



Head Start A to Z

Fiscal Management

Background

Effective fiscal management is essential to operating a successful Head Start/Early Head Start (HS/EHS) program. The organization's vision and mission, which reflects the community's needs and articulates the desired direction, is the foundation for the fiscal management system's short-term and long-term goals and objectives. Grantees that have strong financial leadership and systems are able to remain viable even during times of financial difficulty.

You as a Head Start director play the role of fiscal leader in your Head Start or Early Head Start program; you are responsible for overseeing the management of the program's resources to ensure optimal benefits for the children and families you serve and to make the program as efficient and effective as possible. Like the conductor of an orchestra, you integrate and coordinate the talents and efforts of diverse players and elements, inspiring and instructing your staff and partners to work together to follow the highest standard of quality to deliver excellent results. Head Start/Early Head Start directors must coordinate activities and bridge the divide between fiscal and programmatic concerns, while communicating essential and timely fiscal information to a variety of audiences, including governing bodies, Policy Council, staff, and the community at large, using language understandable by all.

Fiscal System Components

Fiscal management represents one of the 10 Head Start management systems directly related to successful outcomes for children, families, and programs. Your financial system is the backbone of your organization and arguably one of the most important. The elements that make up a financial management system include establishing a clear mission and key results, programming, budgeting, ensuring financial controls, accounting, financial reporting and review, and auditing.¹ In order for you to be effective as a fiscal leader, you need to be aware of the following key elements of financial management and their importance to the overall financial system.

¹Robert E. LaVallee and Kate Sandel, *Beyond The Checkbook: A Financial Management Guide for Leaders of Small Youth-Serving Organizations* (Washington, DC: The Finance Project, 2009).

Budgeting

Budgeting is an ongoing process of an actionable plan used to advance the mission of your Head Start/Early Head Start program. By looking at budgeting as an activity that is regularly discussed, revisited, and revised when needed, you create the blueprint for using and maximizing the resources available. Projecting revenues and expenditures based on good financial information allows you and your staff to develop a plan for spending and monitoring throughout the project year. Comparing projections to actual expenditures throughout the year allows for course corrections and timely budget amendments.

Financial Controls

Financial controls are the checks and balances necessary to safeguard the funds of your program and organization. These controls may look different depending on the size and capacity of your organization, but they are no less important in any case. While there is no cookie-cutter approach to developing a system of internal controls, there are some basic principles that you need to consider. Procedures that must be in place include the following.

- Receipts
- Disbursements
- Petty cash
- Payroll
- Cash management
- Ensurances for segregation of duties
- Investments

Financial Reporting and Review

Accurate reporting of financial information and ongoing monitoring of the financial system is crucial to long-term organizational sustainability. The governing body has legal and fiscal responsibility for the organization; but as the Head Start director, you need to ensure that the governing body reviews results of fiscal monitoring and receives timely and accurate financial reports.

Another critical responsibility is to ensure that timely and accurate fiscal reports are submitted to funders. Providing a culture of transparency that makes financial information available to the public is also important to organizational sustainability, often leading to greater community understanding and support for your organization and program mission.

Overarching Theme

Head Start leaders are charged with an enormous task. Preparing a new generation of children for kindergarten and beyond with the skills necessary to succeed, while operating and sustaining a business, is difficult. *Head Start A to Z* Fiscal Management provides, in two parts, a general overview to Head Start directors on what they need to know, do, and oversee related to fiscal management. Key to successful fiscal management is good communication and facilitation between program and fiscal staff. The Head Start director's role is to serve as the "conductor" to the diverse members of this orchestrated learning and care effort to ensure they all are working from the same score.

Outcomes

Part I

- Identify your role and relationship with important fiscal stakeholders
- Become familiar with federal fiscal regulations impacting Head Start operations
- Learn about key fiscal terms and concepts

Part II

- Understand what you need to do and oversee related to fiscal management
- Understand the Head Start Budgeting Process
- Learn more about non-federal shareshare match requirements
- Understand Head Start internal and external fiscal reporting requirements

Materials

- PowerPoint presentation
- Handouts:
 - ✓ Nifty Notes
 - ✓ Fiscal Organizational Scan for New Directors
 - ✓ Cost Principles Activity
 - ✓ Cost Principles: General Principles
 - ✓ Internal Controls Scenarios
 - ✓ Organizational Fiscal Policies and Procedures: Suggested Table of Contents
 - ✓ Non-federal share Match Activity
 - ✓ Non-federal share At-A-Glance
 - ✓ Regulations
 - ✓ Key Message (New Leader's version)

Planning Ahead

- There are two 90-minute segments, Part I and Part II.
- Make copies of the “Nifty Notes” handout.
- Make copies of the following other handouts:
 - ✓ Fiscal Organizational Scan for New Directors
 - ✓ Cost Principles Activity
 - ✓ Cost Principles: General Principles
 - ✓ Internal Controls Scenarios
 - ✓ Organizational Fiscal Policies and Procedures: Suggested Table of Contents
 - ✓ Non-federal share Activity
 - ✓ Non-federal share At-A-Glance
 - ✓ Regulations
 - ✓ Key messages (New Leaders version)
- Have a working knowledge of the scenarios, internal controls, cost principles and non-federal share match requirements.
- Review answers for the “Cost Principles” and “Non-federal share” scenarios.

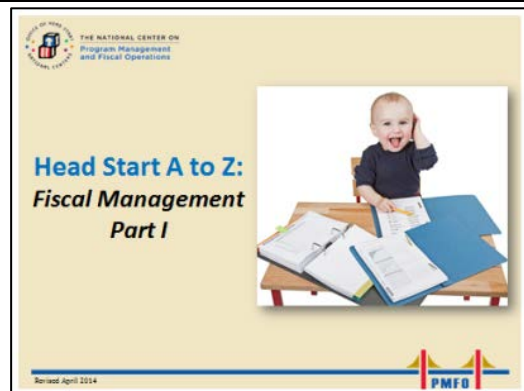
Note to Trainer

Given the breadth of material that is covered in the two parts of this session, trainers don't have the time to go in depth on any specific fiscal topic. Rather, this presentation provides participants a summary of all they need to know, do, and oversee and points them in a direction where they can continue their self-study.

Let's Get Started Part I

1. Welcome the participants and introduce yourself. If you have co-facilitators, they should introduce themselves, too.

Say to participants, “*Head Start A to Z* sessions are designed to emulate the concept of the ‘learning organization.’ We recognize the key building blocks of learning organizations: a supportive learning environment, concrete learning processes, and leadership development—all of which reinforces learning.



“Each one of us has an important role to play in the success of this session. Those with

experience remind us where we've come from and what we must do to maintain our identity and uniqueness. New members bring a fresh perspective and remind us of what we must do to prepare for the future. All roles are essential for Head Start as a learning organization to continue to grow and flourish.

“Head Start A to Z sessions are successful when they help us share the best of what we have to offer with a strength-based focus. As you engage in this session, we hope that you will support one another in the learning process by generously sharing your knowledge, experience, and perspective.”

2. Guide participants to the “Key Messages” handout. Say to participants, “Head Start A to Z sessions are designed based on a set of key messages. For this session, Fiscal Management, we will focus on key message #2.”

Read the key message and emphasize the complexity and importance of fiscal management.



Key Message

Head Start is a complex and evolving organization, with extensive regulations, policies, values, and traditions.

The slide features a large yellow puzzle piece with a keyhole, symbolizing the complexity and interconnectedness of the organization. The logo for The National Center on Program Management and Fiscal Operations is in the top right corner.

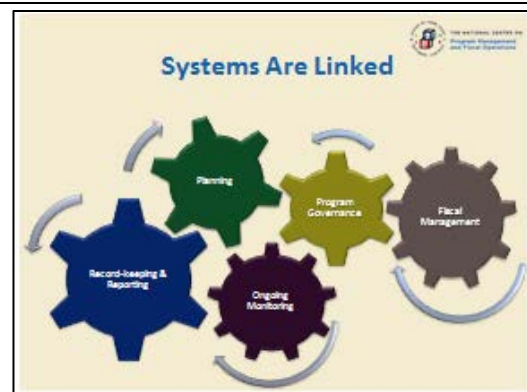
3. Remind the group that there are 10 management systems, and fiscal management is one of them.

Explain that one of our favorite descriptions is depicted in this visual, which shows that Head Start and Early Head Start services are supported by systems **that support high-quality services; and high-quality services lead to positive outcomes for children and families.**



4. Systems Are Linked

On the second click say, “All systems are linked. A system is a set of interacting, interrelated parts that form a complex whole with a specific purpose.”



5. On Second Click: When Systems that are not functioning properly things go wrong (cogs/gears are stuck in the animation).

And it is likely to be evident within program services:

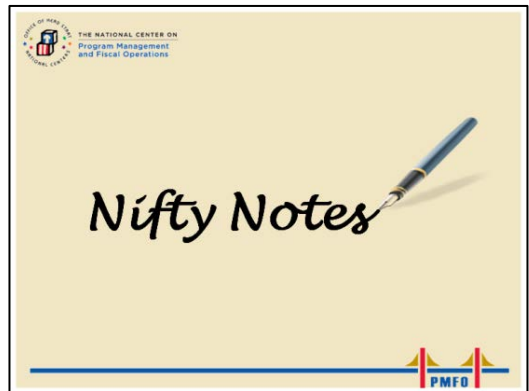
For example: There may be pockets of quality due to the hard work of high performing staff but as a whole, services are likely to be inconsistent.

Children and families receiving services in one center may receive a totally different experience than children and families across town in a

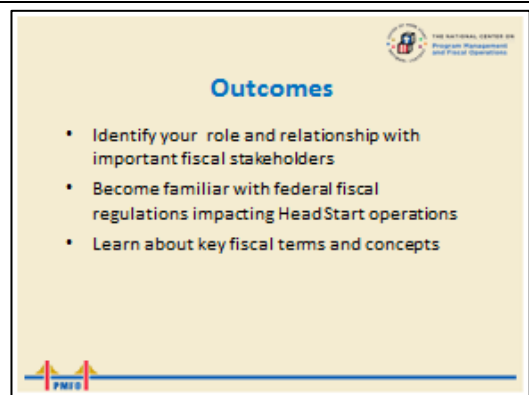
different center. The other thing that might happen is that when a high performing leader leaves, the quality of the program plummets. Why? Because there are not systems in place that will help the program withstand the change.



6. Distribute the “Nifty Notes” handouts to participants and encourage them to use the handout as a place to document their thoughts and ideas throughout the presentation.

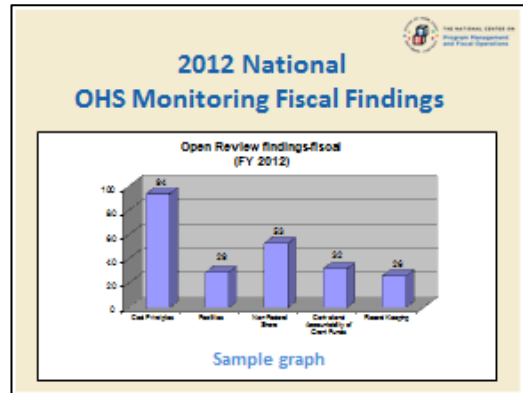


7. Introduce and discuss the session objectives.



8. Offer the following idea: “Being good stewards of taxpayers’ dollars is a critical responsibility for Head Start leaders. Leaders come into these positions with a variety of backgrounds; however they all have a desire to serve children and families. Head Start/Early Head Start directors need to have an equivalent desire to safeguard and spend federal dollars wisely.”

Share slide that shows the national fiscal findings from 2012 Office of Head Start (OHS) monitoring reports. Note to participants that this slide is a placeholder for one they will create with data gathered about their own regional fiscal findings. This data is available on the Head Start Enterprise System.



Reflect on the results shown in this particular slide and discuss the results with participants. State the following:

“As you can see, cost principles are the most frequently cited area over the last review period. In analyzing narratives of the review citations, we discovered that these citations had to do with compensation of employees and consultants. In most cases, grantees were not compensating employees or consultants and contractors at a rate comparable to industry standard in their area. It is important to emphasize the justification of these expenditures while following the procedures set forth by the respective agency. These trends will help contextualize some of the common pitfalls that grantees want to avoid. By reviewing these findings and using parts of the narrative found in the Head Start Enterprise System, you will be able to view specific details on the findings individually to highlight some trends.”

9. Distribute the “Fiscal Organizational Scan for New Directors” handout.

State the following:

“Strong, effective communication is a hallmark of excellent Head Start programs. As a Head Start leader, you play a critical role in getting all ‘players’ to work together, harmonizing with one another to masterful effect. Too often program and fiscal staff work in isolation, but with your leadership you can encourage

diverse and talented staff members to coordinate their efforts toward achieving your program’s mission and vision. We believe that an important role for the Head Start director is to bridge the fiscal and program departments and assist program governance leaders in strengthening their communications. Like the conductor of an orchestra, you



integrate and coordinate the talents and efforts of diverse players and elements, inspiring and instructing your staff and partners to work together to follow the highest standard of quality to deliver excellent results.”

Describe the scanning tool and how to use it:

- The tool is to be used by a Head Start director to conduct a scan of the fiscal environment in a Head Start agency so that the director will understand his or her role, responsibility, and opportunities to influence and improve Head Start fiscal management.
- Review the broad categories: Organizational Structure, Communication Systems, Staff Fiscal Capabilities, Fiscal Issues, and Deadlines.
- If you are a new Head Start service area manager, this tool will assist you in understanding the fiscal responsibilities of the Head Start director. You would want to share this tool with the director and ask him or her to assist you in completing it.
- If you are a new fiscal director, completing this tool with the help of the Head Start director will assist you in understanding how you can best support the director in carrying out his or her role. Tell participants to take about 5 minutes to review the “Questions to Consider” in this handout.
- Ask participants to share their response to the following:
 - ✓ “Are there any surprises in these questions?”
 - ✓ Do you think you would be able to answer these questions?”

State the following:

“We’d encourage you to use this tool when you return to your program and, upon completing it, to share it with your supervisor and the fiscal director to see if they share your understanding of your roles and responsibilities.”

10. Explain that the slide “Head Start Leader and Fiscal Management” is intended to orient participants to their various responsibilities in their role as a Head Start leader. Communication and facilitation are key components of their position. Emphasize again that the Head Start leader’s role is similar to that of a conductor in an orchestra, instructing, guiding, directing, and supporting individual members so that, working together, their efforts harmonize.



State the following:

“The graphic depicts, in general, what you need to **know** about, **do**, and **oversee** in the area of fiscal management in your role as a Head Start director. There is much for a Head Start leader to learn, so it is easy for directors to delegate fiscal oversight to others. However, it’s the Head Start director who has operational responsibility for the entire Head Start

program, including its fiscal operations. **Remember:** the governing body has ultimate legal and fiscal responsibility; but as the director you are carrying out their vision, policies, and so forth. As directors and fiscal leaders, you should view the Head Start/Early Head Start operations from a global perspective, understanding the importance of synergy between program and fiscal components.”

11. Review the components listed in the slide “What you need to know.”

Fiscal regulations: State the importance of using the following laws and regulations:

- ✓ Head Start Act Section 642: Fiscal Reporting
- ✓ Grants Administration: 45 CFR 1301
- ✓ Uniform Administrative Regulations: Describe which applies to which auspice.
- ✓ Cost Principles: 2 CFR 220, 225, 230

Describe which regulation applies to which auspice, referring to the “Regulations” handout. Note the importance of sharing with all staff the information contained in the cost principles, along with the concepts (1) that costs must be allowable, reasonable, and allocable and (2) that the organization must have internal controls that safeguard assets, check the accuracy and reliability of accounting data, and promote operating efficiency.

Remind participants that 2 CFR Chapters I & II & Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, also known as the new OMB “Super-Circular,” replaces eight OMB circulars, including 45 CFR Parts 74 and 92, 2 CFR 215, 220, 225, 230 (Cost Principles) and OMB-A-133, effective after Dec. 26, 2014. The new “Super-Circular” is 2 CFR Chapters I, II and Part 200.

Note that all of these regulations, with the exception of the “Super-Circular” can be found on the ECLKC. The “Super-Circular” regulations can be found on the OMB website at: http://www.whitehouse.gov/omb/grants_docs.

Now review the **Fiscal Concepts:**

Distribute the “Cost Principles: General Principles” handout and review the following.

Reasonable, allocable, allowable (and necessary):

Use the following definitions:

- A cost is **reasonable** if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Cost is reasonable if the following conditions are

met:

- ✓ The cost is generally recognized as ordinary and necessary.
 - ✓ The cost exemplifies sound business practices and arm's-length bargaining; and it complies with laws, rules, regulations, and grant-award specifications.
 - ✓ The individuals concerned acted with prudence under the circumstances and given their responsibilities to the organization, its members, employees, clients, the public at large, and the federal government.
 - ✓ The cost does not significantly deviate from the established practices of the organization.
- A cost is **allocable** to a particular cost objective—such as a grant, contract, project, service, or other activity—in accordance with the relative benefits received. A cost is allocable to a federal award if it is treated consistently with other costs incurred for the same purpose and if it
- ✓ is incurred specifically for the award;
 - ✓ benefits both the award and other work and can be distributed in reasonable proportion to the benefits received; or
 - ✓ is necessary to the overall operation of the organization, even though a direct relationship to any particular cost objective cannot be shown.
- A cost is **allowable** if it
- ✓ is reasonable for the performance of the award,
 - ✓ is allocable to the award,
 - ✓ conforms to any applicable limitations or exclusions,
 - ✓ is consistent with policies and procedures that apply to federally funded and other activities,
 - ✓ is accorded consistent treatment,
 - ✓ meets generally accepted accounting principles (GAAP),
 - ✓ is not included as a cost or cost sharing for any other federally funded program, and
 - ✓ is adequately documented.

Internal controls and segregation of duties: Internal controls involves ensuring that you have maintained a separation of duties among staff and that you control assets, information, and access. It also involves the checks and balances necessary to safeguard the funds your organization uses to survive, including strong monitoring and risk assessment.

Ask participants to share with a partner an experience they've had where they have used the cost principles or internal controls concepts. Give participants about 5 minutes to discuss.

Non-federal share: Discuss briefly the Head Start requirement for non-federal share. State that, "Since the beginning, it has been the expectation that the federal government is a partner with each Head Start program's local community. Financially, this means that each

program is funded federally at 80 percent and locally at 20 percent. Like all costs, the non-federal share—whether it’s in donated goods or services or in cash used to purchase them—needs to meet the allowable, allocable, and reasonable test.”

Cash Management: Share with participants the importance of restrictions for maintaining federal cash on hand and using Head Start funds to cover non-Head Start activities. Tell participants that Head Start programs draw down Head Start grant award funds through wire transfer from the Division of Payment Management (DPM), which provides centralized electronic grant and grant-type payment, cash management, and grant accounting support services to the Department of Health and Human Services (HHS) and other federal departments and agencies. These cash drawdowns must be reconciled on a quarterly basis through a report to the Payment Management System (PMS). State that this is an example of a required external report.

Maintaining records: Tell participants that maintaining records ensuring that source documentation supports revenues and expenses is an important element to a strong fiscal system. Even documentation of in-kind donations needs to be well supported and maintained for a period of at least three years from the date of submission of the annual financial report. Records for real property purchased with use of any federal funds must be retained for three years following disposition.

Understanding your audit: The first step in understanding an agency’s audit is to receive a copy of it and review it. Acknowledge that for many Head Start leaders, reviewing an audit can feel like reading a foreign language. But explain to them that they should feel comfortable asking questions if they don’t understand how to analyze and interpret their audit. Also insist that it is important for leaders to familiarize themselves with the common terms used within an audit report.

Administrative cost limitations: Share with participants the fact that there are restrictions on the percentage of administrative costs that can be charged to a HS/EHS grant. That limitation is 15 percent and applies to both direct and indirect costs as well as non-federal share match. Suggest that the directors work with their fiscal directors to understand what’s included in their administrative costs and how administrative costs are tracked and reported.

Fiscal policies and procedures: Discuss the importance of organizations having up-to-date fiscal policies and procedures that are widely used and distributed. Distribute and review the *Suggested Table of Contents Outline* of what should be included in an organization’s fiscal policies and procedures. Suggest that directors ask their fiscal directors if these components are included in their organization’s policies and procedures.

Ask participants to share with a partner something they’d like to know more about when they return to their program. Give participants about 5 minutes to discuss.

12. Cost Principles Scenarios Activity: 10–15 minutes

Distribute a scenario to each group. Tell participants to use the definitions of “reasonable,” “allocable,” and “allowable” that were distributed earlier. Ask groups to review the scenarios and use the cost principles to determine whether the costs described would be allowable, allocable, and reasonable. Once groups determine this, ask for participants to share their scenarios and determinations with the larger group.



13. Preview *Head Start A–Z Fiscal Management Part II*. Share with Participants what they will learn in Part II:

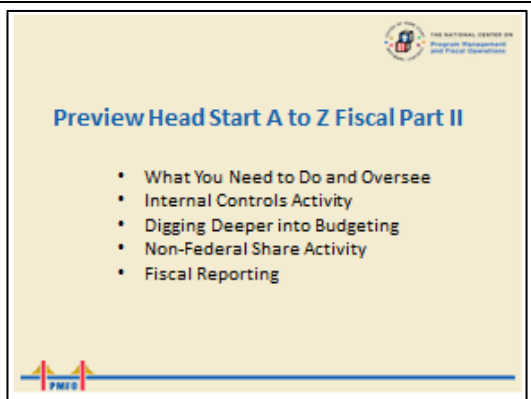
What You Need to Do and Oversee

Internal Controls Activity

Digging Deeper into Budgeting

Non-federal share Activity

Fiscal Reporting



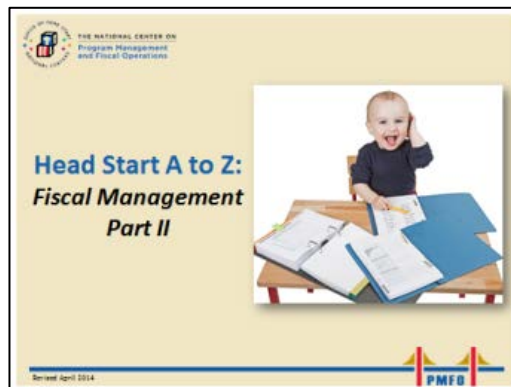
14. Questions and Comments

Acknowledge to the participants that you have covered a great deal of information and that your purpose was to give them a general overview—but with enough detail so they would become aware of what they need to know, do, and oversee. Open the presentation up to questions and comments.



Let's Get Started Part II

1. Introduce yourself. If you have one or more co-facilitators, invite them to introduce themselves too. This is the time when you may want to consider a warm-up activity that suits the size of the group. If the group is large, invite the group members to talk among themselves instead of engaging them in a full-group activity. State the following: *"Head Start A to Z sessions are designed to emulate the 'learning organization concept.' We recognize the key building blocks of learning organizations: a supportive learning environment, concrete learning processes, and leadership development that reinforces learning.*



"Each person has an important role to play in the success of this session. Those with experience remind us where we've come from and what we must do to maintain our identity and uniqueness. New members bring a fresh perspective and remind us of what we must do to prepare for the future. All roles are essential for Head Start as a learning organization to continue to grow and flourish.

"Head Start A to Z sessions are successful when they help us share the best of what we have to offer with a strength-based focus. As you engage in this session, we hope that you will support one another in the learning process by generously sharing your knowledge, experience, and perspective."

2. Guide participants to the "Key Messages" handout. Say to participants, *"Head Start A to Z sessions are designed based on a set of key messages. For this session, Fiscal Management, we will focus on key message #8.*

Read the key message and emphasize how important it is to have good working relationships with your fiscal managers, CFOs, auditors, accountants, and others involved in your program.



3. Outcomes:
Introduce and discuss session outcomes.

Outcomes

- Understand what you need to do and oversee it relates to fiscal management
- Understand the Head Start budgeting process
- Learn more about Non-Federal Share match
- Understand Head Start required internal and external reporting requirements

4. Explain that the slide “Head Start Leader and Fiscal Management” is intended to orient participants to their various responsibilities in their role as a Head Start leader. Communication and facilitation are key components of their position. Re-emphasize that the Head Start leader’s role is similar to that of a conductor in an orchestra, instructing, guiding, directing, and supporting individual members so that, working together, their efforts harmonize.

Head Start Leader & Fiscal Management

What you need to know	What you need to do	What you need to oversee
Fiscal regulations	Collaborate with fiscal staff	Budget Development and Monitoring
Fiscal concepts	Bridge between fiscal/program	Compensation
Fiscal P&Ps	Monitor and evaluate fiscal systems	Property Management
	Promote communication & transparency	Financial Reporting

State the following:

“The graphic depicts, in general, what you need to **know** about, **do**, and **oversee** in the area of fiscal management in your role as a Head Start director. There is much for a Head Start leader to learn, so it is easy for directors to delegate fiscal oversight to others. However, it’s the Head Start director who has operational responsibility for the entire Head Start program, including its fiscal operations. **Remember:** the governing body has ultimate legal and fiscal responsibility, but as the director you are carrying out their vision, policies, and so forth. As director and financial leader, you should view the Head Start/Early Head Start operations from a global perspective, understanding the importance of synergy between program and fiscal components.”

5. Review the components of the slide “What you need to do.”

Manage/Collaborate with Fiscal Staff:

Acknowledge that, depending on the organization, a Head Start director may directly supervise, may be supervised, or may be a peer with the fiscal director. In either case, it is important for the director to collaborate with the fiscal director and fiscal department regularly. Note that there are Head Start requirements that the fiscal director be

What you need to do

Manage/collaborate with fiscal staff	Bridge fiscal/program	Monitor/evaluate
<ul style="list-style-type: none"> • Qualified fiscal officer • Linking to fiscal staff you don't supervise 	<ul style="list-style-type: none"> • Integrated meetings • Model good communication 	<ul style="list-style-type: none"> • Ongoing monitoring • Periodic tests • Annual program Self-Assessment

qualified and that when there is turnover of the fiscal director, the regional office needs to approve the new candidate before he or she is hired.

Bridging fiscal and program staff: Share with the directors the following: “One of the most important roles you play as a Head Start Director is to serve as a bridge between fiscal and program staff and the governing bodies and Policy Council. It is easy for departments to remain in their silos, but it’s imperative that there are strong systems of communication between them and that there is an understanding from each staff member of the issues of others. Strategies to support breaking down barriers to understanding include convening regular meetings and involving fiscal staff in Head Start planning.”

Monitor and evaluate: Remind participants that Head Start programs are required to have strong ongoing monitoring systems and that this requirement extends to fiscal operations. As the Head Start director, you need to be assured that there is a plan for monitoring fiscal operations that includes periodic tests of transactions. You also want to involve the fiscal department in your annual Head Start Self-Assessment.

6. Internal Controls Activity: 10–15 minutes

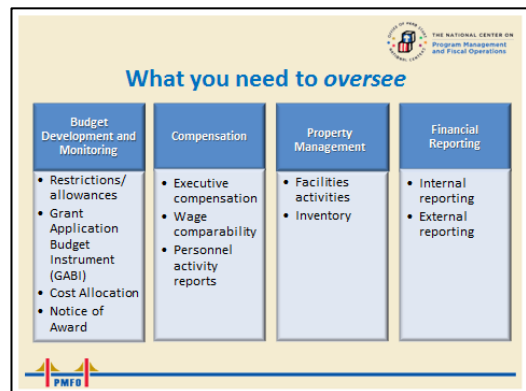
Distribute a scenario to each group. Ask groups to review their scenario, discuss the issue, and answer the questions at the end of the scenario. Once groups arrive at their responses, ask for participants to share their scenarios and answers with the larger group. As there are many possible responses, we don’t provide an answer sheet to this activity.



7. Review the components of “What you need to oversee.”

Begin by stating:

“Depending on your organizational structure, you may have very little authority—or you may have total authority—over the budgeting, compensation, property management, and financial reporting processes. But whatever your level of authority, as a Head Start director you will be expected to ensure compliance with regulations when it comes to these important processes. So here are some things that you need to know and that your staff who carry out these functions must understand:



Budget development and monitoring: Your budget is a numerical representation of your

program goals and priorities and serves as a guide or measure of acceptable financial performance. It truly takes program and fiscal staff working together to develop an effective, accountable budget and to monitor it.

Restrictions/allowances: It is important to know what the restrictions and allowances are for adding and revising budget line items. A good resource for understanding these issues is the *HHS Grants Policy Manual* found on ECLKC.

The Grant Application and Budgeting Instrument (GABI): The Grant Application and Budgeting Instrument is the online tool that is used for submitting a Head Start grant funding application. The grant is then uploaded to the Head Start Enterprise system.

Cost Allocation: Cost allocation is the process of assigning to two or more programs the costs of an item shared by the programs. The goal is to ensure that each program bears its fair share—and only its fair share—of the total cost of the item. Most Head Start programs need to develop a cost allocation plan to ensure this.

Notice of Award: When your program is funded by the regional office, you will receive a Notice of Award. It is important that, as the Head Start director, you review that notice and understand any restrictions or special conditions that have been placed on your grant.

Compensation: Again, in your role you need to be aware of requirements regarding compensation. They include:

- Restrictions on levels of pay for staff whose salary comes out of Head Start funds. The **executive compensation** restriction establishes that no employee whose salary is paid out of Head Start funds can earn more than \$179,700 annually.
- **Wage comparability** studies must be conducted by the agency every 3 years to ensure that Head Start wages are neither in excess of the average rate of compensation paid in the area where the program is carried out nor less than the minimum wage rate.
- **Personnel activity reports** are required for employees who work on multiple activities or cost objectives. These reports are not the same as timesheets and are prepared after the fact (after the activity is complete or the objective reached). As written, the new “Super-Circular” no longer requires personnel activity reports as long as the organization has strong internal controls which provides reasonable assurance that the charges are accurate, allowable and properly allocated and reviewed after the fact. You should carefully review the “Super-Circular” and implementing requirements of the Health and Human Services (HHS) before you quit using PARs.

Property Management:

- **Facilities Activities:** Requirements related to property are outlined in the 1309 section of the Head Start Performance Standards. Whenever a Head Start organization uses any Head Start funds to cover costs related to purchase, construction, or major renovation, grantees must comply with these regulations and seek permission from their regional offices.
- **Inventory:** Every Head Start program is required to conduct a physical inventory of

equipment every two years and must reconcile that inventory to its financial records.

Financial Reporting: A variety of fiscal reports are necessary for demonstrating effective fiscal management. Those reports are used internally and also must be submitted externally. As a Head Start director, you need to be aware of your role in preparing, reviewing, presenting, using, and submitting these reports.

- **Internal** fiscal reports include those required to be reviewed by the governing body and Policy Council. The *Head Start Act* (Sec. 642(d)(2)) is explicit in what should be included in those reports and how often they should be prepared and distributed.
- **External** fiscal reports include financial status reports (SF-425) that are submitted to the Head Start regional office, quarterly Payment Management System (PMS) cash reconciliation reports, annual audit reports, and annual reports to the community that include fiscal and budget information.

Ask participants to share with a partner something they'd like to know more about when they return to their program. Give participants about 5 minutes to discuss.

8. Budget Development and Monitoring: Digging a Little Deeper

“You are the most effective champion of your budget. It is a reflection of your vision for your program (with input from your staff, Policy Council and governing body.) As stated earlier, your budget is a numerical representation of your programs goals and priorities and serves as a guide or measure of acceptable financial performance. You can't and shouldn't abdicate your responsibility for budget development to

others. But realize that it truly takes program and fiscal staff and policy makers working together to develop an effective, accountable budget and to monitor it.

There are some important tools you need to be aware of in developing your budget. To begin with, when it is time to prepare your Head Start/Early Head Start refunding application, including your budget, you will receive a Refunding Letter six months prior to the new grant year. You will be given three months to prepare your refunding and budget submission. The notice will outline your budget period and year in the grant cycle; the number of children to be served (funded enrollment); Administration for Children and Families (ACF) Operating and training and technical assistance (T/TA) funds for both HS/EHS; and the current cap for executive compensation. You will need to calculate your non-federal share match requirement. Also note that, once you are approved for funding, the Notice of Award will identify the amount of funds allocated and any funding restrictions. Ask your fiscal office to give you a copy of this notice, if you don't receive it already.

Another tool is the Grant Application Budgeting Instrument (or **GABI.**) You will use this web-based tool to prepare your HS/EHS budget for submission to the Regional Office. It's important to understand how to input your budget into this tool and to understand its

Budget Development and Monitoring
Digging a Little Deeper

Your Role: Budget champion

Your Budget: Reflection of program goals and priorities

Your Tools: Regional Office Communiqués, Grant Application Budget Instrument (GABI), Cost Allocation, HHS Grants Policy Statement

Your Funding: Federal share, non-federal share, other revenue

Your Expenses: Understanding line items & allowable/unallowable

PMFO

intent. It is best completed in collaboration with your fiscal office. You will know answers to many questions asked about your staffing, and your fiscal office staff may be able to assist in completing the fiscal information required.

If your program shares costs with another program for either staff or other costs, such as rent, you are required to have a Cost Allocation plan to fairly distribute costs based on benefit to the different programs. Generally, the methods of allocating costs should be the simplest, most straightforward way of allocating costs fairly. For example, the allocation of staff salaries would be based on hours/days that staff services are provided to the programs and on who benefits from the staff providing the service; occupancy costs may be allocated based on square footage usage of the space by program.

Understanding Head Start and fiscal regulations will guide you in your budget development. A particularly helpful tool is the *HHS Grants Policy Statement* or manual, which can be found on ECLKC. The manual is intended to make available in a single document the general terms and conditions of HHS discretionary grant and cooperative agreement awards. You will find in this document everything you wanted to know about such topics as when prior approvals are required for various expenses, what constitutes program income, when you can move funds from line item expenses, how to close out your grant, etc.

Remember that your funding will consist of federal funds, non-federal share match (which may include cash or in-kind resources), CACFP revenue that helps to cover the costs of your food services, and other possible sources of revenue, such as state Head Start or child care funds. It is just as important to monitor revenue collection as it is to monitor budget expenses.

It's also important to understand the funder's definitions for some of the line items and any restrictions for them. For example, you must have prior approval to purchase equipment (defined by the federal government as an item costing more than \$5,000 and have a useful life of a year or more). But you don't need to have approval for spending funds for supplies. You do need permission to spend federal funds for out-of-state travel; however, you don't need permission to reimburse staff for program-related in-state travel.

We've already talked about the cost principles, which outline reasonable, allowable and allocable expenses and identify what are allowable and unallowable costs. In such a labor-intensive service as Head Start, it's not unheard of to spend 75 percent of your budget on personnel and fringe costs.

An important aspect of your budget is the requirement to match the federal funds with resources equaling 20 percent of your total grant award. Like the federal funds, costs must be allowable, allocable and reasonable. Your staff may play a significant role in assisting you in collecting and documenting in-kind resources—from volunteers to donated materials and supplies. It's important that they understand the requirements for non-federal share match. Let's explore this a bit more.

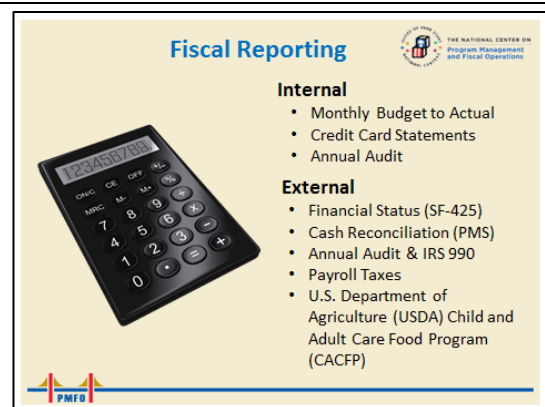
9. Non-federal share activity—10–15 minutes
Distribute Head Start Non-federal share At-A-Glance. Tell participants to take some time to review and ask any questions they have. Also distribute the “Non-federal share Scenarios.” Assign different groups/tables the different scenarios. Have them report their findings to the larger group.



10. Fiscal Reporting

“It’s important to be aware of the required fiscal reports that pertain to your program and that your fiscal officer may be managing. Internally, the governing body and Policy Council must receive monthly budget to actual Head Start/EHS reports. The reports need to be in a format that has been approved by the board and that is easily understood by reviewers. It’s also important that you and your management staff receive these reports. Also required is a monthly statement of credit card activity related to HS/EHS expenses. And of course, the annual audit must be shared with both the governing body and Policy Council. It’s important that you are aware of any concerns identified in the audit report related to the HS/EHS program. Externally, you must submit a semi-annual, annual, and final financial status report that show cash receipts and disbursements, the federal and non-federal share of those, and any program income. The final report, submitted no later than 90 days following the end of the grant year, also identifies the final administrative costs charged to the grant. A reconciliation of the cash drawn-down to cover expenses, to ensure that programs don’t have excessive Head Start cash on hand, is required to be reported quarterly to the Division of Payment Management.

Assuming that your organization is a nonprofit, it is required to file an IRS 990 form annually. Also, payroll tax payments and reports are due regularly, as are U.S. Department of Agriculture Child and Adult Care Food Program (CACFP) reports.”



11. Other Fiscal-related Reports

Other reports that have fiscal implications include enrollment and attendance reports, which must be reviewed internally and reported monthly to the Office of Head Start. The Head Start Act also requires programs to report to the governing body and Policy Council the number of meals and snacks served to HS/EHS children.

Annually, the organization must publish and make available to the community a report about its Head Start program and finances. Other external reports include state unemployment reports and Worker's Compensation reports.

Other Fiscal-related Reports

Internal

- Enrollment & Attendance
- Meals and Snacks

External

- Monthly Enrollment
- Annual Community Report
- Unemployment
- Worker's Compensation

12. Questions/Comments

Acknowledge to the participants that you have covered a great deal of information and that your purpose was to give them a general overview—but with enough detail so they would become aware of what they need to know, do, and oversee. Open the presentation up to questions and comments.

**Questions/
Comments?**

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