Attachment for Information Memorandum ACYF-IM-HS-00-06

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**Considerations for Grantees with Multiple Sources of Funding**

There are two major sections in this attachment. The first relates to the **Financial Assistance Award** and the **total approved budget**. The second concerns **cost allocation principles**. Although neither of these policy areas is new, this document provides clarification of existing policies in light of the changing circumstances in the Head Start program.

It is important to remember that Head Start non-Federal share requirements may not be met through funds derived from other Federal grants, including Federal funds administered by States, unless the authorizing legislation specifically provides that the funds may be used as the non-Federal share. Additionally, matching funds derived from States must not be used to match more than one Federal program. The Indian Self-determination and Education Assistance Act (P.L. 93-638) is an example of a Federal program that may be used as match for the Head Start program. Most other Federal programs, including block grants, may not be used as match for the Head Start program.

1. Financial Assistance Award

The basic document used by the Administration for Children and Families (ACF) for awarding discretionary grants is the **Financial Assistance Award** (FAA). The FAA reflects key dollar figures that are important in the financial relationship between the granting agency and the grantee: the Federal and non-Federal funds subject to Federal oversight. The FAA includes the amount of Federal Head Start funding being awarded to provide Head Start services; the non-Federal share being provided by the grantee; and the total number of children to be served with the approved budget.

It is important that grantees be aware that the FAA, along with the approved application from the grantee, constitutes the legal definition of the Head Start program for purposes of financial
management and compliance with the grants management requirements. Auditors use the FAA and the approved application as the definition of the program which will be audited for all Federal requirements related to Head Start. These requirements apply to all of the funds approved in the FAA, regardless of their source (Head Start or other Federal or non-Federal funds).

Head Start grantees may choose from a wide range of program configurations when making application to receive a Head Start grant. For the sake of simplicity, this guidance will describe only three configurations to illustrate the basic issues.

The three configurations that follow are intended only to clarify the financial management issues in this IM. They are not models or "best practices" that grantees are expected to emulate in any way.

In the first configuration, grantees may provide services for more children than the Federal Head Start funding (plus non-Federal match) would allow, elect to include all additional children (and the non-Federal dollars to support them) in their application, and therefore have a larger than required non-Federal share or "overmatch" from other funding sources. When approved by ACF, the total of the Federal funds and the "overmatch" constitutes the total approved budget and will be reflected in the FAA. In this case, the agency's entire program reflected in the FAA is subject to all Federal requirements. A separate cost allocation plan is not required, and non-Head Start funding sources may find that they can achieve significant program results without creating duplicate administrative structures.

The second configuration includes grantees which operate two or more separate and distinct programs, and whose application for ACF funding reflects Head Start funds and the required non-Federal share only for the Head Start program. If the grantee, in this case, chooses to provide additional services to other children similar to the services received by children in Head Start, or provides other child care to Head Start or other children, it would be choosing to provide the child care services entirely separately. This configuration might be employed when a Head Start program provides child care as an adjunct to its Head Start services, but does not meet all of the Head Start Program Performance Standards for the child care portion. In this configuration, the cost of staff, facilities, or other items would not be shared between the Head Start program and these other services, and the grantee must be able to separately identify those children and services supported by Head Start funds and the required non-Federal share.

The third configuration is one in which there is a single program with shared staff, facilities and other costs supported by multiple sources of funding and in which children may be co-located. When a grantee chooses this configuration, its application must clearly describe that portion of its total program that it wishes ACF to fund, including the Federal and non-Federal share. Children covered by Head Start funding must be clearly identified as well as those children covered by other sources of funding. All costs must be allocated according to the principles discussed below.

2. Cost Allocation Principles

When operating a child care program that is added to or wrapped around a Head Start program, it is important for grantees to document the fair allocation of costs among the funding sources. The first and second of the three program configurations described above are examples of arrangements that do not require cost allocation plans. In the first configuration, any cost allocation requirements will be met in the formulation of the total approved budget; in the second there is no cost allocation requirement since no resources are shared.

The third configuration provides a different example where the agency provides additional services, which are not ACF-funded Head Start services, and where a detailed cost allocation plan is required. If, for example, the Head Start director operates a program serving children and families with multiple sources of funding, the other funding source or sources must bear a fair proportionate share of the salary of the director. Federal Head Start dollars may not be used to support the non-Head Start portion of a grantee's program. Non-Head Start sources must be allocated their full share of the fixed costs of the program, not just the marginal costs of adding to the Head Start portion.

To continue with the example of the Head Start director's salary, it would not be acceptable to allocate fewer dollars per child for the non-Head Start funded slots on the grounds that, without the added slots, the director's salary would be paid by Head Start dollars. The Head Start and non-Head Start sources must have the same average costs per child attributed to the director's salary. Thus, if the Head Start director's salary was $30,000, and the program served 60 Head Start-funded children and 40 non-Head Start funded children, then the average costs per child related to the director's salary would be $300. Head Start funds would support $18,000 (60 x $300) and non-Head Start funds would support $12,000 (40 x $300) of the director's salary.

This principle holds true when the program provides wraparound child care in addition to Head Start. Continuing further with the example of the Head Start director, if the Head Start program is 6 hours per day and the wraparound program is 2 hours per day, then Head Start funds would support $22,500 (75% of $30,000) and non-Head Start funds $7,500 (25% of $30,000) of the director's salary. A similar approach may be used to allocate any cost associated with operating the program. When costs are allocated and children are collocated, the grantee must be able to distinguish Head Start-eligible and non-eligible children.

Thus, while grantees are encouraged to operate programs that do not "compartmentalize" children, teachers, staff or facilities on the basis of funding source, they must be prepared to document the fair allocation of costs between the Head Start program and the non-Head Start program.

A brief summary of information related to allowability of costs and cost allocation based on the Cost Principles relevant to Head Start grantees follows.

## POINTS RELATED TO ALLOWABILITY OF COSTS AND COST ALLOCATION BASED ON COST PRINCIPLES

1. Head Start grantees should use appropriate cost allocation methods described in the Cost Principles, which apply to their particular organizations. Cost Principles for various types of organizations may be found in the following:

| Type | Reference |
|---|---|
| Educational Institutions | OMB Circular A-21 |
| Government Organizations | OMB Circular A-87 |
| Nonprofit Organizations | OMB Circular A-122 |
| Hospitals | Appendix E to 45 **CFR**, Part 74 |
| Commercial Organizations (For profit) | 48 **CFR** Part 31 |

These documents may be found on the Internet at **GRANTSNET** (http://www.hhs.gov/grantsnet/). This site includes important grant regulations like 45 CFR Parts 74 and 92 and many of the laws, executive orders, OMB circulars, and policy manuals and directives that govern the grants process.

All grantees must maintain adequate supporting documentation.

2. Cost allocation methodologies must assign costs proportionally and equitably to all applicable funding sources. Any methods of distribution (e.g., time studies or similar analyses based on direct hours of identifiable services provided) may be used which will produce an equitable distribution of cost. It is not acceptable to assign a disproportionate share of costs to Head Start simply because Head Start may be the largest funding source.

3. Head Start matching requirements may not be met through funds derived from other Federal grants unless the authorizing legislation for such programs specifically provides that such funds may be used as match. In general, Federal funds may not be used to match other Federal funds. An exception is the Indian Self-Determination and Education Act (P.L.93-638). In addition, Head Start matching funds may not be used twice, i.e., to match Head Start and another Federal program.

4. Head Start grantees may not transfer, even on a temporary basis, funds from Head Start to compensate for delayed or late payment from other funding sources unrelated to the Head Start Act and for costs that are not allowable in Head Start. This does not preclude shifting funds within the Head Start account for allowable costs (as might be necessary if reimbursement for child care is delayed or reduced below budgeted amounts).

5. All costs of the organization, including administrative and indirect costs, must be shared equitably by the various funding sources, except as provided for in Section 640(a)(5)(E)(ii) of the Head Start Act, as amended, which excludes equipment and nonconsumable supplies in certain circumstances.

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