

<h1>ACYF</h1> <p>Administration on Children, Youth and Families</p>	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Administration for Children and Families	
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INFORMATION MEMORANDUM [with Attachment] [Considerations for Grantees with Multiple Sources of Funding](#)

TO: Head Start Grantees and Delegate Agencies

SUBJECT: Financial Management Issues in Head Start Programs Utilizing Other Sources of Funding

PURPOSE: The purpose of this memorandum is to clarify grants management and financial management policies that apply when Head Start funds are used in conjunction with other sources of funding. It provides descriptions--not models or recommendations--of various ways that Head Start grantees manage multiple funding sources and the cost principles that apply.

The memorandum does not address preferred ways of providing child care services or issues concerning program quality and comprehensiveness.

LEGAL AND RELATED AUTHORITY:

The Head Start Act, as amended; 45 **CFR** Parts 74 and 92; 48 **CFR** Part 31. Office of Management and Budget (OMB) Circulars A-21 "Cost Principles for Educational Institutions"; A-87 "Cost Principles for State, Local and Indian Tribal Governments"; and A-122 "Cost Principles for Non-Profit Organizations."

RELATED ISSUANCES:

This Information Memorandum incorporates and updates material previously issued in ACF-IM-91-10 (Head Start Grantees with Multiple Sources of Funding); ACYF-IM-93-18 (Cost Allocation Plan Requirement for Head Start Programs); and ACYF-IM-HS-95-27 (Reimbursement for Services, Including Medicaid and Child Care, for Head Start Children and Families). **These earlier issuances are superseded by the current IM.** In addition, relevant changes to the Head Start Act in 1998 have been included. These changes were summarized in ACYF-IM-HS-98-20, dated December 21, 1998.

BACKGROUND:

In response to the major changes in the implementation of welfare reform being implemented under the Temporary Assistance for Needy Families (TANF) legislation, many agencies that operate Head Start and Early Head Start programs have broadened their funding base and operational horizons to meet the changing needs of children and their families. In so doing they have forged relationships with a wide variety of other agencies in their communities. As a result, many are operating programs that provide services to children who may or may not be eligible for Head Start, combine funding from a variety of sources for eligible and non-eligible children, and have changed significantly to meet the full-day, full-year child care needs of parents.

Head Start has always fostered a partnership of Federal and local support. The Bureau has actively encouraged grantees to seek other Federal and non-Federal sources of funding (including State funding) to augment Federal Head Start dollars in order to serve more children. In addition, increasing the availability of full-day child care to Head Start families has been a major priority in the past several years. Head Start grantees should be in the forefront of efforts to bring funding from all sources together to provide services to all eligible children.

One result of this growth and change of Head Start programs is greatly increased complexity in financial management, particularly regarding how to manage funds from multiple sources without violating the basic rules of grants administration. Attached to this IM is guidance on managing multiple sources of funding (originally issued as ACYF-IM-91-10) for grantees who may wish to review some of the basic cost allocation and other financial management issues.

In carrying out this ambitious initiative, grantees must meet or exceed the revised Performance Standards and maintain their traditionally high standards of service. To the extent possible, agencies that serve both Head Start and non-Head Start children should attempt to operate programs that are comprehensive and seamless from the point of view of the children and families served. In many cases, there may be no need to compartmentalize Head Start-eligible children and provide separate services for their peers from families with slightly higher incomes. In fact, there are many solid programmatic reasons for not doing so.

COLLABORATION WITH OTHER FUNDING SOURCES:

Over the past several years, Head Start grantees have been encouraged to explore new and innovative ways to collaborate with child care providers to provide full-day, full-year services to Head Start and Early Head Start families who need such services. As long as the child care services are part of the wide range of services provided to children enrolled in Head Start and the comprehensive nature of the service is maintained, child care is an allowable cost under the Head Start program. However, although Head Start grantees may provide full-day, full-year child care using Head

Start dollars when necessary, funding for child care services is available from several other ACF child care programs and State and local sources that serve low-income families.

The Head Start Bureau recognizes that these other funding sources may have limitations in statute or regulation regarding how much can be paid for services. These limitations are determined by formula, by actual costs in a geographic area, or by other methods, and they affect Head Start grantees in very specific, locally-determined ways. Since these programs, administered by States, Territories or Tribes, allow a wide range of options for implementation, this Information Memorandum is intended to provide only general guidance for utilizing these other funding sources in collaboration with Head Start funds.

BUDGET AND COST CONSIDERATIONS:

Where feasible, grantees should develop their child care programs, including cost sharing agreements, in conjunction with other child care funding agencies in order to take advantage of these other funding sources. As long as cost sharing arrangements are worked out in advance and reflected in the agency's approved Head Start grant, no separate cost allocation procedures will be necessary to separate the Head Start costs from other costs. (Cost allocation requirements are discussed further below). Grantees that rely on reimbursement for a substantial part of their operating budgets should explicitly address the other funding source(s) in their Head Start refunding application (see Section 3 "Budget and Budget Justification" and accompanying budget page in the Grant Application). For example, grantees should explain the arrangements with the other agencies and any issues that might affect the level or timing of the planned reimbursement. When the application is approved and the grantee's budget is funded, the planned reimbursement is an integral part of the operation of the program. Substantial deviation from the approved budget (e.g., a large number of "no-shows" in a child care program that reduces potential reimbursement) should be brought to the attention of the Federal funding official promptly and a request for program amendment submitted.

Careful documentation of the reimbursement arrangements will assist auditors and Federal reviewers when Head Start program financial records are reviewed. Specifically, the documentation should provide sufficient information so that those auditors can understand the flow of funds in all relevant accounts. Having the funds from reimbursement built into the approved budget will provide for greater stability in the agency's cash flow and avoid the temptation to "borrow" from Head Start to meet other financial obligations. Such borrowing is called an interfund transfer, a practice that violates grants regulations, leading to a potential disallowance. Finally, of course, if an agency provides child care services to additional children who are not Head Start-eligible, or eligible but not part of the funded enrollment in the Head Start grant, such costs would have to be charged exclusively to other sources.

Head Start grantees should assure that providing the whole range of needed services to children and families is their highest priority. Where specific services can be provided by referring children and families to other, non-Head Start programs, then referral arrangements should be made.

Where Head Start dollars are being used to provide services but reimbursement is available, then reimbursement for as large a share of the costs as possible should be negotiated. In this context, reimbursement could be in the form of payments from agencies or voluntary payments from individuals in the form of vouchers or similar payment mechanisms. In cases, where reimbursement covers only part of the cost of providing an allowable service, Head Start funds may be used for the difference. Shortfalls in reimbursements should not deter grantees from providing all required services to children and their families.

POLICY AND STATUTORY PROHIBITION REGARDING FEES:

The Head Start Act at Section 645 (b) has a strict prohibition against charging fees:

The Secretary shall not prescribe any fee schedule or otherwise provide for the charging of any fees for participation in Head Start programs....

This prohibition is reiterated at 45 CFR 1305.9. When integrating Head Start services with child care services for which families must pay fees, grantees must be careful to avoid violation of this prohibition. Many grantees have dealt with this issue by clearly identifying in their budgets the hours of the day that constitute the Head Start program and are chargeable to Head Start and those which are supported by fees from other funding sources. In these cases, parents should clearly understand that fees are being charged only for the non-Head Start portion of the day.

There is a limited exception to the general prohibition on fees when Head Start programs are providing full-day services in collaboration with other agencies. The 1998 Head Start Act contains a new provision in Section 645 (b) that reads as follows:

A Head Start agency that provides a Head Start program with full-working-day services in collaboration with other agencies or entities may collect a family copayment to support extended day services if a copayment is required in conjunction with the collaborative. The copayment charged to families receiving services through the Head Start program shall not exceed the copayment charged to families with similar incomes and circumstances who are receiving the services through participation in a program carried out by another agency or entity.

COST ALLOCATION PLAN REQUIREMENTS:

In some cases, a cost allocation plan will be required to make clear which of two or more programs is to pay for particular services. The term "cost allocation" is

sometimes used by cost accountants to describe the allocation of costs, especially overhead costs, to specified accounting categories. For purposes of cost allocation plans for Head Start grantees discussed in this IM, cost allocation refers to the allocation of costs to various sources of funding, not to accounting categories.

As a general rule, the cost allocation plan should be the simplest, most straight-forward way of allocating costs fairly. Complex, highly detailed plans should be avoided when a simple approach will achieve the objective. The complexity and level of detail in the plan should not exceed the complexity of the funding situation.

Plans stated in terms of percentages or fractions of cost items are acceptable. For example, a cost allocation plan for staff could be as simple as a statement of the percent of time attributable to a funding source. If an individual spends half of the day on Head Start activities, another 25% on funding source A and 25% on funding source B, then the cost allocation plan is simply 50% to Head Start, 25% to A, 25% to B. These percentages may then be applied to all relevant personnel costs for that individual (or group of individuals) for a budget period. Minute-by-minute, hour-by-hour allocation is not required, but there must be a way to reasonably establish the basis for the allocation, such as agency or classroom schedules or prior year reports.

The cost allocation plan for a Head Start agency would be the aggregate of all individual allocation schemes for all costs of the agency's program. Unnecessary proliferation of individual schemes should be avoided in order to keep the plan as simple as possible. General schemes that can be applied to large portions of the agency's budget and still fairly allocate costs are preferable to complex detailed schemes.

Each of the major "cost centers" or cost items in the agency's budget should be looked at for a reasonable, fair way to allocate the costs of that item. Allocation plans for the cost of facilities (space) may be quite different than the plan for staff, but still expressed in simple percentage terms. For example, an agency should analyze the space (expressed in square feet) used in the administration of various programs. If the Head Start director and secretary use 500 square feet in an agency's headquarters building with a total of 2,000 square feet, then Head Start's fair share of that space's cost is 25% ($500/2000$). Other cost items would be analyzed in similar terms, using appropriate measures for each.

The nature and use of each cost item determines the scheme for the item and the methodology for the allocation of costs. Taking an approach such as "Head Start has the largest budget, so Head Start should pay the largest share of costs" is not acceptable. The Head Start share of an agency budget is determined by the cost allocation plan, not by the quantity of Head Start dollars going into the agency's total budget.

To summarize, a cost allocation plan should:

1. Provide detailed information on the sources of revenue for the program, supported by historical or other data to substantiate the amounts.
2. Describe how many children, out of the total number of Head Start enrollees, are in the portion of the program covered by the cost allocation plan.
3. Include a description of the methodology used to determine the allocation of the costs of services to the various funding sources.
4. Include the basis for allocating costs within specific cost categories (personnel, space, supplies, etc.) and a description of how expenditures within the major cost categories will be apportioned and recorded in the grantee's accounting system.

EXCEPTION TO COST ALLOCATION REQUIREMENTS:

In order to encourage Head Start grantees to collaborate with other child care programs, the 1998 amendments to the Head Start Act provide an exception to the general requirement to allocate costs. When there is a collaborative activity between Head Start and another Federal child care or early education program, two cost categories, equipment and nonconsumable supplies, do not have to be allocated between the programs, so long as Head Start is the predominant source of funding for the activity. While these two categories are generally rather small in Head Start budgets, this exception will hopefully reduce their being a barrier to effective collaboration. (See Section 640 (a)(5)(E) of the Head Start Act.)

CONCLUSION:

Head Start grantees are strongly encouraged to seek out other sources of funding to meet the needs of the children and families they serve. Although we recognize that the widely differing statutory and regulatory authorities for many Federal programs often do not make collaboration simple, cost allocation requirements should not preclude significant collaboration with other agencies.

Grantees are encouraged to seek the assistance of their Regional Office on the issues discussed in this IM. We will be working closely with these offices to help resolve any difficulties that may arise.

Douglas Klafehn
Acting Associate Commissioner
Head Start Bureau



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