reserves from one month to a minimum of three to six months of expenses based on the operating reserve analysis and given the present economic situations associated with the COVID-19 Pandemic.

2. The MCDC Board should revise the existing operating reserve policy to specify how the operating reserve ratio will be calculated, designate a bank account to hold reserve funds, and specify how frequently operating reserves will be measured and reported to the MCDC Board of Directors and members.

3. The MCDC Board should create a strategy for replenishing operating reserves.

**MCDC Board's Comments:**

MCDC will increase our operating reserves from one month to two months and fund such accounts no later than 1 August 2022. The recommended three to six months of operating reserves does not consider the unique situation under which MCDC operates. The nature of MCDC's business does not demand carrying such quantities of cash. For brief interruptions in MCDC's ability to provide services (e.g., government furloughs), MCDC has continued charging full tuition and paying full-time employees. If the length of the shutdown makes continuing to charge tuition untenable, MCDC employees will be furloughed, thus eliminating expenses. In the event of a sustained decrease in enrollment (as experienced from Q3 2020 through Q1 2021), even historically low enrollment for an entire year would cause a shortfall of about one month's worth of expenses. MCDC does not pay for its facilities, so it does not require reserves for expected or unexpected repair and replacement of fixed assets.

The MCDC Board will update our operating reserve policy no later than 1 October 2022 to specify how the operating reserve ratio will be calculated, designate bank account(s) to hold reserve funds and specify how frequently operating reserves will be measured and reported to the MCDC Board of Directors and members. We will also author a strategy no later than 1 October 2022 for replenishing operating reserves.

**Evaluation of the MCDC Board's Response:**

The Board's proposed actions are partially responsive to the intent of the recommendation. While we believe the proposed action is responsive, we noted the Board did not concur with the suggested minimum of three to six months of expense for operating reserves. However, the Board did provide a justification for their belief given the unique situation under which MCDC operates; therefore, the recommendation is resolved and will be closed upon verification of the proposed actions.

**Control 8 - Financial Management Expertise.** We found that many of the operational risks identified in this report were also areas of concern in our prior report, issued in 2012. We will continue to emphasize these areas to ensure that they are monitored and evaluated more frequently than others. While MCDC continues to face many challenges and constraints, the complexity of operations, limitations of relevant qualifications, and skills in audit, accounting, and financial management hinder the ability of management to monitor and provide effective oversight of internal controls and related risks. This awareness combined with a lack of periodic monitoring, frequency in reporting, availability of information at meetings, insufficient monitoring of key findings and follow-up on prior recommendations, has also impacted the MCDC Boards' ability to make strategic decisions and provide operative oversight.

**Recommendation:**

1. The MCDC Board should consider hiring an independent third-party or individual to manage the MCDC's daily financial operational activities to include posting customer tuition payments; processing the MCDC payroll; issuing 401(k) payments; filing the MCDC employer taxes; performing bank reconciliations; and performing an annual financial review to protect the organization against waste and misuse and to certify the

accuracy of the financial statements.

**MCDC Board's Comments:**

During the 2011-2012 audit performed by NASA MSFC, several findings suggested increasing oversight of MCDC Management's daily business operations. No later than 1 August the Board will create a schedule to review tuition invoicing and payments, staff leave accruals and cash out balances, earn rates and reconciliations, and other operations as required, and ensure the schedule is recorded in the bylaws and/or MCDC Business Practice Manual as appropriate.

The Board will increase oversight over financials to ensure sound business practices are being followed. This audit has shown light to past issues during previous board tenure, including failure to adhere to MCDC bylaws, and failure to follow through with promised changes to business practices made during the 2012 audit. The Board will work alongside MCDC Management to ensure proper processes and procedures are put in place for the future. This Board will ensure the Members trusting their children to MCDC are getting a sound return on their investment.

**Evaluation of the MCDC Board's Response:**

The Board's proposed actions are partially responsive to the intent of the recommendation. While we believe the proposed action will address some of the ongoing concerns, we noted that the Board did not concur with hiring an independent third-party or individual to manage the MCDC's financial operational activities. Additionally, the Board did not concur or respond to performing an annual financial review. We maintain that MCDC's financial records should be reviewed periodically by a certified public accountant, no less frequently than triennially in accordance with MCDC Bylaws Article VIII, Section 1 (dated February 2011). The recommendation will be closed upon completion and verification of the proposed action.

We request written comments from the Board on this report by June 13, 2022. The response should address concurrence or non-concurrence with each recommendation and corrective action plans as well as target completion dates.

We would like to thank you and your staff for the cooperation received during this review. If you have any questions concerning this report, please contact the reviewer Lisa Cook (RS03) at (256) 544-5995, or email, lisa.e.cook@nasa.gov.

Felicia Stovall Digitally signed by Felicia Stovall
Date: 2022.07.07 15:00:19 -05'00'

Felicia H. Stovall
Chief, Quality Assurance & Controls Office

Enclosures:
Appendix A
Appendix B

cc:
AS01/W. Marks
AS01/C. Finn
AS01/K. Wright
AS02/M. McKinstry
ER43/H. Martin
RS01/R. Gordon
RS01/C. Stemple
RS03/C. Brooks
RS03/D. Lyons
RS03/F. Stovall
RS03/L. Cook
RS03/N. Houston
VA000/C. Olden