



Administration for Children and Families
U.S. Department of Health and Human Services



FY 2016 Office of Head Start Fiscal Integrity Monitoring Protocol



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FY 2016 OHS Fiscal Integrity Protocol: Overview

Overview

The Fiscal Integrity Protocol guides the fiscal portion of a grantee's Fiscal Integrity/ERSEA Review. This Protocol facilitates assessment of the program's compliance with Head Start and Federal cost principle requirements. The instrument is designed to help the OHS ensure programs have sound internal controls and strong reporting systems and use Federal funds for intended purposes. By monitoring the Fiscal Integrity of each Head Start grantee, the OHS is better able to ensure that Head Start programs are properly using Federal funds to best support children and families.

Organization of the Protocol

Key Performance Area

The Protocol organizes content into key areas of performance, referred to as **Key Performance Areas** (KPAs). The KPAs included in the Fiscal Integrity Protocol are as follows:

- 1) **Financial Management Systems.** The program implements a sound financial system that meets the required Federal standards for financial reporting, accounting records, internal control, budget control, compliance with cost principles, cash management, and administrative costs.
- 2) **Reporting.** The program accurately reports the source and application of funds, distinguishing among the allocations of funds for each Head Start award.
- 3) **Procurement.** The program develops and effectively implements procurement policies and procedures and meets, at a minimum, all requirements in the applicable Federal, State, and local statutes, regulations, and administrative rules for Federal grants.
- 4) **Compensation.** The program ensures that salaries charged to the award are reasonable and necessary for the accomplishment of the program's objectives and are allocated to the grantee in relation to the relative benefit received.
- 5) **Cost Principles.** The program ensures all costs—direct, indirect, Federal, or non-Federal—charged to the grant meet the standards of allowability specified in the Federal cost principles.
- 6) **Facilities and Property.** The program complies with all Federal requirements associated with the purchase, construction, or major renovation of facilities or equipment.

Compliance Measures

Each KPA contains a series of Compliance Measures (CMs). CMs are specific statements that collectively assess the level of performance for each KPA, focusing on one or more Federal regulations critical to the delivery of quality services and the development of strong management systems.

Targeted Questions

Targeted Questions (TQs) for each CM standardize the methods for collecting evidence for each CM's assessment. TQs indicate the people to interview, questions to ask, and information to retrieve from documents.

Fiscal Integrity

Fiscal Integrity Key Performance Area #1—Financial Management Systems

	Compliance Measure	Federal Regulation
1.1	<p>The grantee's financial management systems provide for effective control over and accountability for grant and sub-grant funds, property, and other assets and ensure they are used solely for authorized purposes.</p> <p><i>Note: These questions relate to the "control activities" aspect of internal controls. Control activities are the policies, procedures, techniques, and mechanisms that enforce management directives, such as the process of adhering to requirements for budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, and reviewing, as well as accountability for stewardship of Government resources and achieving effective results.</i></p>	75.302(b)(4-5) 75.501(b) 75.352(d)(1-3) 75.352(f) 75.352(g)
1.2	<p>The grantee sought and received prior approval in writing for budget changes where prior approval is required and received approval for hiring designated key personnel.</p> <p><i>Note: Applies to grantees only. All changes requiring prior approval must be submitted in writing to the Regional Grants Management Officer. If the change involves a budget revision, the program must identify the changes on an SF-424 and SF-424A. As provided in 75.308(j), approval of changes must be in writing and signed by the Regional Grants Management Officer. Hiring of designated key personnel must be approved by the Regional Office as provided in 75.308(c)(2).</i></p>	75.308(b) 75.308(c)(1-3)
1.3	<p>The grantee has obtained and maintained required insurance coverage for risks and liabilities.</p>	1301.11(a) 1301.11(b) 75.317

Targeted Questions

Delegate Agency—Document Review (FIS1.1)

- ▶ Does the grantee have one or more delegate agencies?
- ▶ How does the grantee use information in the audits and other information from delegate agencies, such as claims for reimbursement, support documentation, bank statements, and advance payment requests, for monitoring?
- ▶ Are recommendations discussed with the delegate agencies and corrective action developed?
- ▶ How does the grantee ensure corrective action occurred?
- ▶ If delegate agencies receive advance payments, how is the amount determined and does the grantee recover the advance amounts by the end of the grant year?
- ▶ What documentation is included with the requests for payment and how are the requests processed?

Financial Reports/Accounting Records—Document (FIS 1.1)

- ▶ Review grantee correspondence and notices from the Internal Revenue Service, State Income Tax, State Tax Withholding, Workers' Compensation, and Unemployment Compensation documents. Does any correspondence indicate unresolved compliance issues, such as unpaid amounts that were past due or material significant penalties for late, missing, or incomplete returns or reports? If yes, describe all unresolved issues in detail and indicate the amounts of any levies, taxes, payments, penalties, and interest claimed by the authority.
- ▶ If a review of grantee correspondence and notices from the Internal Revenue Service, State Income Tax, State Tax Withholding, Workers' Compensation, and Unemployment Compensation documents revealed unresolved issues with late payroll taxes or late insurance premiums, can the agency document that no portion of the taxes or insurance premiums was related to the Head Start program?
- ▶ Are there amounts due but not remitted (e.g., unpaid taxes or insurance premiums)? If yes, did the grantee draw down funds from the payment management system (PMS) for the unremitted taxes or premiums?

Fiscal Officer—Interview (FIS1.1)

- ▶ What method does the program use to ensure that funds are available for payment of any vested accrued leave owed to employees of the grantee?
- ▶ What is the program's procedure for reviewing credit card charges/retail-store credit charges to ensure that only authorized signatories use agency credit cards and that charges are reasonable and necessary for program operations?
- ▶ Since the completion of the most recent audit, have there been significant changes in Fiscal staffing or to the financial systems? If so, how has potential negative impact associated with these changes been mitigated?
- ▶ Is the grantee current in processing transactions, payments to vendors, and production of financial reports for staff, the Board, and the Policy Council? Please describe the evidence you observed in arriving at your conclusion.
- ▶ What are your and your staff members' experience and educational levels?
- ▶ Is the staffing level adequate to provide for appropriate segregation of duties? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Is the agency current in its payments to the Internal Revenue Service and State tax authorities (significant amounts not remitted when due and/or significant penalties, interest or levies related to late filings or late remittance)? Please describe the evidence you observed in arriving at your conclusion.

General Ledger—Document (FIS1.1)

- ▶ Review a report or listing of aged payables. Are bills and invoices paid on time (not more than 30 days past due unless disputed)?
- ▶ Review two consecutive bank statements. Are bank statements reconciled to the General Ledger? Are reconciling items (including outstanding checks) resolved within 30 days? Do checks clear the bank by the second statement after the issue date?
- ▶ If the reconciliations show any checks outstanding more than 60 days, can the grantee show that payments were disbursed (checks signed and issued to the payees) on or near the date on which the checks were written?
- ▶ Do the grantee's fiscal records differentiate development and administrative costs from program costs to ensure that development and administrative costs do not exceed 15 percent of the total grant (unless a waiver granting a higher percentage has been received)?

Non-Personnel Costs—Transaction (FIS1.1)

- ▶ How did the grantee ensure services were performed or goods received before the payment was processed? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Was the cost supported by a contract or an invoice, if appropriate? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Was the cost posted to the appropriate award period?
- ▶ Are approvals of the documents supporting this transaction consistent with the approval process described in the organization’s Fiscal Policies and Procedures? Is the approver someone other than the person making the order? Was a purchase order completed (if required by the organization’s policies and procedures)? Please describe the evidence you observed in arriving at your conclusion.
- ▶ If payment was made by check, has the check cleared the bank? If not, does the grantee maintain documentation to demonstrate the payment was disbursed (check written, signed, and issued to the vendor)? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Is credit card use consistent with the organization’s written policy? Please describe the evidence you observed in arriving at your conclusion.

FIFO & Audit—Document (FIS1.1)

- ▶ Are there unresolved audit findings that should be considered by the Reviewer?
- ▶ Does the most recent audit include audit findings either directly or indirectly related to the Head Start program?
- ▶ Do audit reports disclose any companies related to the grantee organization providing services and/or facilities to the Head Start program?
- ▶ Does the latest audit report describe potential impairment of financial health or significant issues outside of audit findings that should be considered by the Reviewer?
- ▶ Are there specific issues involving key personnel that should be considered by the Reviewer?
- ▶ Did the Regional Office list any other issues that should be considered by the Reviewer?

Procurement—Transaction (FIS1.1)

- ▶ Were the grantee's written procurement procedures followed (use of purchase orders, approvals, documentation of cost quotations, etc.)?
- ▶ How did the grantee ensure services were performed or goods received before the payment was processed?
- ▶ Are approvals of the documents supporting this transaction consistent with the approval process described in the organization's Fiscal Policies and Procedures? Is the approver someone other than the person making the order? Was a purchase order completed (if required by the organization's policies and procedures)?
- ▶ If the payment was made by check, has the check cleared the bank? If not, does the grantee maintain documentation to demonstrate the payment was disbursed (check written, signed, and issued to the vendor)?
- ▶ Is credit card use consistent with the organization's written policy?

General Ledger—Document (FIS1.2)

- ▶ Does the grantee's financial reporting system separately account for the use of one-time funds for the construction, purchase, or major renovation of facilities? Were the funds used for the intended purpose?

FIFO & Audit—Document (FIS1.2)

- ▶ Please list the agency's key personnel.

Equipment—Transaction (FIS1.2)

- ▶ Was prior approval for this acquisition obtained from the Regional Office? If no, please explain how you came to this conclusion.

- ▶ Does the grantee maintain insurance for program service locations (donated, leased, or owned) covering liability for accidents on the premises?
- ▶ For all vehicles purchased using Head Start funds, does the grantee maintain coverage equivalent to the level of coverage for other agency-owned vehicles?
- ▶ Does the grantee maintain a fidelity bond or employee dishonesty coverage for officials and employees authorized to disburse program funds?
- ▶ Does the grantee maintain transportation liability insurance for vehicles used by the agency (or its contractors) for the transport of Head Start children?

Fiscal Integrity

Fiscal Integrity Key Performance Area #2—Reporting

	<i>Compliance Measure</i>	<i>Federal Regulation</i>
2.1	Financial reports and accounting records are timely and complete and contain accurate information pertaining to grant or sub-grant awards, authorizations, obligations, unobligated balances, assets, liabilities, outlays (total expenditures), income, and interest. Reports include: <ul style="list-style-type: none">• SF-425 (paper-based Federal Financial Report filed with the Regional Office)• SF-425 (web-based Federal Cash Transactions Report filed with Division of Payment Management)• USDA/Child and Adult Care Food Program (CACFP) reports	1304.23(b)(1)(i) 1304.51(h) 75.302(b)(2) 75.302(b)(3)

Targeted Questions

Financial Reports/Accounting Records—Document (FIS2.1)

- ▶ Using the most recent, Final SF-425 and financial records, document the following and identify whether there is a variance among amounts recorded in the financial records, amounts reported on the audit, and amounts reported on the SF-425.
- ▶ Has the grantee reconciled any variances between the amounts recorded in the financial records and amounts reported on the SF-425?
- ▶ Describe any unreconciled variances and discuss with the Fiscal Officer.
- ▶ Did disbursements for the latest award reported on the most recent PMS report (the SF-425 submitted electronically each quarter) vary from the disbursements reflected in the grantee’s financial records? Describe any variances and discuss with the Fiscal Officer.
- ▶ Did the grantee’s accounting records separately identify the source and application for each Head Start award: Federal awards, authorizations, unobligated balances, assets, liabilities, outlays (total expenditures), income, and interest?
- ▶ Is the total recipient share (non-Federal share) in the grantee’s financial records at least as much as the amount shown on the most recent Final SF-425? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Were any USDA/CACFP claims reduced or rejected due to late or inaccurate reporting or improper documentation of costs resulting in a disallowance or reduced payment to the program?

- ▶ Compare the actual USDA revenue reported on the filed paper-based Final SF-425 with the budgeted amount of USDA revenue reflected on the Grant Application Budget Instrument (GABI), and ask the grantee to document the total food costs for the Head Start program and show the sources from which the food costs were paid. Based on your review of this documentation, was Head Start charged for food costs that should have been paid by the USDA?
- ▶ Does the grantee's most current USDA CACFP compliance review identify any areas of noncompliance related to fiscal issues? If yes, did USDA CACFP disallow any costs?
- ▶ Based on your review of the grantee's repayment of costs disallowed by the USDA, were Head Start funds used to pay the disallowance?
- ▶ Based on your review of the grantee's records, was it determined that the USDA removed the grantee from participation in the CACFP program?

Fiscal Integrity

Fiscal Integrity Key Performance Area #3—Procurement

	Compliance Measure	Federal Regulation
3.1	<p>The grantee implemented procurement procedures that met, at a minimum, all requirements specified in the applicable Federal, State, and local statutes, regulations, and administrative rules for Federal grants, including a written code or standards of conduct governing the performance of its employees engaged in awarding and administering contracts.</p> <p>The grantee can demonstrate that contractual agreements were met.</p>	<p>1309.54 642(c)(1)(E)(iv)(X)(aa) 75.212 75.327(b) 75.327(c)(1-2) 75.327(h-i) 75.328(a-b) 75.329(a-b) 75.329(f) 75.509 75, Appendix II, Item B 75, Appendix II, Item D</p>

Targeted Questions

Procurement—Transaction (FIS3.1)

If grant-award date was prior to December 25, 2014:

- ▶ Is there a procurement transaction in excess of \$25,000?
- ▶ If the procurement is for a construction or facility improvement contract or subcontract in excess of \$100,000, does each contract require a performance bond and a payment bond on the part of the contractor for 100 percent of the contract price? Describe the evidence you used in arriving at your conclusion.
- ▶ Did there appear to be a conflict of interest? Please describe the evidence you observed in arriving at your conclusion.
- ▶ How did the grantee provide for open and free competition?
- ▶ Was an analysis made of lease and purchase alternatives where appropriate?

Procurement—Transaction (FIS3.1) (continued)

If grant-award date was December 25, 2014 or later or the grantee has adopted uniform guidance practices relating to procurement:

- ▶ Did the grantee maintain a list of qualified suppliers for this service or item and ensure that similar procurements of \$3,000 or less were distributed equitably among qualified suppliers?

- ▶ Did the grantee consider bids, quotations, or advertised prices from an adequate number of qualified sources—at minimum, two sources?
- ▶ Did the grantee consider bids, quotations, or advertised prices from at least two qualified vendors (or more if required by the agency’s written procedures)?
- ▶ For this procurement transaction, what method of selection did the grantee use?
- ▶ Did the agency document that bids were publicly solicited through advertising?
- ▶ Can the agency show that a complete, adequate, and realistic specification was provided to bidders?
- ▶ Did the agency document that at least two of the bidders were responsible and were willing and able to compete effectively for the business?
- ▶ Did the invitation for bids include all specifications and define the items or services needed in order for the bidder to respond properly?
- ▶ Did the procurement result in the award of a firm fixed-price contract to the lowest responding and responsible bidder?
- ▶ Does the procurement documentation show the Request for Proposal (RFP) was publicized and identified all evaluation factors and their relative importance, as well as show proposals were solicited from an adequate number of qualified sources?
- ▶ Did the agency consider all responses and document implementation of its written method for conducting technical evaluations of proposals received?
- ▶ Was the contract awarded to the firm whose proposal was the most advantageous to the program while considering price and other appropriate factors?
- ▶ Has the grantee documented that the item or service was available only from a single source?
- ▶ Has the grantee documented that competition was found to be inadequate after solicitation of multiple potential sources?
- ▶ Has the grantee documented that a competitive procurement was not possible due to emergency (e.g., natural disaster)?

Procurement—Transaction (FIS3.1) (continued)

If the grant award date was December 25, 2014 or later or the grantee has adopted uniform guidance practices relating to procurement:

- ▶ If more than one sole-source contract was awarded to the vendor in the past 24 months, has the grantee documented steps it has taken to foster competitive procurements for subsequent procurements?
- ▶ Was geographic preference used to limit the number of potential vendors?

- ▶ Was the contractor involved in the procurement process through the development of specifications, requirements, Statements of Work, invitations for bids, or RFPs?
- ▶ Has the grantee documented that a review of the Debarment List (www.sam.gov) was conducted before the contract was awarded?
- ▶ Before awarding the contract, did the agency document the contractor's ability to perform successfully under the terms and conditions of the proposed procurement, considering the contractor's integrity, record of past performance, and financial and technical resources?
- ▶ Did the agency document the rationale for the method of procurement and the type of contract used in this case, selection of the contractor, and basis for the contract price?
- ▶ Has the grantee documented its efforts to ensure this contract was performed in accordance with the terms, conditions, and specifications of the contract or purchase order?
- ▶ If this procurement transaction includes professional services, does the procurement documentation include an evaluation of the need for contracting for the service (with consideration of the grantee's capability in the particular area), whether the service can be performed more economically by employees rather than through contracting, and the qualifications of the contractor and the customary fees charged for this type of work?
- ▶ Is this a noncompetitive procurement from a consultant on a retainer contract?
- ▶ If this procurement transaction includes audit services, when did the grantee most recently engage in a competitive procurement of such services?

Procurement—Transaction (FIS3.1) (continued)

If the grant-award date was December 25, 2014 or later or the grantee has adopted uniform guidance practices relating to procurement:

- ▶ Has the grantee provided for full and open competition for audit services, balancing the need for periodic competition against additional audit fees associated with a first-year audit?
- ▶ In the most recent audit procurement, did the agency evaluate each proposal for its responsiveness to the RFP, bidder's relevant experience, availability of staff with professional qualifications and technical abilities, results of peer and external quality-control reviews, and price?
- ▶ If this procurement transaction is a time-and-material contract, has the grantee documented the basis for determining that time-and-material is the only suitable contract type for this activity?
- ▶ Does the contract identify a ceiling price that the contractor will exceed at its own risk?

- ▶ Has the grantee demonstrated a process for asserting a high degree of oversight in order to obtain reasonable assurance that the contractor is using efficient methods and effective cost controls?
- ▶ If this procurement transaction is a construction or renovation contract, does the contract include a provision requiring compliance with the Davis-Bacon Act (requiring mechanics and laborers to be paid prevailing wages as determined by the U.S. Department of Labor)?
- ▶ If the contract exceeds \$10,000, does it provide for termination for both cause and convenience?

Non-Personnel Costs—Transaction (FIS3.1)

- ▶ Did the grantee divide a single procurement transaction with the same vendor related to the same product, service, or project to avoid following its own written procurement procedures as applicable to the total amount paid to the vendor? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Did the grantee document the basis for its selection of the contractor or vendor (including justification for lack of competition when competitive bids or offers were not obtained)?
- ▶ On construction/renovation contracts, has the grantee provided assurance that laborers and mechanics were paid prevailing wage rates (as compared with wage rates in USDOL wage determinations)?

Fiscal Integrity

Fiscal Integrity Key Performance Area #4—Compensation

	Compliance Measure	Federal Regulation
4.1	Original time records are prepared and properly signed by the individual employee and approved by a responsible supervisory official, and an appropriate methodology is used to allocate salaries among Head Start and other programs.	220, App A(C)(4)(a) 220, App A(J)(10)(a) 220, App A(J)(10)(b) 220, App A(J)(10)(d) 225, App A(C)(3)(a) 225, App B(8)(h)(1) 225, App B(8)(h)(3) 225, App B(8)(h)(4) 230, App A(A)(4)(a)(2) 230, App B(8)(m)(1) 230, App B(8)(m)(2)
4.2	Head Start or Early Head Start grant funds are not used as any part of the monetary compensation (e.g., salary, bonuses, severance) of an individual employed by the grantee who is paid at an annual rate in excess of Executive Level II (\$183,300, effective January 2015).	653(b)
4.3	Total compensation for personal services, including employee wages and incentive-compensation payments, charged to the grant are allowable and reasonable.	75.430(a)(1) 75.430(b) 75.430(f)

Targeted Questions

Payroll—Transaction (FIS4.1)

- ▶ Is the transaction part of a payroll approved by a responsible official of the organization?
- ▶ Is the transaction supported by time and attendance records (e.g., timecards, timesheets, summary records, or other supporting documentation verifying attendance) and signed or electronically approved by the employee or a supervisor having first-hand knowledge of the actual work performed by the employee?

Payroll—Transaction (FIS4.1) (continued)

- ▶ Which of the following best describes the allocation of this position?
 - The position is allocated 100% to Head Start or 100% to Early Head Start (EHS).

- The position is allocated only between Head Start and EHS.
 - The position is allocated between Head Start/EHS and a related program, such as Child Care or State Pre-K.
 - The allocation includes an unrelated program and/or Central Administration.
- ▶ Which of these best describes the allocation between Head Start/EHS and unrelated programs and/or Central Administration?
- The allocation between Head Start/EHS and unrelated programs and/or Central Administration is based on actual activity.
 - The allocation between Head Start/EHS and unrelated programs and/or Central Administration is based on budgeted dollars, ability to pay, or fixed percentages not supported by rationale.
 - The allocation between Head Start/EHS and unrelated programs and/or Central Administration is supported by an activity base (e.g., number of transactions, number of supervised staff).
 - The grantee uses another allocation methodology not described above.
- ▶ Which of these best describes the allocation between Head Start/EHS and related program(s), such as State Pre-K or Child Care?
- The allocation is based on actual activity.
 - The allocation base (e.g., total salary dollars in each program, total expenses in each program) typically requires a negotiated Indirect Cost Rate Agreement.
 - The allocation methodology uses one or more activity bases, such as the number of children served and hours of operation or time studies or similar analyses based on direct hours of identifiable services provided.
- ▶ Which of these best describes the allocation between Head Start and EHS?
- The allocation between Head Start and EHS uses the same percentages as those used in the GABI accompanying the approved funding application.
 - The allocation is based on actual activity.
 - The allocation is based on budgeted dollars, ability to pay, historical time studies, or fixed percentages not supported by rationale.
 - The allocation is supported by an activity base (e.g., hours of service, number of children, etc.).
 - The grantee uses another allocation methodology not described above.

Payroll—Transaction (FIS4.1) (continued)

- ▶ How has the grantee documented actual activity?
- The grantee is an educational institution and uses a method recognizing the principle of after-the-fact confirmation.

- The grantee is a government entity and uses periodic certification demonstrating (at least semi-annually) that the employee worked solely on the Head Start/EHS award during the period covered by the certification.
 - The grantee is a non-profit or government entity and uses personnel activity reports (PARs).
- ▶ Were the PARs prepared at least monthly, and did they coincide with one or more pay periods?
 - ▶ Did the PAR account for the total activity for which the employee was compensated?
 - ▶ Was the PAR signed by the individual employee or, for non-profit agencies only, by a responsible supervisory official having first-hand knowledge of the activities performed by the employee?
 - ▶ Is the allocation supported by current data?
 - ▶ Based on a review of available information (e.g., job description, organization chart, classroom rosters, list of programs served by the agency), is the salary properly allocated? Please describe the evidence supporting your conclusion.
 - ▶ Is the allocation base an appropriate measure of the benefit received by each program? Please describe the evidence you observed in arriving at your conclusion.
 - ▶ If the grantee uses another allocation methodology, please describe the methodology used. Does the methodology allocate costs in proportion to the benefits received by each program? Please describe the evidence observed in arriving at your conclusion.

Financial Reports/Accounting Records—Document (FIS4.2)

- ▶ Does the grantee's most recent IRS Form 990, individual W-2 statement, or Final Year-End Payroll Register list any employee with compensation exceeding the Level II rate?
- ▶ For employees identified in the grantee's IRS Form 990 or individual W-2 statements as receiving compensation exceeding the Executive Level II rate, is any portion of their compensation paid from Head Start funds (directly charged or as part of an indirect rate) or claimed as non-Federal share (NFS) (match or in-kind)?

Targeted Questions

Fiscal Officer—Interview (FIS4.3)

- ▶ How (and how recently) has the grantee ensured that wages paid are comparable to wages paid for comparable positions within the organization or those paid for similar work in the labor markets in which the organization competes?
- ▶ If the grantee received cost-of-living-adjustment (COLA) funds, were the funds distributed in accordance with the terms of the grantee's funding award? Please describe the evidence you observed in arriving at your conclusion.

- ▶ If the grantee has an Incentive Compensation plan, how recently has it been used to compensate Head Start employees, and how is reasonableness of payments determined?

Payroll—Transaction (FIS4.3)

- ▶ Does this transaction include any incentive-compensation payments or paid bonuses (with or without an Agreement for Payment)?
- ▶ Did the grantee document that the employee had: (a) achieved cost reduction; (b) met criteria for efficient performance; (c) submitted suggestions; or (d) achieved safety goals?
- ▶ Was incentive compensation paid according to existing Incentive Compensation Agreements entered into in good faith between the organization and the employee before services were rendered or made according to an established plan consistently followed by the organization?
- ▶ Does the organization have similar work in other activities (outside of Federal awards)?
- ▶ Is the employee pay rate for Head Start work supported by a wage comparability study that establishes comparable compensation for similar work in the labor markets in which the organization competes?
- ▶ Is compensation consistent with the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities?
- ▶ Is compensation consistent with that paid for similar work in other activities?

Fiscal Integrity

Fiscal Integrity Key Performance Area #5 - Cost Principles

	Compliance Measure	Federal Regulation
5.1	<p>The grantee has implemented procedures to determine allowability, allocability, and reasonableness of costs charged against its Head Start and Early Head Start (EHS) grant awards as required by the applicable cost principles. If the grantee is required to allocate costs among funding sources (including Head Start and EHS awards), the program utilizes a method for allocating costs that reflects the relative degree of benefit for each program receiving the benefit of the allocated cost.</p> <p><i>Note: The requirement to allocate costs applies only to programs that do not have a negotiated and approved indirect cost rate OR programs that have a negotiated and approved indirect cost rate and also have other allocated costs.</i></p>	75.403(a-g) 75.404(a-e) 75.405(a)(1) 75.405(a)(3) 75.405(b-c) 75.405(e)
5.2	<p>Indirect cost charges are supported by a negotiated Indirect Cost Rate Agreement, are claimed under a valid election to charge a <i>de minimis</i> rate or are included in a written, internally maintained cost allocation plan identifying a reasonable basis for allocating all shared costs of the organization.</p> <p><i>Note: Applies to non-Federal entities claiming indirect costs under a negotiated Indirect Cost Rate Agreement, electing to claim the de minimis rate, or including all shared costs in a written, internally maintained cost allocation plan.</i></p>	75.405(d) 75.405(a)(2) 75.414(f)
5.3	<p>The grantee can demonstrate that all contributions of non-Federal share (NFS), including cash and third-party in-kind (such as donated services, goods, or supplies), are necessary and reasonable for accomplishing program objectives, allowable under applicable cost principles, and allocable if also benefiting another award. Financial records are also sufficient and support the verification of adherence to applicable cost principles.</p> <p><i>Note: The use of cash and in-kind contributions must meet the same standards applicable to an expenditure of grant funds. They must support the accomplishment of program objectives and not benefit individual children or their families.</i></p>	75.306(b)(1-5) 75.306(e) 75.306(g) 75.306(i)(1-3) 75.434(d)
5.4	<p>During each funding period reviewed, the grantee charged to the award only costs resulting from obligations incurred during the funding period.</p>	75.309(a)

Targeted Questions

Journal Entries—Transaction (FIS5.1)

- ▶ Why was the journal entry created, and is the amount allowable and reasonable? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Did the documentation show that the cost was allocated to Head Start in proportion to the benefit received? Please describe the evidence you observed in arriving at your conclusion.

Grantee-Owned Facilities—Transaction (FIS5.1)

- ▶ Can the grantee document through a space map or other mechanism how the portion of the building allocable to Head Start was determined?

Leased Facilities—Transaction (FIS5.1)

- ▶ Can the grantee document through a space map or other mechanism how the portion of the building allocable to Head Start was determined? Please describe the evidence you observed in arriving at your conclusion.

Non-Personnel Costs—Transaction (FIS5.1)

- ▶ Was the cost supported by a contract or invoice, if appropriate? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Does the grantee maintain documentation with adequate information to support a determination that the expense is allowable, reasonable, necessary, and allocable (i.e., supports the need for the purchased product and its benefit to Head Start)? Please describe the evidence you observed in arriving at your conclusion.

FIFO & Audit—Document (FIS5.1)

- ▶ Does Head Start/EHS share resources or personnel with other programs or with Central Administration?
- ▶ Are there cost allocation issues which should be considered by the Reviewer?

Payroll—Transaction

- ▶ Were the amounts awarded reasonable (i.e. the total compensation including the incentive was not excessive compared to the normal salary paid for similar work in the labor markets in which the organization competes for the kind of employees involved)? Please describe the evidence you observed in arriving at your conclusion.

Financial Reports/Accounting Records—Document (FIS5.2)

- ▶ If the paper-based Final SF-425, Revenue/Expense report, or other financial record reflects a claim for indirect costs, does the Notice of Award (NOA) reflect an award for indirect costs, and does the grantee have a current negotiated Indirect Cost Rate Agreement?
- ▶ If the grantee has an established Indirect Cost Rate Agreement, is the total indirect cost on the most recent paper-based Final SF-425 computed per the approved agreement?
- ▶ Are the indirect costs charged to Head Start also included in the grantee’s development and administrative costs for the period? Please describe the evidence you observed in arriving at your conclusion.
- ▶ If the grantee does not have a negotiated Indirect Cost Rate Agreement, has the grantee elected to charge a *de minimis* rate of not more than 10 percent of modified total direct costs, and can the grantee show that it has never entered into a negotiated Indirect Cost Rate Agreement?
- ▶ Does this procurement benefit two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved?
- ▶ Were the costs allocated or charged to benefiting projects in accordance with a reasonable basis that is adequately documented and not for the purpose of overcoming fund deficiencies?

General Ledger—Document (FIS5.2)

- ▶ Do the grantee’s financial records differentiate between indirect and direct cost charges? Please describe the evidence you observed in arriving at your conclusion.

FIFO & Audit—Document (FIS5.2)

- ▶ Does the grantee have a negotiated indirect cost rate with the Federal Government (or negotiated with the State Department of Education in certain cases), or has the grantee elected to charge a *de minimis* rate of not more than 10 percent of modified total indirect costs?
- ▶ Are there any issues related to indirect costs that should be considered by the Reviewer?

FIFO & Audit—Document (FIS5.3)

- ▶ Are there any issues related to non-Federal share which should be considered by the Reviewer?

Non-Federal Share—Transaction (FIS5.3)

- ▶ Was the cash expended for allowable costs necessary and reasonable for the operation of the Head Start program?
- ▶ This question applies only if cash match was from State or local government funds: Has the grantee established that the claimed match is not from funds paid by the Federal Government under another award, except where authorized by Federal statute, or the funds were not used to match other Federal funds? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Does the grantee administer other programs that require a match?
- ▶ How did the grantee establish that the donation has not been counted toward a match for another program? Please describe the evidence you observed in arriving at your conclusion.
- ▶ For cash matches, was the cash counted as match when expended and not when received? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Does the claimed NFS appear to be allowable and necessary for the operation of the Head Start program?
- ▶ Were donated items (e.g., clothing, household items) intended to be taken home for personal use by the child or parent? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Does the grantee administer other programs that require a match?
- ▶ How did the grantee establish that the donation has not been counted toward a match for another award? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Was the claimed match paid from Federal Government funds under another award?
- ▶ Did authorizing legislation allow the funds to be used as match? Please describe the evidence you observed in arriving at your conclusion.
- ▶ How was the value established, and is it reasonable? Is the rate consistent with rates paid for similar services in the recipient's organization (including fringe benefits) or the employee's regular rate of pay (for services provided by the employee of another organization) for services not found within the recipient's organization and consistent with the rates paid for similar services in the local labor market (including fringe benefits)? Please describe the evidence you observed in arriving at your conclusion.

Non-Federal Share—Transaction (FIS5.3) (continued)

- ▶ For donated services, are the nature and duration of the activity, service date, location in which the service was performed, and volunteer signature included in the documentation? Please describe the evidence you observed in arriving at your conclusion.
- ▶ If applicable to the type of donated service, are claims supported by records identifying the number of children served and the service provided?
- ▶ Did the volunteer receive payment or a stipend from another Federal program, such as Foster Grandparents?
- ▶ Was the value reduced by the amount of the stipend? Please describe the evidence you observed in arriving at your conclusion.
- ▶ For donated space (other than space in family homes or occasional space rental), is the claimed value supported by a current appraisal performed by a licensed independent appraiser (e.g., certified real-property appraiser or General Services Administration representative) and certified by a responsible official of the recipient? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Is the rate consistent with rates paid for similar services in the recipient's organization (including fringe benefits), or for services not found within the recipient's organization, consistent with the rates paid for similar services in the local labor market (including fringe benefits)? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Is the amount of time spent performing the activities reasonable? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Does the in-kind primarily benefit the parent or child (as outlined in OHS-PC-A-077) as opposed to benefiting the overall Head Start program?
- ▶ This question applies to at-home activities: Are parents' at-home activities spent doing things with the enrolled child that support the child's Head Start experience, are articulated by the teacher (or home visitor), and support the curriculum used by the program? Please describe the evidence you observed in arriving at your conclusion.
- ▶ This question applies to claims for the use of parent in-home space: Did the grantee use an outside source (e.g., market survey) to support the claimed value? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Does this claim include parent transportation of children?

Payroll—Transaction (FIS5.4)

- ▶ Was the work performed in the award period in which the related payroll cost was charged?

Journal Entries, Non-Personnel Costs—Transaction (FIS5.4)

- ▶ Was the cost posted to the award period in which the obligation was incurred?

Non-Federal Share—Transaction (FIS5.4)

- ▶ Was the cost posted to the appropriate award period?
- ▶ Was the in-kind contribution posted to the appropriate award period?

Fiscal Integrity

Fiscal Integrity Key Performance Area #6—Facilities and Property

	<i>Compliance Measure</i>	<i>Federal Regulation</i>
6.1	The grantee has established the allowability of costs for owned or leased facilities and has adequately protected any Federal Interest in facilities through the filing of Notices of Federal Interest, insurance, and maintenance of property records. Compensation for the use of facilities owned by the grantee, a delegate agency, or other related party was through depreciation based on the cost of the facility (excluding costs paid by Head Start). The grantee obtained advance Regional Office permission for any mortgage or loan agreements using as collateral property acquired or subject to major renovation using Head Start funds and has ensured that Mortgage/Loan Agreements include the required provisions.	1309.10 1309.20 1309.21(b) 1309.21(d)(1) 1309.21(d)(2) 1309.21(d)(3) 1309.21(d)(4)(i) 1309.21(d)(4)(ii) 1309.21(d)(4)(iii) 1309.22(a) 1309.22(b) 1309.22(c) 1309.23(a)(1) 1309.23(a)(2) 1309.23(b) 1309.31(b) 1309.40 75.465 75.436
6.2	The grantee has safeguarded equipment purchased using Head Start funds by maintaining complete and accurate equipment records, verifying the accuracy of records by conducting a physical inventory, and following disposition requirements. The grantee obtained advance Regional Office permission for any encumbrance of equipment acquired using Head Start funds.	75.320(d)(1-2) 75.320(a)(2) 75.320(e)

Targeted Questions

Leased Facilities—Transaction (FIS6.1)

- ▶ Which of the following best describes the lease?
 - This is an operating lease between the grantee/delegate and an unrelated property owner. The relationship between the grantee/delegate and the owner is arm's length. The lease does not include elements of purchase.
 - There is a less-than-arm's-length relationship between the grantee/delegate and the landlord. One party to the Lease Agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to, those between divisions of a non-profit organization, non-profit organizations under common control through common key personnel, and a non-profit organization and a key employee of the organization or his or her immediate family, either directly or indirectly, in which he or she holds a controlling interest.
 - The lease contains at least one of the elements of a purchase:
 - The lease provides for transfer of ownership to the grantee/delegate.
 - The lease provides for the grantee/delegate to purchase the property for less than fair-market value.
 - The duration of the lease is 75 percent or more of the facility's expected economic life.
 - Payments under the lease are at least 90 percent of the asset's value.
- ▶ Please describe the evidence you observed in arriving at your conclusion regarding the description of the lease.

This question is asked to determine whether the property was subject to a major renovation, which requires prior approval under Part 1309.

- ▶ Was this facility subject to renovation paid from Head Start funds in which the renovation cost was in excess of \$250,092 (\$200,000 adjusted for inflation since 2003) or 25 percent of the total annual direct costs approved for the grantee by ACF for the budget period in which the application was made?

- ▶ Did the grantee limit lease charges to the amount that would be allowed had the grantee purchased the property on the date the Lease Agreement was executed? (This amount would include expenses such as depreciation, maintenance, taxes, and insurance.) Please describe the evidence you observed in arriving at your conclusion.
- ▶ When reviewing evidence, consider the following:
 - What is the cost of the building (including any improvements and excluding the cost of the land)?
 - What is the annual depreciation of the building (based on the useful life used for financial-statement or tax purposes)?
 - What is the annual charge to the Head Start award and/or NFS claimed for the facility?
- ▶ For capital lease arrangements in which charges exceed depreciation, can the grantee show that the Regional Office approved an application for the purchase of this facility under Part 1309?
- ▶ For leased property subject to major renovation using Head Start funds: Is the lease filed in the official records of the jurisdiction in which the facility is located?
- ▶ For leased property subject to major renovation using Head Start funds: Does the lease (or affidavit or other document filed as Notice of Federal Interest) include the address and legal description of the property (1309.21(d)(4)(i)); acknowledge that the grant incorporated conditions that included restrictions on the use of the property and provide for a Federal interest in the property (1309.21(d)(4)(iii)); and state that the property may not be used for any purpose inconsistent with that authorized by the Head Start Act and applicable regulations (1309.21(d)(4)(iii))?
- ▶ Does the grantee's lease or other arrangement for occupancy provide the funding agency with the required right to designate a new lessee in the event of default, withdrawal, or termination; protect the Federal interest in the facility; and ensure the grantee's undisturbed use and possession of the facility?
- ▶ Can the grantee produce a current Certificate of Insurance showing a physical-destruction insurance policy that insures the full replacement value of the facility from risk of partial and total physical destruction?

FIFO & Audit—Document (FIS6.1)

- ▶ During this grant period or any of the two previous grant periods, has the grantee received funding for new facilities—either traditional buildings or modular units—or major renovations to existing facilities?
- ▶ Were there indications that charges for a facility owned by the grantee (or a related party) exceeded depreciation?
- ▶ Were there any other facility issues?

Fiscal Officer—Interview (FIS6.1)

- ▶ Has the grantee received a Notice of Default on any mortgage or Security Agreement on a property with Federal interest?
- ▶ Can the grantee document that the Regional Office was informed of all instances of default related to properties with a Federal interest?

Grantee-Owned Facilities—Transaction (FIS6.1)

- ▶ Is Head Start charged occupancy costs for any grantee-owned facilities?
- ▶ Which of the statements below best describes the facility?
 - The facility is grantee-owned and was not acquired, constructed, or renovated using Head Start funds.
 - The facility is a modular facility owned by the grantee and was acquired, constructed, or renovated using Head Start funds.
 - The facility is a non-modular facility owned by the grantee and was acquired, constructed, or renovated using Head Start funds.
- ▶ For non-modular facilities, is the facility located on land owned by the grantee?
- ▶ Is the building subject to a mortgage?
- ▶ Is the title in the name of the grantee?
- ▶ Was this loan entered into or refinanced since the grantee's last review?
- ▶ Can the grantee provide a written Subordination Agreement signed by an ACF official subordinating the Federal interest to the rights of the lender?
- ▶ Did the review of the Loan Agreement find the lender was required to give written and telephonic notice to ACF in the event of a default in payment by the grantee and provide that it would not foreclose on the property until at least 60 days after the required notice was sent and that ACF had the right to cure the default or name another payee?

Grantee-Owned Facilities—Transaction (FIS6.1)

- ▶ Can the grantee show ACF approval of a Facilities application under Part 1309?
- ▶ Were non-Head Start funds used in the acquisition, construction, or permanent improvement of the facility?
- ▶ Did the grantee limit charges to the cost of ownership (depreciation plus utilities, insurance, and maintenance)? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Did the calculation of depreciation exclude the cost of land and any portion of the cost of buildings paid by the Federal Government? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Can the grantee show title insurance for the full appraised value as approved by ACF or the amount of the purchase price, whichever is greater, and contains an endorsement identifying ACF as a loss payee to be reimbursed if the title fails?
- ▶ Can the grantee show it provided certified copies of the deed, lease, loan instrument, mortgage, and any other legal documents related to the acquisition or major renovation of the facility or the discharge of any debt secured by the facility to the Regional Office after their execution?
- ▶ Can the grantee produce a current Certificate of Insurance including a physical-destruction insurance policy that insures the full replacement value of the facility from risk of partial and total physical destruction?
- ▶ If the facility is located in a flood zone, can the grantee produce a current Certificate of Insurance including flood insurance covering the full replacement value of the facility?
- ▶ Which of these best describes the arrangement of this modular facility?
 - The modular is permanently affixed to land owned by the grantee.
 - The modular is situated on land owned by a third party.
 - The modular is located on grantee-owned land but is not permanently affixed.

Grantee-Owned Facilities—Transaction (FIS6.1)

- ▶ For modular units not permanently affixed to land owned by the grantee or affixed to land not owned by the grantee, has the grantee posted the following notice on the modular unit: "On [date], the Department of Health and Human Services (DHHS) awarded [grant number] to [Name of grantee]. The grant provided Federal funds for conduct of a Head Start program, including purchase of this modular unit. The grant incorporated conditions which included restrictions on the use and disposition of this property, and provided for a continuing Federal interest in the property. Specifically, the property may not be used for any purpose other than the purpose for which the facility was funded, without the express written approval of the responsible DHHS official, or sold or transferred to another party without the written permission of the responsible DHHS official. These conditions are in accordance with the statutory provisions set forth in 42 U.S.C. 9839; the regulatory provisions set forth in 45 CFR part 1309, 45 CFR part 74 and 45 CFR part 92; and Administration for Children and Families' grants policy."
- ▶ Can the grantee show it recorded a Notice of Federal Interest in the appropriate official records for the jurisdiction in which the facility is located?
- ▶ Can the grantee show a land lease or other document ensuring the right of the grantee to have undisturbed use and possession of the facility?
- ▶ Is the lease filed in the official records of the jurisdiction in which the facility is located?
- ▶ Does the land lease (or affidavit or other document) include the address and legal description of the property (1309.21(d)(4)(i)); acknowledge that the grant incorporated conditions that included restrictions on the use of the property and provide for a Federal interest in the property (1309.21(d)(4)(ii)); and state the property may not be used for any purpose inconsistent with that authorized by the Head Start Act and applicable regulations (1309.21(d)(4)(iii))?

Loan Review—Transaction (FIS6.1)

- ▶ Does the grantee have loans or lines of credit (other than mortgage loans related to facilities with a Federal interest) outstanding?
- ▶ Did the Loan Agreement exclude any claims against assets acquired or improved with Head Start funds?
- ▶ If the Loan Agreement did not exclude assets having a Federal interest from use as collateral, did the grantee receive written approval from the Grants Management Officer (or designee) to encumber the Federal interest in Head Start facilities?

Non-Federal Share—Transaction (FIS6.1)

- ▶ This question applies to space in a facility owned by the grantee, being purchased by the grantee under a capital lease, or under the grantee's control in a less-than-arm's-length relationship: Was the value of the donated space limited to the cost of ownership, such as depreciation, maintenance, taxes, and insurance?

Equipment—Transaction (FIS6.2)

- ▶ Does the total cost of all equipment purchased with Head Start funds exceed \$50,000?
- ▶ Is the equipment supported by an entry in the grantee's equipment records and include all required information (description of the property; serial number or other identification number; source of the property; title holder; acquisition date; cost of the property; percentage of Federal participation in the cost of the property; location, use, and condition of the property; and ultimate disposition data, including the date of disposal and sales price of the property)?
- ▶ Can the grantee document that the equipment was part of a physical inventory conducted at least once in the past 2 years?

Financial Reports/Accounting Records—Document (FIS6.2)

- ▶ Since the last Fiscal Review, has the grantee sold or disposed of any equipment with a fair market value of \$5,000 or more?
- ▶ How did the grantee determine the fair market value? Please describe the evidence you observed in arriving at your conclusion.
- ▶ Did the grantee request and follow disposition instructions from the Regional Office?

Loan Review—Transaction (FIS6.2)

- ▶ If the Loan Agreement did not exclude assets having a Federal interest from use as collateral, did the grantee receive written approval from the Grants Management Officer (or designee) to encumber the Federal interest in Head Start equipment?