



HEAD START

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Early Childhood National Centers

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Program Management and Fiscal Operations

Selected Topics: Financial
and Program Management –
Working Together



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Learning Objectives

In this presentation participants will:

- Learn the basics of Head Start financial management
- Learn how strong fiscal management systems impact program goals
- Review fiscal regulations: Uniform Guidance, Head Start Program Performance Standards (HSPPS), and the Head Start Act (HSA)
- Identify key considerations when updating and implementing policies and procedures
- Learn the best (and worst) ways of integrating into program operations
- Discuss the current methods used by your program





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The Changing Landscape

Head Start programs should:

OPPORTUNITY

- Shift from “compliance-only” thinking to a culture of “continuous improvement”
- Move from being simply “good stewards” to demonstrating the impact of the investment in our children, families, and communities



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It's All About Communication





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Foundations of Effective Relationships





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Factors for Effective Communication



- Committed leadership
- Strong relationships and trust among program administrators
- Common vision and goal
- Joint training sessions for staff
- A plan for ongoing communication



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Rethinking Relationships

**Fiscal
Manager**



**Head Start
Director**





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IN the silos...



Fiscal and program staff:

- Function separately
- Don't consider planning or budgeting a collaborative event
- Use regulation and jargon-laden language
- Attend trainings separately
- May view each other as obstacles — “Dr. NO!”



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OUT of the silos...



Fiscal and program staff:

- Work together to plan and budget, including non-federal match
- Promote understanding through precise language
- Support each other's learning
- Jointly make financial decisions
 - Respect each other as resources – “Dr. KNOW!”



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Consider the following



How does your program build relationships between fiscal and program staff?



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Understanding Fiscal Regulations





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Head Start Fiscal Regulations

- **45 CFR Part 75:** Uniform Administrative Requirements, Cost Principles and Audit Requirements for HHS awards (the Uniform Guidance)
- **Head Start Program Performance Standards,** Subparts §1303, §1305, §1302.91, §1302.101, §1302.102
- **The Head Start Act,** especially Sec. 642
- **GAAP** (Generally Accepted Accounting Principles)





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Uniform Guidance – 45 CFR Part 75

<http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75>

ELECTRONIC CODE OF FEDERAL REGULATIONS

View past updates to the e-CFR.
Click here to learn more.

e-CFR data is current as of September 29, 2016

[Title 45](#) → [Subtitle A](#) → [Subchapter A](#) → [Part 75](#)

[Browse Previous](#) | [Browse Next](#)

Title 45: Public Welfare

PART 75—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR HHS AWARDS

Contents

[Subpart A—Acronyms and Definitions](#)

[§75.1 Acronyms.](#)

[§75.2 Definitions.](#)



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What's changed with Uniform Guidance?



- ✓ Performance goals
- ✓ Less prescriptive – more flexible
- ✓ Procurement
- ✓ Audit requirements
 - ✓ *And more...*



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Uniform Guidance Procurement Management

Procurement Standards

45 CFR §§ 75.326–75.335

- Documented procurement procedures
- Written conflict of interest policies
- Procurement methods (micro and small purchase, sealed bids, competitive proposals, non-competitive proposals)
- Oversight to ensure contractors perform in accordance with contract terms



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Audit Changes and Resources



Uniform Guidance and Audits

45 CFR §§ 75.500–75.520

- Annual threshold now at \$750,000
- Audits must disclose if non-federal entities (NFE) are using de minimis rate
- Threshold for questioned costs increases to \$25,000+
- Auditors must use a risk-based approach to determine major programs
- Audit reports, except for tribal governments, will now be available to the public online



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Key Appendices

Don't Forget the Uniform Guidance 45 CFR Part 75 Appendices I–XII



- Appendix II – Contract Provisions for Non-Federal Entity Contracts Under Federal Awards
- Appendix III, IV, VII – Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education, Nonprofits, and Governments/Indian Tribes





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Head Start Program Performance Standards

How do the Head Start Program Performance Standards (HSPPS) affect the Uniform Guidance?



- Fiscal requirements in HSPPS are consistent with the Uniform Guidance
- HSPPS refers to financial requirements in the Head Start Act, the Uniform Guidance, and other statutes and regulations, but does not restate them in the HSPPS



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HSPPS – What has changed in fiscal?

- New staff qualifications for fiscal officer § 1302.91(c)
- Uniform Guidance 45 CFR Part 75 is applicable to HHS grants § 1303.3
 - Insurance and bonding § 1303.12
- Automated accounting system § 1302.101
 - Facilities § 1303 Subpart E
 - Definitions § 1305.2



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What has **not** changed in fiscal?



Fiscal requirements in the Head Start Act

- Non-federal match **Sec. 640(b)**
- Administrative cost limitations **Sec. 644(b)**
- Davis Bacon Act compliance **Sec. 644(g)(3)**
- Salary compensation limitation at Level II
Executive schedule **Sec. 653(b)**
- Accurate and regular reporting to governing
body and Policy Council **Sec. 642(d)(2)**



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Questions to Consider



- What fiscal changes are having the biggest impact on programs?
- What do you want to learn more about in this section?



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Aligning Fiscal Systems to Program Goals



- Strong program-fiscal-governance relationships
- Effective communication, financial planning, and budgeting
- Data-informed decisions that reflect resources needed to accomplish program goals and objectives



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Fiscal Management Systems and Five-Year Performance Goals



Grantees should demonstrate that their fiscal decisions and operations are aligned with program goals and objectives and informed by program data.





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Group Activity

- Where are you in the process of **updating** your fiscal policies and procedures to include changes in the Uniform Guidance and HSPPS?
- Where are you in the process of **implementing** the changes to the Uniform Guidance and HSPPS?
- What are the most **significant** aspects of implementation?
- What **questions** do you still have about the Uniform Guidance and HSPPS?



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Policies & Procedures Structure (cont'd)

EXAMPLE

IV. Procurement (45 CFR §75.326 – §75.335)

- *General Procurement Requirements*
 - A. *Written Standards of Conduct Covering Conflicts of Interest and governing performance of employees engaged in selection, award and administration of contracts*
 - B. *Organizational Conflict of Interest*
 - i. *Written policies that include disciplinary actions for violations*
 - ii. *Written Standards of Conduct Covering Organizational Conflicts of Interest if NFE has a parent, affiliate or subsidiary that is not a state, local government or Indian Tribe*



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Policies & Procedures Structure (cont'd)

EXAMPLE

III. Financial Statements and Reporting (45 CFR §75.302)

- A. Frequency of preparation of financial statements*
- B. Review and distribution*
- C. Distribution of financial statements to the board*
- D. Annual financial statements*
- E. Budget reports*
- F. Fiscal reports to funding sources*
 - i. Policies specific to each funding source with due dates and close-out instructions (SF-425)*
 - ii. Annual reporting on real property (SF-429)*
 - iii. Close-out of federal awards*



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Resources

- ECLKC <https://eclkc.ohs.acf.hhs.gov/hslc>
- 45 CFR Part 75 regulations <http://www.ecfr.gov/cgi-bin/text-idx?node=pt45.1.75>
- Head Start Program Performance Standards <https://eclkc.ohs.acf.hhs.gov/policy/45-cfr-chap-xiii>
- The Council on Financial Assistance Reform (COFAR) resource and frequently asked questions <https://cfo.gov/cofar/>
- Head Start Act <https://eclkc.ohs.acf.hhs.gov/policy/head-start-act>



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Cost Principles

Indirect & Administrative Costs





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Factors to Determine Allowability of Cost





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Basic Cost Principles

Necessary

If a cost is:

- Generally recognized as ordinary and essential for the performance of the award



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Basic Cost Principles

Reasonable

If a cost:

- Is prudent per circumstances
- Reflects sound business practices
- Demonstrates arms-length bargaining
- Is in line with market prices for comparable goods and services
- Is in accordance with established practices



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Basic Cost Principles

Allocable

If a cost:

- Reflects relative benefits received by the program to which it is charged
- Is treated consistently with other costs incurred for the same purpose



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Classifying Costs

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Direct Costs

Direct Costs

Costs identified specifically with a final cost objective; i.e., a particular award, project, service, or other direct activity of the organization

Examples

- Head Start teacher salary and fringe
- Early Head Start home visitor salary and fringe
- Bus to transport only Head Start children
- Maintenance of a facility used only for Head Start services



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Shared Direct Costs

Shared Direct Costs

Costs which benefit more than one program and can be distributed in reasonable proportion to the benefits received.

Examples

- Salary and fringe benefits of a home visitor who works in Early Head Start and a teen parent program
- Bus to transport Head Start and public school children
- Maintenance of a facility used for both Head Start and Early Head Start



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Indirect Costs (Facilities and Administration F&A)

Indirect Costs

Costs incurred for common or joint purpose benefitting more than one cost objective and cannot be readily identifiable with a particular program or award.

Examples

- Facilities—depreciation, interest, operations and maintenance expenses
- Administration—executive director, associate director, fiscal officer (salaries and fringe benefits and occupancy costs)



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Indirect Cost Rate



- Indirect cost rate is a basic ratio or percentage of the relationship between indirect costs to a direct cost base
- Indirect cost rate proposals are prepared and submitted by Grantee
- Indirect cost rates are negotiated and approved through the cognizant federal agency



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Common Indirect Cost Rate Bases

- Modified Total Direct Cost (MTDC)
- Salaries and Wages (SW)
- Salaries and Wages and Fringe Benefits (SW+FB)



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Indirect Cost Rate Examples

Administrative Indirect Cost Pool:

Salaries and Wages	\$	100,000
Fringes	\$	30,000
Other Administrative costs (facilities, utilities, legal, etc)	\$	49,000
Total Administrative Costs	\$	179,000

Direct Cost Base:

Program Salaries and Wages	\$	500,000
Program Fringes	\$	125,000
Program Supplies	\$	75,000
Program facility costs	\$	200,000
Program one time capital expenditures	\$	100,000
(back out one time capital expenditures)	\$	(100,000)
Total Modified Direct Program Costs	\$	900,000

Indirect Rate Calculations:

Rate based on Total Modified Direct Costs	19.9%
Rate based on Direct Salaries/Wages	20.0%
Rate based on Direct Salaries/Wages and Fringes	20.8%



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Special Circumstances



- 10% “de minimis” rate
- One-time extension of rate



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Program or Administrative Costs?



- Costs must be categorized as program or administrative
- This is **separate** from whether costs are direct, shared or indirect
- Indirect costs are part of the 15% administrative cost cap



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Examples of Programmatic and Administrative Costs

Program Costs

- Salary of teen program coordinator
- Salary of teaching staff
- Space cost for program component coordinators
- Center/classroom supplies

Administrative Costs

- Salary of executive director
- Salary of fiscal director
- Space cost for administrative staff
- Office supplies for support of administrative functions



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Administrative Cost Limitation



Costs related to development and administration, including non-federal share, may **not** exceed 15% of total costs.

Head Start Act 644(b)

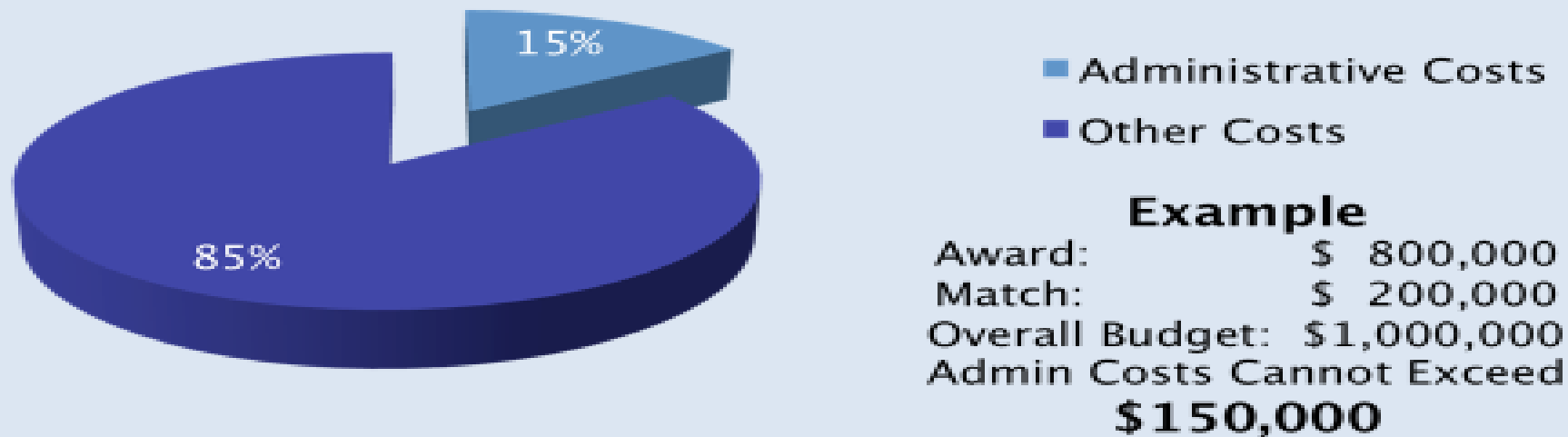


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Administrative Cost Limitation

Overall Budget (Includes Match)





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Executive Level II Cost Limitation

Federal funds may
not pay any part of
an individual's
salary if that
salary exceeds
\$187,000



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Lunch Break





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Cost Allocation

Cost Allocation Plans & Guidance





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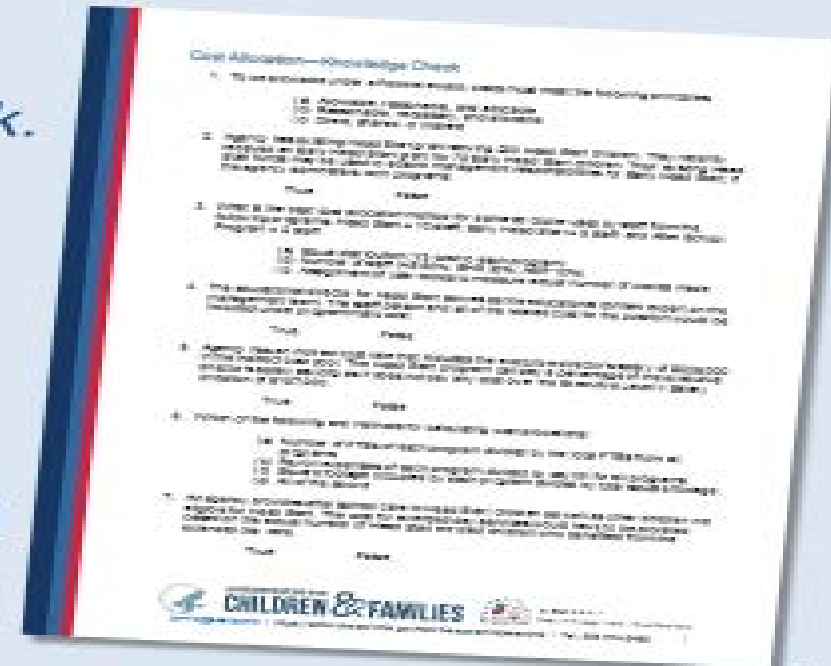
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Knowledge Check – Activity

Use the handout *Cost Allocation Knowledge Check*.

Instructions:

- Work independently
- Take five minutes to answer the questions
- Answers will be discussed throughout the session





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What is cost allocation?



The *process* of assigning the shared cost of an item or service to two or more programs.



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Why is cost allocation important?



- Integral part of effective fiscal management
- Supports accurate planning, budgeting, and reporting
- Provides accurate picture of how funds are used (including federal funds and non-federal match)
- Assures funding sources pay fair share of costs based on benefit



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When do you need to allocate costs?

Does the agency receive funds from more than one source (federal or non-federal)?



Are the services offered shared between programs?



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What is a cost allocation plan?



The *method* developed by an organization to fairly and equitably allocate shared costs to all of the programs benefitting from those costs.

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Uniform Guidance and Cost Allocation



Uniform Guidance
45 CFR Part 75:

Subpart E Cost
Principles

Appendices III–VII

- Cost Allocations
- Indirect Costs
- Required Certifications



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Steps to Developing a Cost Allocation Plan

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Cost Allocation Plans should be



- Logical and rational
- Straightforward
- Ensure each program is paying its fair share



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Step 1: Categorize Direct vs. Shared Expenses

#1

- Identify costs that benefit only one program. These don't have to be allocated.
- Identify costs shared between Head Start and other programs. These must be allocated.



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Step 2: Classify Shared Expenses

#2

- For each shared expense, determine if it is:
 - Shared, but can be easily distributed by benefit
 - Shared, but difficult to assign benefit to a particular program
- Consider if a negotiated indirect cost rate would be beneficial



#3

- Personnel (pay and fringe benefits)
- Facilities (grantee-owned, leased, donated)
- Equipment (especially busses)
- Service contracts (janitorial, maintenance)
- Other shared expenses



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Step 4: Basis for Allocation

#4

Consider how your program operates and how shared expense allocations will vary within categories

- Hours worked, children served, services provided
- Exclusive square footage, common areas
- Number of FTE, computers, telephones, transactions



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Step 5: Create the Plan

#5

- Using the categories, variations and reasonable bases identified, now create the cost allocation plan.
- The more thought put into how the cost allocation plan will function, the easier and more accurate the plan will be.



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Cost Allocation Scenarios - Activity



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Cost Allocation Scenarios

Example 1 - Expense Amount \$5,000

Cost that benefits three specific programs:

Head Start (225 children), Early HS (72 children) and After School Program (90 children)

Allocation method:

Ratio of number of children in each benefiting program to total number of children in all benefiting programs.

Grant/Program	Number of Children	% Allocation	Allocation Amount
Head Start			
Early Head Start			
After School Program			
Weatherization Program			
Senior Meals-On-Wheels			
Administrative Dept			
Total		100%	\$ 5,000

What cost might this represent? When would you use it?



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Cost Allocation Scenarios

Example 1 Answer

Grant/Program	Number of Children	% Allocation	Allocation Amount
Head Start	225	58%	\$ 2,907
Early Head Start	72	19%	\$ 930
After School Program	90	23%	\$ 1,163
Weatherization Program	-		
Senior Meals-On-Wheels			
Administrative Dept.	-		
Total	387	100%	\$ 5,000



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Cost Allocation Scenarios

Example 2 – Expense Amount \$28,000

Costs that benefit two or more programs.

Classroom provides Head Start services 6 hours each day.

In addition, provides 1 hour before and 1 hour after school services.

Allocation method:

Ratio of each benefiting program's hours of service to total hours of service.

Grant/Program	Hours of Service Per Day	% Allocation	Allocation Amount
Head Start			
Early Head Start			
After School Program			
Weatherization Program			
Senior Meals-On-Wheels			
Administrative Dept			
Total			\$ 28,000

What cost might this represent? When would you use it?



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Cost Allocation Scenarios

Example 2 Answer

Grant/Program	Hours of Service Per Day	% Allocation	Allocation Amount
Head Start	6	75%	\$ 21,000
Early Head Start			
After School Program	2	25%	\$ 7,000
Weatherization Program			
Senior Meals-On-Wheels			
Administrative Department			
Total	8	100%	\$ 28,000



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Cost Allocation Scenarios

Example 3 – Expense Amount \$4,000

Cost that benefits everyone in the organization:

Allocation method:

Ratio of each benefiting program's FTE to total of all benefiting programs FTE.

Grant/Program	FTE	% Allocation	Allocation Amount
Head Start	30		
Early Head Start	6		
After School Program	8		
Weatherization Program	3		
Senior Meals-On-Wheels	2		
Administrative Dept	5		
Total	54	100%	\$ 4,000

What cost might this represent? When would you use it?



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Cost Allocation Scenarios

Example 3 Answer

Grant/Program	FTE	% Allocation	Allocation Amount
Head Start	30	56%	\$ 2,222
Early Head Start	6	11%	\$ 444
After School Program	8	15%	\$ 593
Weatherization Program	3	6%	\$ 222
Senior Meals-On-Wheels	2	4%	\$ 148
Administrative Dept	5	9%	\$ 370
Total	54	100%	\$ 4,000



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Cost Allocation Scenarios

Example 4 – Expense Amount \$10,000

Cost that benefits all programs.

Allocation method:

Facilities costs are allocated based on square footage. Square footage for each program and admin departments are included in the analysis.

Step 1: Allocate expense to all programs and depts based on square footage.

Step 2: Further allocate admin dept portion of costs to each program.

		Step 1	Step 1	Step 2	Step 2	
Grant/Program	Square Feet	% Allocation	Amount Allocation	% Allocation	Allocation of Admin Dept	Total Amount Allocated
Head Start	300	30%	\$ 3,000	33%	\$ 333	\$ 3,333
Early Head Start	100					
After School Program	200					
Weatherization Program	200					
Senior Meals-On-Wheels	100					
Administrative Dept	100					
Total	1,000	100%	\$ 10,000			\$ 10,000



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Cost Allocation Scenarios

Example 4 Answer

Grant/Program	Square Feet	% Allocation	Amount Allocation	% Allocation of Admin	Allocation of Admin Dept	Total Amount Allocation
Head Start	300	30%	\$ 3,000	33%	\$ 333	\$ 3,333
Early Head Start	100	10%	\$ 1,000	11%	\$ 111	\$ 1,111
After School Program	200	20%	\$ 2,000	22%	\$ 222	\$ 2,222
Weatherization Program	200	20%	\$ 2,000	22%	\$ 222	\$ 2,222
Senior Meals-On-Wheels	100	10%	\$ 1,000	11%	\$ 111	\$ 1,111
Administrative Dept	100	10%	\$ 1,000		\$ (1,000)	\$ -
Total	1,000	100%	\$ 10,000	100%	\$ -	\$ 10,000



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Bases for Allocating Costs for Shared Staff

Shared Staff	Bases for Allocation
Head Start director shared between programs	Number of children, or information from time keeping records
Head Start family worker also performs general intake	Actual time spent in each program
Teacher/aides when children are Head Start and non-Head Start in the classroom	Number of children in each program
Associate director	Number of FTE's in each program



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Bases for Allocating Costs for Shared Facilities

Shared Facilities	Bases for Allocation
Classroom has Head Start and Pre-K	Number of children in each program
Center has Head Start and Early Head Start classrooms	Square footage occupied by each program
Classroom with Head Start and extended day services treated as two separate programs	Same square foot, so could be allocated based on child hours and number of children in each program
Office space in a central office, occupied by Head Start community services, weatherization, other state grants	Square footage occupied by each program to determine shared cost



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Bases for Allocating Costs for Other Shared Resources & Services

Shared Resources & Services	Bases for Allocation
Information technology services shared between Head Start, Early Head Start, community services, other state grants	Number of computers, printers, etc. operated by each program
Training – Pre-service training is shared between Head Start and Early Head Start	Number of staff attending from each program (FTE's)
Telephone cost	Number of phones used by each program
Classroom supplies with multiple programs	Number of children in each program

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Cost Allocation Guidance

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Guidance: Recordkeeping

Prepare for recordkeeping requirements of all allocated costs, particularly for shared personnel.

- Timesheets
- Payroll records
- Other costs documentation



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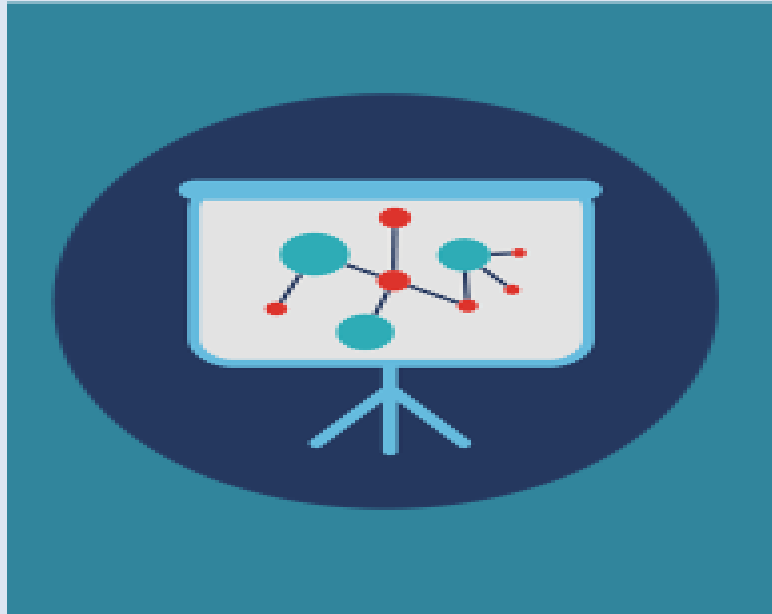
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Guidance: Reporting



- Allocated expenses should be budgeted, tracked, and compared to projections on a monthly basis.
- Expenses and comparisons should be included in monthly reporting to governing bodies.



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Guidance: Reviewing



A cost allocation plan should reflect how services are provided and should be updated annually or more often if needed.

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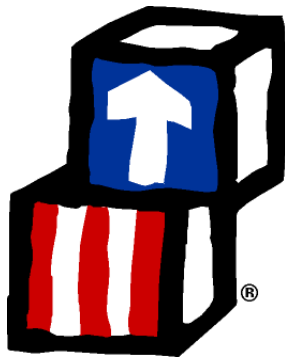




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Non-Federal Share (Match)
In-Kind





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Basic Points

- Federal government contributes 80 % of *total cost of program*
- Match is calculated at 25% of the Federal share
- Costs must be *reasonable, necessary, and allocable* and meet cost principles requirements
- Grant application must include Federal and non-Federal budgets
- Cash match must be used when expended, not when received
- Federal funds may not be used for match except 638, Indian Self Determination Funds, Community Development Block Grants (CDBG), and 102-477 (CCDF, TANF)



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Documentation for all Contributions

- Must benefit the program and comply with cost principles
- Must be verifiable from the grantee's records, including the source and application of cash match, services received, and donations of supplies and equipment.
- Volunteer services must be supported by a wage scale, internal or prevailing, and supported with timesheets.
- For supplies and equipment should include a copy of donation receipt including the estimation of fair market value, date received, and signatures of donor and recipient.
- For cash match, only include match expended in the current period.



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Volunteers

- Really important! The volunteer's service must benefit the program—not just their own child. A service to, not from the program.
- Services controlled by agency
- If a consultant, he/she may donate the difference between their normally vs. actually billed rate.
- Governing bodies: PC program cost and Tribal Council Administrative.





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Other Donations

Supplies:

Valued at fair market rate.

Item must be for use in the program.

If loaned: Valued at fair market rental rate.



Equipment / Space / Land / Buildings: If loaned, current market rental rate.

Land: If title passes to the grantee, use current fair market value rate with a written approval by OHS for an amount not to exceed established fair value.



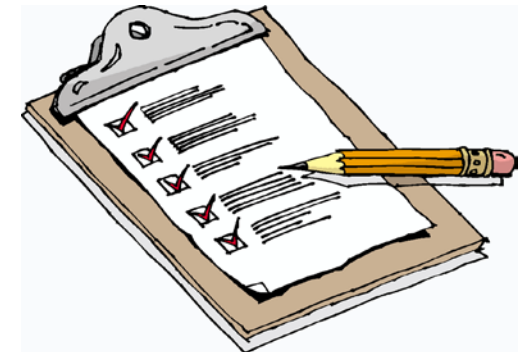
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Waivers

Memo to be submitted to OHS during budget year. (Not retroactive)
Address reasons as they apply.

- Lack of community resources
- Impact of the cost an agency may incur in the early days of the program
- Impact of an unanticipated increase in cost
- Community affected by a disaster
- Impact on community if program is discontinued



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Non Federal Share Activity

1. A local church provides classroom space for the Head Start program at no cost to the program. The space includes three classrooms of 1,200 square feet each and half of the 600 square feet of common space. An independent appraisal certified by the grantee establishes the fair market rental rate for the space at \$16.00 per square foot per year. The grantee operates year round.

Question: Can the grantee claim Non-Federal share of \$62,400 for the donated space ($1,200 \times 3 + 300 = 3,900 \times \16.00)?

What if the value of the space had been established by a local realtor and is contained in an opinion letter?

What if the space was being donated by the grantee's parent organization, a CAP agency?

What if the building was owned by the grantee?

What if the building was owned by the grantee, but half of the purchase price was from Head Start one-time facilities funds?

What if the space at issue was in a family child care home?

Meeting room space.



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Non Federal Share Activity

2. A wealthy patron in the community donates \$25,000 to the local community action agency operating the Head Start program. The donation is specifically restricted to Head Start use by the donor, and the agency places the fund in an account separate from its other funds labeled “For Head Start Use Only.”

Question: At the end of its budget period, can the grantee claim \$25,000 in donated match toward its nonfederal share costs?





HEAD START

Regional T/TA Network

Non Federal Share Activity

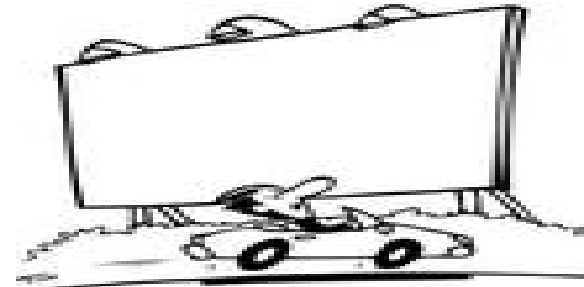
3. A local sign company has donated billboard space to the Head Start program in areas of the city where high concentrations of Head Start-eligible children and families live. The program uses five billboards for the entire program year (10 months) to advertise the availability of Head Start services and provide enrollment information. The billboards usually rent for \$30.00 per month.

Question: Can the grantee claim \$1,500 (10 x 5 x \$30) as a non-federal share cost for the donated billboard space?

What if enrollment had consistently declined over the course of the program year?

What if the billboards advertised both Head Start and Early Head Start services?

What if the billboards said CAP [City of Training], voted best CAP Agency in [State of Training] six years running and featured a picture of the executive director receiving a trophy?





HEAD START

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Non Federal Share Activity

4. The home-based Early Head Start program conducts 52 “90-minute home visits” per year as part of its curriculum for infants and toddlers. Sally’s family pays rent of \$1,000 per month and has utilities costs of \$200 per month. Sally’s family participates in all 52 scheduled home visits.

Question: Can the grantee claim a nonfederal share cost of \$2.47 per visit, \$128.44 for the year ($\$1,200 \times 12 \div 365 \div 24 \times 1.5 \times 52$) for the in-home use of parent space?

*What if Sally was a twin and both children were in the program?
Could the amount be doubled?*





HEAD START

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Non Federal Share Activity

5. Dad and his son Frank (a Head Start center-based child) spent a pleasant afternoon making masks from paper plates. Frank and Dad talked about shapes and colors as they cut and pasted circles, triangles, and squares on the masks. Teacher assistants in the program are paid \$8.72 per hour.

Question: Can the grantee claim \$17.44 (2hrs x \$8.72/hr.) as a nonfederal share cost for these activities?

What if the HS teacher had sent home a note asking parents to focus on shapes and colors with their child this week?

What if a goal of Julie's EHS home-based curriculum was to find ways to allow Dad to spend individual time with Julie to enhance his parenting confidence?

Would the value of the services change if Dad was temporarily unemployed but held a bachelor's degree in early childhood education?

If allowable, could we add employee fringe benefits to the hourly rate?

If allowable, could we charge the parent's time as a teacher?

If allowable, could we charge the time to both Head Start and Early Head Start?





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HEAD START

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