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Program Systems and Supporting Fiscal Management

2-A Case: Child & Family Services Head Start Self-Assessment

Read and reflect on the following case to deepen your understanding of the situation—not to address the problems or find solutions. Following this activity, participants will work on specific skill-building activities. Participants will then have the opportunity to come back to the scenario and, in an application activity, apply their increased skill competencies to addressing the issues it presents.

Child and Family Services Head Start

Child and Family Services Head Start is a center-based program that currently serves 100 children, 18 of whom have special needs. There is a long waiting list at the center. Sam, the Program Director, has a “take charge” personality and often takes shortcuts to get the job done. Walking down the hall he encounters Beth, the center’s cook.

“You know, Beth, I really don’t understand what is taking the Board and the Policy Council so long to approve our budget. After all, our needs are clear: We need money to expand and get a bigger facility. We also need to replace our broken buses. The children are our first priority.” Beth agrees; she has five grandchildren who have attended Head Start, and two more who will be of age next year.

“When I was putting out coffee for the joint budget meeting I heard one of the members asking to read a report; it sounded like ‘Assessment of the Community,’” Beth confided. “And there was another member who said she had never seen a copy of the proposed or current budget,” Beth added, hoping this would be useful information. “There’s not much to completing a budget,” Sam replied, adding, “You look at what you did last year and usually add 10 percent, that’s all.”

“Well, the bus driver told me he heard that the teachers are upset because they didn’t get a salary increase again this year. And now they have to pay for classroom supplies out of their own pockets,” Beth responded.

“Everybody knows things are tight these days,” Sam replied. “But didn’t our center’s parents do a good job of fundraising? And didn’t they raise enough to pay off our propane bill?” he added, beaming. Beth nodded in agreement, remembering how the program was closed for 10 days last winter because there was no heat.

Don, the Grantee’s Fiscal Administrator, has his office offsite. Don is very proud of the customized accounting software he installed. The software doesn’t track or categorize administrative costs for Head Start, as he doesn’t believe that these are important functions. Don is showing off his system to John, the new Accounts Payable supervisor, who just moved to the area with his family. Don takes this opportunity to fill him in on Head Start.

“I have to warn you about Sam,” said Don. “He isn’t very experienced with budgets and is often reluctant to ask questions.”

“What do you mean?” asked John.

“Well, the program was given tickets to the wrestling match and he wouldn’t take that as in-kind. On the other hand, he wanted to claim time spent by parents at home, which, of course, you can’t do,” responded Don. “The budget he gives me is almost always unbalanced. He runs out of money in one place, but has monies left on other line items that end up not being spent.”

“Why don’t you explain to him how to correct this?” asked John.

“Sam and I just communicate through memos now,” replied Don, “and it just takes too long to put that all in writing.” He went on to explain, “We had a disagreement when a wheelchair-accessible bus was ordered that wouldn’t fit under the roadway underpass.”

“What did you do about the situation?” inquired John.

“Well, the mother drove the child to school whenever she could get gas money,” said Don.

“Sounds to me like the program could use some training on budget planning and development, being sure to consider the Community Assessment information. It would be a good idea to include cost principles as well,” said John.

“How did you become so familiar with the budgeting process?” asked Don.

“Back home, my daughter was in Head Start and I served on the Policy Council,” replied John.

“I think some training for the Board, Policy Council, and management staff is a good idea, John. You know, next year we’ll be getting Department of Education preschool funds and adding an early intervention program for children with special needs,” said Don.

Just then, the phone rang. It was Lynn, the Program Specialist in the Regional Office. Lynn finds Don to be an especially challenging person to work with. She and Don went round and round when she disallowed the occupancy costs he used as non-Federal share. Don is married to a successful realtor who established the fair market value for the program.

“Lynn is going to remind me again about the delinquent SF-269,” said Don. “If she thinks our SF-269 is a major problem, just wait until Sam integrates additional funding sources with Head Start funds,” he declared as he picked up the phone. “Hello Lynn, how are you?” asked Don.

SELF-ASSESSMENT

Job Performance Situation 2 requires knowledge and skill competencies in understanding and applying cost principles and linking budget development to planning. The following self-assessment will help you determine your interest in completing the knowledge and skill building activities in Job Performance Situation 2.

SKILL: UNDERSTANDING AND APPLYING BASIC COST PRINCIPLES

Have you experienced a similar situation in which you needed to address issues related to how program costs are defined in overall program financial management?

___ yes ___ no

If yes, was your response considered satisfactory? ___ yes ___ no

If you have not handled this type of situation very frequently, would you feel comfortable addressing it?

___ yes ___ no

Rate (1, 2 = new skill; 3, 4 = some skill; 5 = highly skilled) your current skills in addressing situations in which you need to:

1. Define programmatic intent of basic cost principles:
2. Define fiscal intent of basic cost principles
3. Identify sources of guidance for appropriate application of cost principles:
4. Understand how basic cost principles are applied during program reviews:
5. Apply the following cost principles:
 - a. Allowable/unallowable costs
 - b. Proper use of non-Federal share
 - c. Proper accounting of in-kind contributions
6. Determine what constitutes appropriate use of matching funds:
7. Identify common errors regarding the allocation and use of Federal resources:

Questions 1–7 are linked to knowledge and skill competencies addressed in 2- C, Understanding and Applying Basic Cost Principles. Count the number of questions where you circled 1 or 2 and record that number below. Do the same for the questions where you circled 3 or 4, and for those you rated 5.

Definitely (1–2): ___ Maybe (3–4): ___ Probably not (5): ___

If most of your answers were 1 or 2, you will definitely find it helpful to complete this activity. If most of your answers were 3 or 4, you may find the activity helpful. If most of your answers were 5, you may find that the material in the activity addresses areas in which you already have a lot of knowledge and skill.

SKILL: LINKING BUDGET DEVELOPMENT TO PLANNING

Have you experienced a situation in which you needed to address the planning, development, and implementation of budgets that effectively met the needs of all aspects of the program? ___yes ___ no

If yes, was your response satisfactory? ___yes ___no

If you have not handled this type of situation very frequently, would you feel comfortable addressing it?
____yes ____no

Rate (1, 2 = new skill; 3, 4 = some skill; 5 = highly skilled) your current skills in addressing situations in which you need to:

8. Establish a team approach to budget planning and development:
9. Identify and implement critical planning tasks for budget development:
10. Utilize standard program planning information to establish cost objectives :
11. Select the appropriate budget type (incremental, zero-based, activity-based):
12. Engage staff in cost containment and budget monitoring:

Questions 8–12 are linked to knowledge and skill competencies addressed in 2-D, Linking Budget Development to Program Planning. Count the number of questions where you circled 1 or 2 and record that number below. Do the same for the questions where you circled 3 or 4, and for those you rated 5.

Definitely (1–2): ____ Maybe (3–4): ____ Probably not (5): ____

If most of your answers were 1 or 2, you will definitely find it helpful to complete this activity. If most of your answers were 3 or 4, you may find the activity helpful. If most of your answers were 5, you may find that the material in the activity addresses areas in which you already have a lot of knowledge and skill.

TALLY SECTION

Review the scoring choices in each of the previous sections. Indicate your knowledge and skill development decisions below. At the completion of the self-assessment, you will transfer this information to the learning plan that follows.

2-C, Understanding and Applying Basic Cost Principles

Definitely Maybe Probably not

2-D, Linking Budget Development to Program Planning

Definitely Maybe Probably not

THE LEARNING PLAN

The learning plan listed below will help you keep track of your progress using the *Moving Ahead* materials to enhance your professional growth. The plan is divided into four columns. Use the first column to check the skills you need to enhance or develop based upon your self-assessment. Use the second column to record your progress in completing activities you selected. Please note: in addition to completing individual skill-building activities, you will also track your completion of the Case Activity (2-B), which puts the skill-building activities in context, and the related Application Activity (2-X), which provides you with an opportunity to practice the skills.

After you've completed the application activity for this performance situation package, return to the learning plan and record how you will continue skill development in your workplace and the types of support you will need.

LEARNING PLAN FOR JOB PERFORMANCE SITUATION 2

Participant Name: _____

Date: _____

1. Skills I Need	2. Building These Skills	3. Next Steps for Continuing My Development	4. Support I Need from Supervisors, Managers, Co-Workers, and Team Members
Put a check mark beside the skills you need to work on developing or enhancing.	Record your progress in completing the training activities.	Examples: Read more about the topic. Repeat activity with colleagues. Practice in a work situation.	Examples: Provide opportunities to practice. Provide constructive feedback. Serve as my mentor or coach.
2-B: Job Performance Situation Activity	2-B: Job Performance Situation Activity Date Completed _____		
2-C: Understanding and Applying Basic Cost Principles	2-C: Understanding and Applying Basic Cost Principles: Date Completed _____		
2-D: Linking Budget Development to Program Planning	2-D: Linking Budget Development to Program Planning: Date Completed _____		

2-B: Case Activity

This activity presents a type of situation that Head Start Federal and grantee staff often encounter. The activity prepares participants to begin training activities in two skill categories: budget planning and development and budget implementation and reporting. Learners will analyze a hypothetical Head Start case and will draw on their individual experiences in meeting similar situations.

Related skill activities include 2-C, Understanding and Applying Basic Cost Principles; 2-D, Linking Budget Development to Planning.

OVERVIEW

CHILD AND FAMILY SERVICES HEAD START

Outcomes

Participants who complete this activity will be able to put themselves in the shoes of other Head Start staff in order to consider the challenges presented by a commonly occurring job performance situation. Learners will assess the role played by the presence—or absence—of skills in understanding and applying basic cost principles and linking budget development to planning. Learners will also analyze a hypothetical Head Start situation and draw upon individual experiences in similar situations.

Materials. Newsprint and markers.

Components

This activity can be completed by one person, an informal group, or as part of a formal workshop. Suggested time limits are provided below, but participants and facilitators may wish to adjust these to their own timetables.

Step 1. Handout: Child & Family Services Head Start	10 minutes
Step 2. Worksheet: Case Questions and Discussion	20 minutes
Suggested Total Time:	30 minutes

STEP 1. HANDOUT: CHILD AND FAMILY SERVICES HEAD START

Suggested time: 10 min.

Read and reflect on the following case to deepen your understanding of the situation—not to address the problems or find solutions. Following this activity, participants will work on specific skill-building activities. Participants will then have the opportunity to come back to the scenario and, in an application activity, apply their increased skill competencies to addressing the issues it presents.

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STEP 2. WORKSHEET: CASE QUESTIONS AND DISCUSSION

Suggested time: 20 min.

Part I (10 min.) Use the following questions to reflect on the case. Question 1 applies only to grantee staff; Question 2 only to Federal staff; Questions 3–6 apply to all participants.

1. Grantee staff: What about this case seems familiar? What current problems do you see in this program? What future problems do you see? How will these problems affect the fiscal area of the program? How will they affect the overall program? The quality and delivery of services?

2. Federal staff (including blended program and fiscal staff): What about this case seems familiar? What current problems do you see in this program? What future problems do you see? What role can a Federal staff person play in helping the program director identify and address these problems? The fiscal administrator? The governing body?

3. Both: From your experience, can you describe how a high or low level of skill in budget planning and development has affected programs, both in the short term and long term?

4. Both: From your experience, can you describe how the presence—or absence—of skills in budget implementation and reporting has affected the day-to-day program operations?

5. Both: From your experience, can you explain how the presence—or absence—of skills in understanding and applying basic cost principles has affected day-to-day program operations?

6. Both: From your experience, can you relate how the presence—or absence—of skills in linking budget development to program planning has affected program operations on a day-to-day basis?

Part II (10 min.) If you are working in pairs or a group, discuss your answers, why you gave them, and any points of difference.

2-C: Linking Budget Development to Program Planning

This activity develops knowledge and skill competencies in three skill areas: defining the intent of basic cost principles, identifying critical cost areas for Regional Office reviews, and determining the appropriate application of cost principles to financial management practices.

Related skill activity: 2-D, Linking Budget Development to Planning.

Sources:

45 CFR Part 1301, Head Start Grants Administration.

45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

45 CFR Part 74, Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments.

2 CFR, Part 220 (replaces OMB Circular A-21) Cost Principles for Educational Institutions.

2 CFR Part 225 (replaces OMB Circular A-87) Cost Principles for State, Local, and Indian Tribal Governments.

2 CFR, Part 230 (replaces OMB Circular A-122) Cost Principles for Nonprofit Organizations.

OMB Circular-133, Audits of States, Local Governments, and Nonprofit Organizations.

OVERVIEW

UNDERSTANDING AND APPLYING BASIC COST PRINCIPLES

Outcomes. Participants who complete this activity will be able to:

- Define programmatic and fiscal intent of basic principles relating to allowable and reasonable costs, direct and indirect costs, allocable costs, and use of non-federal share resources
- Identify sources of guidance for the appropriate application of cost principles
- Understand how basic cost principles are applied during program reviews
- Demonstrate the application of principles to specific Head Start financial management situations
- Determine what constitutes appropriate use of matching funds.
- Identify common errors regarding the allocation and use of federal resources

Materials. Newsprint and markers, Cost Principles Application Game Cards. The following materials are used as guidance references:

- 45 CFR Part 1301, Head Start Grants Administration
- 45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments
- 45 CFR Part 74, Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments.
- 2 CFR, Part 220 (replaces OMB Circular A-21) Cost Principles for Educational Institutions
- 2 CFR Part 225 (replaces OMB Circular A-87) Cost Principles for State, Local, and Indian Tribal Governments
- OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- 2 CFR, Part 230 (replaces OMB Circular A-122) Cost Principles for Nonprofit Organizations
- OMB Circular-133, Audits of States, Local Governments, and Nonprofit Organizations

Components. This activity can be completed by one person, an informal group, or as part of a formal workshop. Suggested time limits are provided below, but participants and facilitators may wish to adjust these to their own timetables.

Step 1. Background Reading: Fundamentals	15 min
Step 2. Exercise: Using Fundamental Cost Principles in HS Situation Handout: Fundamental Cost Principles Exercise Guidance Sheet	30 min
Step 3. Background Reading: Selected Items of Cost	30 min
Step 4. Exercise: The Cost Principles Application Handout: Cost Principles Application Game	45 min
Step 5. Background Reading: Allocating Costs and Application of Cost Principles	15 min
Step 6. Exercise: Panel Discussion on Cost Principles	30 min
Step 7. Background Reading: A Guide for Non- Federal Share	20 min
Step 8. Exercise: Understanding Non-Federal Share Handout: Understanding Non-Federal Share Exercise- Guidance Citations	20 min
Step 9. Exercise: Using Non-Federal Share Principles in HS situations Handout: Recommended Financial References Handout: Financial Information Web Sites	45 min
Step 10. Summary	10 min
Suggested Total Time	4 hours 20 min

STEP 1. BACKGROUND READING: FUNDAMENTALS

Suggested time: 15 min.

Study the following reading. Feel free to highlight sections or write comments in the margin throughout these activities.

The federal government provides a substantial amount of financial assistance in the form of grants. A federal grant may be defined as a form of assistance in which a federal agency (the grantor) transfers funds to a party (the grantee) that is usually not part of the federal government. The purpose of the transfer is to support a designated grantee program or activity without substantial federal involvement (Federal Appropriations Law, USDA).

Grantees are expected to use the funds for the purpose stated in the grant award. Expenditures or costs that meet the stated purpose and cost principles are called “allowable costs.” An expenditure that does not further grant purposes or that is contrary to the cost principles or conditions of the grant may not be charged to the grant even if it would result in substantial savings or other benefits to the federal government.

Guidance on cost principles is found in Office of Management and Budget (OMB) circulars. The primary purpose of cost principles is to ensure that federal funds are spent correctly and that the federal government bears its fair share of costs. Three OMB circulars govern Head Start and Early Head Start grantees: 2 CFR Part 230, Cost Principles For Non-Profit Organizations; 2 CFR Part 225, Cost Principles For State, Local and Indian Tribal Organizations; and A-21, Cost Principles for Educational Institutions. If a grantee delegates some part of the grant to an outside agency, the delegate agency is subject to the cost principles that apply to its type of organization unless the grantee imposes a different set of cost principles as part of the delegate agreement. OMB has not issued any circulars for commercial organizations, but for-profit organizations are discussed in 45 CFR part 74.27 and are required to follow the principles outlined in the Federal Acquisition Regulation (FAR) in 48 CFR part 31.

Cost principles are also the basis for a sound financial system. A sound financial system ensures that federal funds are used only for grant operations, protects the integrity of the funds, and assists the grantee in achieving efficient and effective use of funds. Additionally, sound financial systems provide accurate cost information so that management can control financial resources, prevent cost overruns, and manage programs. Accurate accounting of costs allows for better control of various cost components (See Section 2-C), provides reliable data for future budgeting activities and allows generation of accurate reports.

Allowable Costs

The allowable costs to any federal grant are identified as direct and shared costs. A direct cost benefits only one program or activity. Shared costs benefit more than one program or activity of the grantee. An indirect or common cost is a shared administrative cost that benefits all programs. Common costs usually include space, utilities, the executive director’s salary, accounting, personnel, and all costs that support these activities. Grantees must identify the different types of costs and charge correctly to ensure that Head Start pays its fair share, but does not pay for costs that should be met by other funding sources.

Costs must meet certain factors to be allowable. The costs must be reasonable, necessary, and conform to limitations set forth in the circulars or grant award. They must be consistent with the grantee’s policies and procedures that are applied uniformly for both federal and non-federal activities. Grantees are required to determine and adequately document costs in accordance with generally accepted accounting principles. All costs must be treated consistently and cannot be charged to other funding sources. Failure to follow these principles may result in an inappropriate use of federal funds, which the grantee will have to repay.

Reasonable Costs

A cost is reasonable if it does not exceed, in nature or amount, what an organization would normally incur regardless of the source of funding. The organization should determine if the cost is the type that is generally incurred for the operations of the organization or the performance of the award. Organizations must consider program quality and sound business practices; appropriate and competitive procurement practices; and whether federal and state laws, regulations, and the conditions of the award allow the cost. Consistency means that the particular cost is treated the same as other costs incurred for the same purpose in similar circumstances. For example, a grantee cannot claim Head Start's share of a cost as a direct cost and other funding sources' share of the same cost as indirect. Nor can the grantee charge Head Start for its share of equipment on a one-time basis while it uses depreciation for other funding sources.

Charging Of Allocable Costs to Head Start

Before charging a cost to Head Start, the cost must be:

- Incurred specifically for Head Start or to benefit Head Start
- Distributed in a reasonable proportion to the benefit received when the cost benefits other programs or activities
- Necessary for the overall operation of the organization if a direct relationship to any program or activity cannot be shown

In addition, the goods must have been received or the services performed before payment. Costs cannot be charged to other funds because of lack of funding; excess spending (cost overruns); or to avoid requirements of law, regulations, or grant conditions.

Cost Credits

Credits are reductions to allowable costs. Typically these are purchase discounts, rebates, recoveries on losses, insurance refunds, and adjustments to overpayments or erroneous charges. Credits must be treated as cost reductions or cash refunds to the federal government. Program income consists of revenues earned because of Head Start activities. Common examples of income include: fees for services, rental of real or personal property acquired with federal funds, and sale of real or personal property in which the federal government maintains an interest. Interest earned on advances of federal funds is not considered program income. Nonprofit grantees may keep up to \$250 annually for administrative expenses involved with the requirement to deposit advances in interest-bearing accounts. Interest amounts in excess of \$250 must be returned to the federal government. Local governments and Indian Tribal governments are not required to deposit advances in interest bearing accounts. However, if advances earn interest, the organizations must return interest in excess of \$100 annually. Furthermore, program income does not include rebates, discounts, credits, etc. Credits for 1 year's expenditures that are used in the subsequent year become carry over funds. Prior Regional Office approval is necessary before using funds in this manner.

Ensuring Costs Are Necessary and Reasonable

Attachment B of OMB Circulars 2 CFR Part 225 and 2 CFR Part 230 lists several items of cost. A cost is not necessarily unallowable just because it is not listed in these circulars. Also, even though the cost appears on the list, the cost must meet the "necessary and reasonable" principle before being charged to the grant. Costs that are listed as unallowable under certain paragraphs cannot be shifted to another category to make them allowable. (For example: charging costs of meals, lodging, rentals, transportation, and gratuities related to amusement or social activities as parent activities rather than entertainment.)

Costs Obligated to the Grant Year

Even though a cost is allowable and necessary, it also must meet the "bona fide need" rule. This rule requires that grant year funds be obligated (orders placed, contracts awarded) only to meet a legitimate

need in the grant year for which the grant was awarded. If a grantee has a legitimate need, it must obligate the funds by the last day of the grant year. Grantees are required to have a formal system for obligating funds (e.g., written purchase orders).

Funds for a given grant year are not available for the needs of the following grant years. This rule prohibits year-end spending designed to “use up” the funds or spending carry over balances for ongoing operational costs in a future grant year. Unspent funds revert to the federal government. The federal government is only authorized to carry over funds from one budget period to the next. Funds carried over should only be used to complete program objectives that remain unmet from the previous budget period.

The following identifies some common reasons for questioning costs within Head Start program budgets and expenditures.

Common Reasons for Questioning Costs

1. Lack of documentation
2. Credits not handled correctly
3. Non-compliance with procurement requirements
4. Improper dispersal of bonuses, COLAs, performance awards
5. Claiming a cost as both direct and indirect
6. Charging a federal grant differently than other funds
7. Written cost allocation and/or indirect cost plan not on file
8. Costs not allocated or allocated incorrectly
9. Year-end spending
10. No formal system for recording obligations.

STEP 2. EXERCISE: USING FUNDAMENTAL COST PRINCIPLES IN HEAD START SITUATIONS

Suggested time: 30 min.

Purpose: Participants will have an opportunity to recognize and apply cost principles governing the use of grant funds. Read each vignette and discuss with a colleague how this situation should be addressed, given the principles in the previous reading. If there are more than four participants, divide the group into two teams with an observer. Each team should read and discuss its own approach to the situation. The observer should be prepared to discuss the reasons for disagreement among the teams.

Vignettes

1. The Regional Office approved additional funds for two buses. The manufacturer has notified the grantee that shipping will be delayed. The grantee will not take possession of the buses in the grant year. The director wants to issue a check before receipt, or use the funds for other allowable Head Start expenditures. If they did this, the following year's grant funds could be used for the buses.
2. The grantee has received the COLA funds. A critical need exists for a qualified disabilities specialist because this area was cited as needing improvement during a recent review. The director wants to use a portion of the funds to increase the salary paid for a disabilities specialist so that they can be more competitive during recruitment. This action will reduce the funding available for COLAs for other Head Start staff.
3. An auditor has questioned expenditures for supplies for educational services that were claimed as unliquidated obligations on the SF-269 because of lack of supporting documentation. The grantee's defense is that the education coordinator called the suppliers and placed the orders on the last day of the grant year.
4. Two weeks before the end of the grant year, the financial director determines that all of the grant year funds will not be expended. He orders office supplies and non-perishable food items to be used in the following grant year.
5. An organization successfully competed for an Early Head Start grant. Before this, all services were funded through private donations. The organization's policy has been to lease vehicles for staff use. They now want to purchase a new vehicle in addition to their leased vehicles. Also, they will finance the vehicle by charging Early Head Start its share of the purchase price for the down payment. The other funding sources will be charged depreciation for the monthly payments.
6. A grantee (a public entity) has a delegate agreement with a non-profit organization. The financial director states that the grantee's oversight responsibility is limited to reimbursing the delegate for costs claimed, because the cost principles outlined in A-87 do not pertain to nonprofit entities.

Stop! Please complete this exercise before going to the next activity.

HANDOUT: FUNDAMENTAL COST PRINCIPLES

EXERCISE GUIDANCE SHEET

- Vignette 1:** Failure to buy the buses is a violation of the terms and conditions of the grant award. The conditions restricted the use of funds to the purchase of buses. The grantee is not allowed to expend the funds on other costs, even if these costs are allowable Head Start expenditures. Also, the funds are for the current year and cannot be used for future year expenditures.
- Vignette 2:** COLA funds must be distributed in an equitable manner to all Head Start employees; this is a specific condition of the grant. An exception is if the grantee can demonstrate that employees' salaries are comparable with those paid for similar work in the community and the Regional Office approves the exception. Quality Improvement funds may be used to increase the salary of a specific position to bring it up to "market rate."
- Vignette 3:** Grantees are required to have a formal system for obligating funds. Phone orders alone do not meet the requirement.
- Vignette 4:** These purchases do not meet the "bona fide" need rule in that the supplies support the following grant year. Salaries, supplies, travel, etc. are normally charged to the year benefited.
- Vignette 5:** This would violate the cost principle that requires consistent treatment of costs. A cost must be treated in the manner same for all funding sources.
- Vignette 6:** Although not subject to OMB Circular 2 CFR Part 225, the nonprofit delegate is required to follow OMB Circular 2 CFR Part 230. As a "pass-through" entity, the grantee is required to ensure that the delegate agency adheres to all rules and regulations, including the cost principles.

STEP 3. BACKGROUND READING: SELECTED ITEMS OF COST

Suggested time: 30 min.

Study the following reading. Feel free to highlight sections or write comments in the margin throughout these activities.

Attachment B of OMB Circulars 2 CFR Part 225 and 2 CFR Part 230 identifies and discusses in depth certain costs. Grantees should review the list before charging a cost. The following tables are a synopsis of Attachment B. The first table lists the most common allowable and non-allowable costs. The second table identifies the restrictions on the allowable costs listed in the first table.

Allowed*	Not Allowed:
Advertising	Alcoholic beverages
Audits	Bad debts
Bonding	Contingencies
Communications	Contributions/donations
Compensation for personal services	Prosecution of claims against the federal government
Depreciation or use allowance	Entertainment
Employee morale, health and welfare	Fines and penalties
Equipment (with prior approval)	Fundraising and investment management costs
Facilities (with prior approval)	
Insurance, including self-insurance	Losses that could have been covered by insurance
Interest on approved purchases of facilities and equipment	Interest on bad debts, overdraft charges, etc.,
Labor relations	Lobbying costs
Maintenance and repairs	Losses on other awards
Organization memberships in professional and civic organizations	Personal memberships
Materials and supplies	Organizing and reorganizing costs
Professional service costs	Proposal costs, unless approved
Publication and printing costs	Public relations, unless part of the award
Rental costs	
Severance Pay	
Training	
Travel	

* General allowances—consult with Regional Office for further guidance.

Cost	Allowed**	NOT Allowed
Advertising/ Public Relations	Recruitment of personnel Procurement of goods or services Disposal of materials Outreach	Meetings, events, or other fund raising activities Other grantee promotional activities such as displays, demonstrations, exhibits, and the salaries involved The cost of meeting rooms, hospitality suites, etc., for organizational events Promotional items including gifts and souvenirs
Equipment	Direct cost if approved by federal agency Depreciation if included in an indirect cost pool	
Facilities	Costs associated with purchase, construction or major renovation, if approved by federal agency	
Fund Reserves	Self-insurance funds Pension plans Normal severance pay Accrued leave	Contingency funds
Legal Costs	Required for the administration of the grant	Prosecution of claims against the federal government
Lobbying	Providing a technical or factual presentation of information	Any activity that involves campaigns, elections, political parties, influencing legislation, etc.
Memberships	Cost of the organization's membership in business, professional technical, civic, and community organizations, if approved by ACF	Personal memberships County, social, or dining club Memberships in organization with a primary purpose of lobbying
Organization Costs	Costs necessary and reasonable for grant operations	Fees for incorporation, promoters, brokers, management consultants, attorneys, accountants, or investment counselors for establishing or reorganizing without prior approval
Professional Service	Allowable, if reasonable and not contingent on federal funds	
Rearrangements and Alterations	Costs of \$5,000 or more require prior approval	
Rental Costs	Allowable; limits on amounts claimed for sale and	Management fees and taxes that would not have been

	leaseback arrangements, less than arms-length leases, capital leases	charged if the organization had purchased the facility
Training	Majority of costs	Contributions or donations to educational or training institutions Straight time compensation in excess of 156 hour per year for time spent attending classes during working hours (nonprofit organizations)
Travel	Official business of the organization	Difference between first class and less than first class accommodations

** Should consult with Regional Office, as many costs require prior approval.

STEP 4. EXERCISE: THE COST PRINCIPLES APPLICATION GAME

Suggested time: 45 min.

Note: For Part I the facilitator/trainer should prepare 3x5 index cards by cutting them in half and pasting one concept on each half-index card; see the template that follows for concepts. Place a stack of 15 cards face down for each team to draw from. For Part II: Have available a copy of each of the following: (1.) the OMB circular(s) that are applicable to the participants' programs; (2.) a copy of a grant award where the terms and conditions of the grant are clearly specified; (3.) 45 CFR Parts 74 and 92; (4.) OMB Circular A-110; and (5.) ACF Discretionary Grants Administration Manual.

Purpose: To facilitate the comprehension of cost principles for Head Start grants by giving participants an opportunity to apply the concepts discussed in the background readings.

Part I (30 minutes) Divide the group of participants into two teams, Team A and Team X. Ideally one to four persons will be on each team. If there are more than eight group members, divide the group and make multiple Teams A and X.

Team A begins the game by flipping over the first card. Without using notes, handouts, or training materials, Team A tries to determine if the cost is allowable and can be charged to the Head Start grant. Team X uses its notes and training materials to determine if the answer is correct. Correct answers earn 1 point, incorrect answers lose 1 point. Turns alternate until each team has had 7 turns.

Part II (15 minutes) After the game concludes, discuss the following:

- Which items were the most difficult to answer or needed further clarification?
- Where could you go to find clarification for these or any other fiscal questions? (If there are participants who have not read or seen the ACF Discretionary Grants Administration Manual, OMB Circulars, or 45 CFR parts 74 and 92, let them take time to scan them.)
- Are you familiar with the OMB Circular that governs your program's grant (A-122, A-87, or A-21)? If not, whom could you ask to help you locate a copy? (If there are participants who have not read or seen the circular, let them take some time to scan it.)
- Have you read and do you understand the terms and conditions of your grant? If not, do you know where to go for clarification on anything you do not understand? (If there are participants who have not read or seen the grant award, let them take some time to scan it.)

TEMPLATE: COST PRINCIPLES APPLICATION GAME CARDS

<p>\$25 annual donation to the Police Benevolent Association.</p> <p align="center">1</p>	<p>Attorney's fees to fight an unemployment claim from an employee who was justifiably terminated.</p> <p align="center">2</p>	<p>Parent and Volunteer Appreciation Ceremony including dinner on a riverboat in the Mississippi.</p> <p align="center">3</p>
<p>Cost of three new computers that were not originally in the budget, but are purchased at the end of the year with extra money that was in the budget. The Regional Office doesn't know about it.</p> <p align="center">4</p>	<p>Membership dues to NHSA (National Head Start Association).</p> <p align="center">5</p>	<p>Upon request from the governor, the Head Start agency compiled a list of their services, as well as numbers of families served and eligible for the program. They did a nice layout and printed it on high quality paper.</p> <p align="center">6</p>
<p>The bank for the Head Start account is charging interest on the loan for the new facility. They are also charging a late payment fee because the fiscal office was late in mailing the payments.</p> <p align="center">7</p>	<p>The federal Review team is questioning costs incurred for three employees who were terminated and received pay for 6 months afterward. Is this an allowable cost?</p> <p align="center">8</p>	<p>Each member of the Federal Review team was given a souvenir from the program. The Team Leader's gift was an expensive one, costing over \$50. Can they charge these gifts to the grant?</p> <p align="center">9</p>

<p>The Board of Directors wants to spin off a for-profit organization to help parents start their own businesses. Can the Head Start grant pay the costs of establishing this new venture?</p> <p style="text-align: center;">10</p>	<p>The revised performance standards require programs to have a process for resolving internal disputes. Can a program hire a consultant to help them develop that process?</p> <p style="text-align: center;">11</p>	<p>A Head Start program located in an elementary school building has classrooms that are too open for toddlers. They got three bids, all under \$5,000 to put up partitions. The expense was included in their annual application, which was funded.</p> <p style="text-align: center;">12</p>
<p>A new Early Head Start program needs space and enters into a 10-year lease with the local hospital to use the nursery in the "old wing;" they agree on a rental price that is below market value.</p> <p style="text-align: center;">13</p>	<p>A Head Start employee is in training to work in the fiscal department. She is collecting her full time salary for the semester she is in school even though she only works half time for those 14 weeks.</p> <p style="text-align: center;">14</p>	<p>The Head Start Director flew to a conference upon request and approval of the Regional Office. Her ticket was coach, but she used her frequent flyer points to get an upgrade to first class.</p> <p style="text-align: center;">15</p>

HANDOUT: COST PRINCIPLES APPLICATION GAME

ANSWER GUIDE

1. \$25 annual donation: No, contributions and donations by an organization to others are unallowable. (2 CFR Part 230, Attachment B, 9; 2 CFR Part 225, Attachment B, 13)
2. Attorney's fees: Doubtful, this cost could have been covered by insurance. (2 CFR Part 230, Attachment B, 22; 2 CFR Part 225, Attachment B, 25)
3. Parent & Volunteer Appreciation Ceremony: No, Cost of amusement, diversion, social activities, and ceremonials is unallowable. (2 CFR Part 230, Attachment B, 14; 2 CFR Part 25, Attachment B, 18)
4. Cost of 3 new computers: Allowable unless the unit acquisition cost is \$5,000 or more; then the computers are equipment and the purchase requires Regional Office approval. (2 CFR Part 230, Attachment B, 15; 2 CFR Part 225, Attachment B, 19)
5. Membership dues: Yes, if the membership is for the organization and not an individual. (2 CFR Part 230, Attachment B, 30; 2 CFR Part 225, Attachment B, 30)
6. Request from governor: Yes, providing a technical or factual presentation of information is allowable. (2 CFR Part 230, Attachment B, 25.b; 2 CFR Part 225, Attachment B, 2.c(3))
7. Interest on facility loan and late payment fee: Interest on the facility loan is allowable if the federal agency approved the acquisition. (2 CFR Part 230, Attachment B, 23; 2 CFR Part 225, Attachment B, 26) Late payment fees are considered a form of interest and are not an allowable cost. Allowable interest costs are restricted to the approved acquisition of facilities or equipment.
8. Pay for terminated employees: Payments in addition to regular salaries and wages made to terminated workers are allowable if required by law, employer-employee agreement, or established written policy. Must be charged to all funding streams. (2 CFR Part 230, Attachment B, 49; 2 CFR Part 225, Attachment B, 11.g)
9. Souvenirs: No, costs of promotional items and memorabilia, including models, gifts, and souvenirs are unallowable. (2 CFR Part 230, Attachment B, 1.f(3); 2 CFR Part 225, Attachment B, 2.(e)3)
10. For nonprofit organization: Unallowable except with prior approval of the awarding agency. (2 CFR Part 230 Attachment B, 31; not applicable to state, local, or Indian governments or Indian tribal organizations)
11. Consultant: Yes. (2 CFR Part 230, Attachment B, 39; 2 CFR Part 225, Attachment B, 33)
12. Partitions: Allowable, amounts of \$5,000 or more require prior approval. (2 CFR Part 230, Attachment B, 42, 2 CFR Part 225, Attachment B, 36)
13. Lease: Yes. (2 CFR Part 230, Attachment B, 46; 2 CFR Part 225, Attachment B, 38)
14. Salary for employee attending school: For non-profits, straight time compensation not in excess of 156 hours is allowable if circumstances do not permit the operation of classes or attendance in classes after regular working hours. (2 CFR Part 230, Attachment B. 53)

Allowable for state, local, and Indian tribal governments if it is for employee development.
(2 CFR Part 225, Attachment B, 40)

15. Upgrade to first class: Action is allowable if the cost to the federal government did not exceed the coach or equivalent airfare. (2 CFR Part 230, Attachment B., 55.c; 2 CFR Part 225, Attachment B, 41.c)

STEP 5. BACKGROUND READING: ALLOCATING COSTS AND APPLICATION OF COST PRINCIPLES

Suggested time: 15 min.

Study the following reading.

Feel free to highlight sections or write comments in the margin throughout these activities.

Cost Allocation

Cost allocation is the process of assigning a cost or a group of costs to one or more programs or activities. Cost allocation is a fundamental part of the grantee's accounting system, since cost allocation will affect the reliability of financial reports, as well as funding received.

Before determining how to allocate costs, grantees must first identify all direct and shared costs. Direct costs are charged 100 percent to the activity or program benefited. Shared costs are charged to each program or activity using a method that distributes the cost, based on the benefits received.

Cost pooling may be used for those costs that can be charged using the same method. For example, since the costs associated with the executive director (e.g., clerical support, communication costs, and supplies) benefit all programs similarly, the costs could be pooled. The pooled costs are then charged using an acceptable allocation rather than allocating each shared cost separately. Common costs such as the executive director's salary, support, accounting services, personnel, space, etc., could be grouped into one pool and charged using an indirect rate.

Examples of Cost Pools	Acceptable Methods
Executive Director and support costs	Time sheet Number of employees supervised Indirect rate
Accounting services	Time sheet Transactions Indirect rate
Personnel services	Ratio of employees by program Indirect rate
Space, utilities, janitorial, maintenance	Square feet occupied Indirect rate
Local telephone service	Number of instruments
Multiple Program Directors	Time sheet Number of employees supervised Ratio of children in attendance
Transportation	Ratio of children riding
Health services	Ratio of children receiving service
A-133 audits	Funds expended
Generic supplies	Ratio of employees by program Indirect rate
Printing and reproduction	Job basis Pages printed Number of copies

For accuracy, and to ensure that the program actually benefits, the costs may have to be identified down to service activities. For example, all children in attendance may receive educational services, but only Head Start children participate in the health service activity. The costs

associated with the health service are direct costs to Head Start, while the costs for educational service benefit more than Head Start and must be charged accordingly. A further step down may be necessary if certain classrooms have Head Start children only.

An exception is childcare service for Head Start children only. As long as the Head Start services are not diminished, the costs associated with childcare may be charged to Head Start. Reimbursement received and parent payments would be considered Head Start income.

Charging costs using percentages based on funding amounts, estimations of time spent on each program, or amounts budgeted for each program is not acceptable. Before claiming allocated costs, the grantee must develop and maintain a cost allocation plan. The Division of Cost Allocation and the Regional Office *may* want to review the plan, especially if the grantee receives funds from other federal agencies, either directly or through a state government.

The following charts provide examples of cost pools and unacceptable methods for allocation.

Unacceptable Methods for Allocation

1. Budgeted amounts
2. Ratio of funds received
3. Estimates of time spent on a program or activity
4. New funds are used only for the increased incremental cost
5. Dividing up the resources and claiming the share
6. Primary concept or “it is the responsibility of that program anyway, so that program can pay for it”

Application of Cost Principles

Regional Offices will ensure grantees’ adherence to the cost principles during reviews. The fiscal checklist included in the Program Review Instrument for Systems Monitoring (PRISM) is the current monitoring tool. The guide is as follows:

MAJOR AREA

ITEMS REVIEWED

Accounting & budget practices	<ol style="list-style-type: none"> a. Written accounting procedures b. Internal controls c. Budgets to actual costs d. Data used for preparing financial reports and budgets e. Allocation of costs f. Costs are allocable, reasonable, necessary, and documented
Administrative costs	<ol style="list-style-type: none"> a. Adherence to the 15% limitation b. Correct categorization of costs c. Allocation of dual benefit costs d. Indirect costs are charged as administrative
Indirect costs	<ol style="list-style-type: none"> a. Costs supported by an approved rate b. Costs benefit Head Start c. Costs are recorded and charged correctly
Non-federal share	<ol style="list-style-type: none"> a. 20% requirement is met b. Source, use, and accounting meet requirements and are supported c. Documentation of volunteer services
Property management	<ol style="list-style-type: none"> a. Property management in accordance with regulations

- b. Costs of grantee owned facilities
- c. Lease or rental agreements
- d. Valuation of occupancy costs for non-federal share
- e. Renovations

Procurement

- a. Written procurement policies
- b. Competitive practices
- c. Codes of conduct
- d. Bonding
- e. Insurance
- f. Contracts and agreements

USDA and food costs

- a. Head Start funds are used after USDA
- b. Accurate claiming of meals
- c. Budgeted to actual costs are reasonable
- d. Income guidelines used

Fiscal support

- a. Fiscal resources are sufficient
- b. Licensing requirements
- c. Maintenance, safety, repair, and security
- d. Sharing of resources
- e. Disabilities services
- f. Budgets for disabilities services
- g. Use of other funds for medical or dental
- h. Support of parent activities

STEP 6: EXERCISE: PANEL DISCUSSION ON COST PRINCIPLES

Suggested time: 30 min.

Purpose: Participants will recognize cost principles and have the opportunity to discuss information from the background reading on cost principles.

Note: This exercise is designed for a group rather than for individuals. Before the session begins, the trainer asks for five volunteers to participate in a mock talk show. Select two participants who work for Head Start grantees and two participants that are Regional Office (federal) staff. One moderator is selected from the group at large.

Give the panel 10 minutes to look over the 6 questions and refer to the cost principles for any answers about which they are not sure.

While the panel is preparing, the other participants are asked to take a blank sheet of paper and write across one side the words “**YES AND;**” on the back side, write “**YES BUT.**” When the panel is ready, the moderator begins by asking the six questions, one at a time. The panel members respond to each question. The audience can participate by holding up the appropriate side of their **YES AND/YES BUT** signs. The moderator can call on members of the audience holding up signs.

When the six questions have been answered, and with the help of the panel members, the moderator summarizes the responses to the questions.

Six Questions for Panel Discussion

1. For grantee staff: You recently hired a new accountant responsible for all financial services. What areas should be included in the training?
2. For federal staff: Describe some best practices you have seen in grantees that are using cost allocation systems.
3. For grantee staff: Describe some tools and techniques you have found helpful in maintaining the 15 percent limitation on administrative costs?
4. For federal staff: What factors must be considered before claiming a cost?
5. For Grantee staff: What are some areas of caution or advice you would give the audience on written fiscal procedures?
6. For federal staff: Describe the kinds of accountability necessary for claims of non-federal share.

STEP 7. BACKGROUND READING: A GUIDE FOR NON-FEDERAL SHARE

Suggested Time: 20 min.

Study the following reading. Feel free to highlight sections or write comments in the margin throughout these activities.

A GUIDE FOR NON-FEDERAL SHARE

Cost Sharing or Matching

When the federal government provides financial assistance, it may fund the entire cost of the activity or it may require the grantee to provide additional assistance. Thus, a program statute may provide for full funding or financing by a mix of federal and non-federal funds. Matching requirements are often intended to assure local interest and stimulate increased activity on the part of the recipient. Once the award is accepted, the grantee is committed to provide the non-federal share. Failure to do so could result in the disallowance of some or all of otherwise allowable federal costs, as well as a loss of the award.

Both Head Start and Early Head Start require a non-federal contribution of 20 percent of the total project costs. The 20 percent equates to 25 percent of the federal funds expended. Any combination of cash expended or in-kind contributions may be used to meet the matching requirement. The cash match is counted when spent on allowable program costs, not when received. In-kind match is counted when the services are provided or when the donated goods are used.

For grant awards with an indefinite project period (such as Head Start), the matching requirement is for the budget period or program year. An indefinite project period means the grantee retains the grant until removed because of relinquishment, termination, or lack of funding. Early Head Start has a defined project period (i.e., there is a start and end date). Normally, the grantee must compete again for the grant at the end of the project period; for Early Head Start the project period is 5 years. The match for grants with a defined project period is calculated for the project period, and grantees may meet the non-federal share at any time during the project period, not necessarily in equal amounts for each budget or program year.

All matching contributions need to be documented by the grantee. Contributions used to match other federal funds cannot be used to match Head Start funds. The contributions must be necessary and reasonable for operations and allowable under the applicable cost principles. In other words, if the grantee could not pay the cost with Head Start funds, the cost cannot be used to meet the matching requirement. There are exceptions to this rule. One exception would be the time spent by board and policy council members. Members are not normally reimbursed for their time. However, the time may be valued to meet the matching requirement.

Federal grant funds may be used to meet the matching requirements of other federal funds *only* if the authorizing legislation for those funds allow this use. Head Start legislation does not have this specific language and cannot be used to match other federal funds. Some federal funds that can be used are the Community Development Block Grant funds for renovation of a building where Head Start is included as part of the Community Development Program and PL93-638, Indian Self Determination and Education Assistance Act.

Value of In-Kind and Donated Services

The value of in-kind contributions should be based on what the grantee would have paid had it purchased the allowable goods or services. For example, if volunteers paint a classroom, the value should be based on what the grantee would have paid to have the room painted.

The value of donated services must be based on the nature of the service provided. An example is a dentist's donated services to a Head Start program. The value would be based on his/her regular fees, assuming he/she is providing dental services to the children. If the dentist volunteers to do something else, the value of his/her time should be based on the rate of that service. If the dentist volunteers as a classroom aide, the value would be the same as the amount an aide is paid, including fringe benefits.

Volunteer services are services not paid for by the grantee. Professional and technical personnel, consultants, and other skilled and unskilled persons normally furnish volunteer services. Fringe benefits may be included when determining the value of volunteer services.

For volunteer services to be counted as in-kind, the services would have to be otherwise purchased or provided by salaried personnel. Also, the duties of the volunteer must be controlled by the organization, and the value of the service performed must be measurable and beneficial to the Head Start program.

Rates for volunteers should be determined using the rates paid for similar work by the organization. If the kinds of skills involved are not found in the organization, the rate should be consistent with those paid for similar work in the community. If someone donates the services of an employee, the value would be the employee's regular rate of pay, provided the service is the same skill for which the employee is normally paid. If the services are not the same skill, the value should be computed the same as for volunteers.

If a volunteer's time is being paid for under another federal grant, it may not be used for match, nor may volunteer's time be used to match more than one grant. Grantees are required to maintain records that support in-kind contributions. Reviewers must be able to verify the amounts claimed as the non-federal share from the records. Also, these records must show the basis for the value placed on the in-kind contribution. Volunteer services should be documented, to the extent feasible, by the same method used for the grantee's employees, including time records. The documentation should include the signature of the volunteer, the day of service, hours, and service performed.

The following charts illustrate (1) the most common errors Head Start programs make in using non-federal share resources, (2) critical points to remember in using non-federal share, and (3) examples of non-federal share contributions.

10 Common Errors Regarding Non-Federal Share

1. Inadequate or no documentation
2. Overvaluing the donation of goods or services
3. Including items that would not be allowable costs
4. Matching one grant fund with funds from another
5. Using match funds for more than one grant
6. Valuing donations that were purchased with federal funds
7. Counting items that are furnished for personal use such as food and clothing
8. Including transportation by parents for personal convenience or transportation of employee's children by the employee
9. Not obtaining an independent valuation of donated land or space
10. Including all the time spent by parents on activities in the home

5 Critical Points to Remember

Non-federal share must:

1. Be something that could be charged to Head Start (allowable cost)
2. Not used as a match for other grants
3. Be adequately documented
4. Value should be based on what it would have cost if purchased
5. Base the value of volunteer services on the nature of the service provided

Examples of Non-Federal Share Contributions

Contribution	Restrictions & Suggested Value
Donated land, buildings, and equipment where the title passes to the grantee	<p>The treatment depends on if the grantee is a public or non-profit entity.</p> <p>If a public entity, the value of land may, with ACF approval, be claimed on a one-time basis. Depreciation or use allowance must be used unless prior approval is received to treat otherwise.</p> <p>For non-profits, the value of equipment shall not exceed the fair market value considering age and condition. Donated space shall not exceed fair rental value as established by an independent appraisal of comparable space in a privately owned building. In lieu of rental value, the grantee may claim on a one-time basis the fair market value of donated land and buildings at the time of donation. The fair market value must be established by an independent appraiser and certified by a responsible grantee official.</p>
Time donated by board members on management activities	Executive salary plus fringe—considered an administrative match.
Time donated by Policy Council members on management activities	Head Start Director’s hourly salary plus fringe—considered an administrative match.
Discounts or reduced rates for Head Start programs that are not normal business practices (i.e., early payment or volume purchases)	The difference between the reduced rate or cost and the standard rate or cost.
Time donated by employees	Reasonable value for service performed if the service and time donated is not part of the employees’ regular duties. Should only be accepted when the intent to freely donate time is supported by a documented statement.
Time spent by parents in a Home Base program	Hourly value plus fringe of a classroom-aide unless parent’s credentials are equal to teachers.

Use of parents' home in a Home Base program	Hourly amount for rent or mortgage, utilities and insurance times the documented hours. To obtain the hourly portion divide by 720.
Time spent by parents at a center	Reasonable value for service performed (i.e. classroom-aide, etc.). Time spent enrolling one's child is not allowed.
Time spent by parents at home in a Center-Based program	Same as at center. Activities should assist grantee in meeting the performance standards and must be part of a written curriculum.
Home visits for a Center-Based program	The parents' time is allowed if the activity is required by the performance standards. Value as a classroom aide.
Transportation costs	Allowable if the program cannot regularly provide transportation. Transportation provided by parents at their option or for their convenience is not allowed. The value should be based on reasonable costs to the grantee (e.g., salaries, bus depreciation, maintenance, insurance, etc.).
Funds raised by parents	The funds used to support the program are allowable. The time that parents spend on fund raising activities is not allowable.
Equipment or space loaned by a third party	If a third party donates the use of equipment or space, the value is the fair market rate. If the third party also pays utilities, upkeep, insurance, etc., these amounts can be included.
Equipment or space loaned by the grantee	The value is based on depreciation or use allowance, taxes, insurance, etc. The computation must exclude the cost of land.
Donated supplies	The contribution is valued at the fair market value determined by the donor.
Donated clothing	Clothing used for educational experiences or retained at the center is allowable. Clothing furnished for personal use is unallowable. Value is the fair market value determined by the donor.
Donated food	Food must be used in the program and not sent home. Value is the fair market value determined by the donor.

STEP 8. EXERCISE: UNDERSTANDING NON-FEDERAL SHARE

Suggested Time: 20 min.

Purpose: Participants will understand, interpret, and apply regulations for the 20 percent non-federal share.

Working independently or with a partner, review and answer the questions below, referring as needed to the background reading.

Home-Based Option

Give us some insight on home-based parent involvement for in-kind.

In a home-based Early Head Start program, parents are required to participate in socialization activities with their children on a regular basis in a central location. Is the socialization time an allowable in-kind?

How would you value the time spent by parents working with their children in a Home Base program?

Early Head Start

How is in-kind for Early Head Start and Head Start different?

How can pregnant mothers give in-kind? Could they count their visits to WIC and prenatal visits to outside agencies as in-kind hours?

An Early Head Start grantee fails to meet the non-federal share for a budget year. Is the grantee subject to sanctions?

Valuing In-Kind

What volunteer time is allowable, and how is the rate determined?

What non-paid grantee governing body and Policy Council members' time can be considered in-kind? How would you value it, and is it administrative or program?

Center-Based Issues

What parent/child education activities in a Center-Based program are allowable?

How would you value the time spent on the activities?

When is transportation allowable for in-kind, and how should it be valued?

Donated Items

How is in-kind value determined for clothing and/or supplies donated to the program? Can donated land be valued as in-kind?

Merchants donate items as gifts or door prizes for parents participating in Head Start activities. Can these contributions be recorded as in-kind?

Documentation and Record-Keeping

What documentation is sufficient to support the time spent by parents on activities with their children?

How should volunteers' time be recorded?

Other Issues

The Department of Education says that Head Start funds can be used as a match for Even Start. When can federal funds be used for the non-federal share? What is the impact of the 15 percent administrative cost limitation on the non-federal share?

HANDOUT: UNDERSTANDING NON-FEDERAL SHARE—GUIDANCE CITATIONS

1. The Department of Education says that Head Start can give in-kind to Even Start. Can we?

No. Federal funds may be used to meet the matching requirements of other federal funds only if there is specific language in the authorizing legislation that states these funds may be used to match other federal funds. (45 CFR part 74.23(a)(5); 45 CFR part 92.24(b))

2. What is acceptable for in-kind?

To be accepted as in-kind, the contribution must be necessary and reasonable for grant operations and allowable under the applicable cost principles. If the grantee would not have otherwise paid for the goods or services, the contribution in most cases cannot be counted as in-kind. (45 CFR part 74. 23; 45 CFR part 92.24))

3. How must home-based activities be recorded for in-kind?

Grantees should use the same documentation to record parents' time for in-kind that is used to demonstrate the parent is performing the activities outlined in program plans. Grantees should ensure that parents record the time to be valued by the grantee. (45 CFR 74.23(i); 45 CFR 92.24(b)(6))

4. What center-based parent/child education activities are allowable, and how should they be recorded?

Activities that assist the grantee in meeting the performance standards are based on individual assessments and are part of the written curriculum may be counted. Contact your Regional Office for further guidance.

5. When is transportation allowable for in-kind and how should it be valued?

Transportation is allowable if the grantee cannot provide the transportation. The value should be based on the reasonable costs to the grantee, had the grantee provided the transportation. (45 CFR 74.23; OMB Circular 2 CFR Part 230, Attachment B, 54; 45 CFR 94.24; OMB Circular 2 CFR Part 225, Attachment B, 41)

6. What volunteer time is allowable and how is the rate determined?

Each hour of volunteer service may be counted if the service is necessary for grant operations and the grantee would have otherwise paid for the service. (45 CFR part 74.23(d); 45CFR part 92.24(b)(7))

7. How is in-kind value determined for clothing and/or supplies donated to the program?

The value should be reasonable and not exceed the fair market value at the time of the donation. Grantees should request that the donor identify the fair market value. (45 CFR part 74.23(f); 45 CFR part 92.24(d))

8. How is in-kind for Early Head Start and Head Start different?

Head Start grantees must meet the match for the budget period. Early Head Start grantees may provide the match at any time during the project period, not necessarily in

proportionate amounts annually. (DHHS GPD, Part 3.02, C.5.a)

9. How can pregnant mothers give in-kind?

Could they count their visits to WIC and prenatal visits to outside agencies as in-kind hours? See answer to question 2. Visits outside the agency cannot be counted since the parent is the recipient of the service or benefit, not the Early Head Start program. (45 CFR part 74.23(a); 45 CFR part 92.24(b)(7))

10. Give us some insight on home-based parent involvement for in-kind.

The time spent by parents working with their children in a home-based program is allowable if the activities and appropriate allotment of time is prescribed or written in the plan by the home visitor. (45 CFR part 74.23(a); 45 CFR part 92.24(b)(7))

11. Is non-paid grantee governing body members' time commitment considered in-kind?

The reasonable value of time donated by Head Start community members, governing body, Policy Council, and parents involved in the management activities for the grant is allowed as an in-kind. (45 CFR part 74.23(a); 45 CFR part 92.24(b)(7))

12. Can a building appraisal be used as in-kind figures?

Yes. (45 CFR part 74.23(h)(1); 45 CFR part 92.24(e))

13. Can donated land be valued as in-kind?

Yes. (45 CFR part 74.23(h)(1), 45 CFR part 92.24(e))

14. The time spent by board and policy council members can be valued as in-kind. How is it valued and is it administrative or program?

The time should be valued for the service provided. Since the Policy Council is working with the Head Start director regarding the administration of the program, and the members are on an equal plane with the director, a reasonable basis for valuation would be the director's salary plus fringe. The same analogy could be used for the executive director and the governing body members. The executive director and the Head Start director are classified as administrative and development costs. Therefore, the in-kind is administrative. (45 CFR part 74.23(d), 45 CFR part 92.24(c))

15. How is the 15 percent limitation on administrative and development cost calculated and what is its impact on the non-federal share?

The 15 percent limitation is applied to total costs, federal plus nonfederal. If indirect costs are included, they are presumed to be development and administrative costs, rather than program costs. The difference between the indirect costs claimed and total allowable, based on the calculation, is the limit of administrative costs that can appear in the direct cost budget on both the federal and non-federal side. Any amount that appears on the non-federal side can be used as in-kind. If all or a portion of indirect costs are not included on the federal side, the amount not included is an allowable in-kind as long as the 15 percent limitation is not exceeded. (45 CFR part 1301.32(a))

16. Grantees have been allowed to charge costs of GED training and testing for parents to Head Start. If the institution providing the service waives the fee, is that allowable in-kind?

A contribution can be valued as in-kind if it is an allowable cost and the contribution would

have to be otherwise purchased. Therefore, if the fee is an allowable cost, it is allowable as in-kind. (45 CFR part 74.23(a)(4); 45 CFR part 92.24(a)(1))

17. Does the approval of a budget or grant application constitute approval of specific costs for either the federal or non-federal share?

The Departmental Appeals Board has ruled that even though the questioned cost appeared in the grantee's approved budget, the cost must still meet the requirements of OMB circulars and HHS regulations. "...A grantee's obligation to document its costs is not extinguished by the inclusion of a cost in an approved budget. A grantee must always be able to document that a cost charged to a grant was actually incurred, is properly allocated to the grant and is reasonable." (DAB decision No. 1681)

18. Merchants donate items as gifts or door prizes for parents participating in Head Start activities. Can these contributions be recorded as in-kind?

Generally, supplies donated from any source that serves to provide a "gift" to parents cannot be counted as match. This includes prizes and awards to parents. Value of such items can be counted as match only if the program would otherwise have had to purchase the items to implement program objectives. (45 CFR part 74.23(a); 45 CFR part 92.24(b)(7))

19. My Early Head Start program is a home-based program. Parents are required to participate in socialization activities with their children on a regular basis in a central location. Is the socialization time an allowable in-kind?

The fact that the parent(s) are required to participate would appear to exclude them from the definition of volunteer. Also, for volunteer services to be counted as in-kind, the services provided by the volunteer would have to be otherwise purchased or provided by salaried personnel. It is doubtful that the grantee would have hired the same number of individuals as parents participating. (45 CFR part 74.23(a); 45 CFR part 92.24(b)(7))

20. How would you value the time spent by parents working with their children in a home-based program?

One method would be to use the salary of a classroom aide. The grantee should be careful in valuing the time at a teacher's level unless the parent met the same qualifications as the paid teaching staff. (45 CFR part 74.23(d), 45 CFR part 92.24(c))

21. What documentation is sufficient to support the time spent by parents in a Home Base program?

The same documentation that is used to support the completion of activities and the appropriate allotment of time prescribed or written in the plan by the home visitor would suffice. The grantee should maintain a copy of that documentation, including the valuation of the time in their accounting records. (45 CFR 74.23(i), 45 CFR 92.24(b)(6))

STEP 9. EXERCISE: USING NON-FEDERAL SHARE PRINCIPLES IN HEAD START SITUATIONS

Suggested Time: 45 min.

Purpose: Participants will have an opportunity to recognize and apply regulations and principles governing the non-federal share in Head Start situations.

Part I (30 min.) If there are enough participants, form into groups of three or four with one person acting as observer. Observers should be prepared to give feedback to the group after the role-play is concluded. Read the following vignettes and think through an appropriate response or solution.

Vignette: Hurricane Help

After a recent hurricane, The Head Start program received many boxes of clothing and canned goods. The Head Start director wants to distribute the clothes and food to the families hardest hit by the disaster. She created a form where family members could sign for the clothing and food they received. “This will be sufficient documentation to claim in-kind,” she thought.” When she mentioned the idea to the fiscal officer, he said, “No way.” “Why not?” insisted the Head Start director, convinced that he was just trying to give her a hard time—as usual. The assistant director for administration was called to settle the matter.

Vignette: Mediation Services

An aunt of one of the Head Start children is a practicing community mediator. She has volunteered to help chaperone field trips and her time is valued at the starting salary plus benefits for a new aide in the program. A dispute has come up in the local housing project where a Head Start center is located. The project director wants Head Start to move to another location or close down. The Head Start director remembered receiving a memo from the Head Start Bureau encouraging the use of mediators when necessary. The aunt was asked for help in mediating the conflict. She agreed to donate 4 hours meeting with the parties to try to resolve the issue; after 4 hours, she would charge her customary rate of \$75 per hour. The fiscal officer has these questions: What would be the value of the in-kind match for this service? Can the program value fringe benefits in addition to the hourly rate? Is this service allowable?

Vignette: Parents As Teachers

The family partnership specialist has a new idea. Since parents are working or in training during the day and they cannot come to volunteer in the centers, Head Start can create a program for parents to complete at home with their children. They will be carrying out the role of “parent as prime teacher” when they do the activities, and will also stay abreast of what is being taught in the center. The Head Start director lights up when he thinks of all that in-kind! The fiscal director wants to throw cold water on the idea of counting the home teaching as in-kind from the parents. What should the Head Start director and the family partnership specialist tell the fiscal director about using parents’ time as in-kind contributions?

Part II (15 min.) Discuss the vignettes with the observer leading the discussion. Be sure to touch on the following points:

- Was there any disagreement about whether the situation was allowable for in-kind?
- What resources were consulted to determine how to answer the questions raised?
- What other resources could have been consulted to find the answers?
- When the Head Start director and the fiscal director disagree on whether an item can

- be counted as non-federal share, what are some suggestions for resolving the issue?
- Have these or similar situations arisen in your experience?
 - What should be done when it is discovered that the program has been erroneously counting an item as in-kind?

Sources:

- 43AU-H45 CFR Part 74 and 92
- OMB Circulars 2 CFR Part 225 & 2 CFR Part 230
- ACF Discretionary Grants Administration Manual
- Federal Appropriations Law, Volume I and II; Participants
- Manuals -004 & 005, Graduate School, USDA

HANDOUT: RECOMMENDED FINANCIAL REFERENCES

Federal Staff

2 CFR Part 220 (replaces OMB Circular A-21), Cost Principles for Educational Institutions

2 CFR Part 225 (replaces OMB Circular A-87), Cost Principles for State, Local, and Indian Tribal Governments

OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments

2 CFR Part 230 (replaces OMB Circular A-122), Cost Principles for Non-Profit Organizations

OMB Circular-133, Audits of States, Local Governments, and Non-Profit Organizations

45 CFR Part 74, Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial Organizations; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments

45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

45 CFR Part 1301, Head Start Grants Administration

Non-Profit Organizations

2 CFR Part 230 (replaces OMB Circular A-122), Cost Principles for Non-Profit Organizations

OMB Circular-133, Audits of States, Local Governments, and Non-Profit Organizations

45 CFR Part 74, Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial Organizations; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments

45 CFR Part 1301, Head Start Grants Administration

State, Local, and Indian Tribal Governments

2 CFR Part 225 (replaces OMB Circular A-87), Cost Principles for State, Local, and Indian Tribal Governments

OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments

OMB Circular-133, Audits of States, Local Governments, and Non-Profit Organizations

45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

45 CFR Part 1301, Head Start Grants Administration

Non-Profit Institutions of Higher Education

2 CFR Part 220 (replaces OMB A-21) Cost Principles for Educational Institutions

OMB Circular-133, Audits of States, Local Governments, and Non-Profit Organizations

45 CFR Part 74, Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial Organizations; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments

45 CFR Part 1301, Head Start Grants Administration

Public Institutions of Higher Education

2 CFR Part 220 (replaces OMB A-21), Cost Principles for Educational Institutions

OMB Circular-133, Audits of States, Local Governments, and Non-Profit Organizations

45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

45 CFR Part 1301, Head Start Grants Administration

HANDOUT E: FINANCIAL INFORMATION WEB SITES

Office of Management and Budget

Select below for OMB circulars and/or standard forms such as the SF-424 and SF-269.

Forms

http://www.whitehouse.gov/omb/grants/grants_forms.html

Circulars

http://www.whitehouse.gov/omb/grants/grants_circulars.html

Division of Payment Management

<http://www.dpm.psc.gov>

Department of Health & Human Services' grants policy

<http://www.hhs.gov/grantsnet>

[Office of Head Start Fiscal Assistant](#)

[Early Childhood Learning and Knowledge Center](#)

Web site for resources and communications regarding Head Start and Early Head. Check out the resources located in the Fiscal domain.

STEP 10. SUMMARY

Suggested Time: 10 min.

KEY POINTS

- Understanding and applying basic cost principles
- Linking budget development to planning
- Understanding non-federal share

Personal Review

What did you learn from this activity?

1. _____

2. _____

3. _____

How will you use your new knowledge and skills in your work?

1. _____

2. _____

3. _____

What other things do you think you might need to learn in order to master the skill of applying basic cost principles?

1. _____

2. _____

3. _____

2-D: Linking Budget Development to Program Planning

OVERVIEW

Linking Budget Development to Program Planning

Outcomes. Participants who complete this activity will be able to:

- Establish a team approach to budget planning and development
- Identify and implement critical planning tasks for budget development
- Use standard program planning information to establish cost objectives
- Select the appropriate budget type to meet program needs
- Engage staff in budget monitoring and cost containment

Materials. Newsprint and markers. The following materials are used as guidance references:

- 45 CFR Part 1301, Head Start Grants Administration
- 45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments
- 45 CFR Part 74, Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments.
- OMB Circular A-21, Cost Principles for Educational Institutions
- OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments
- OMB Circular A-122, Cost Principles for Nonprofit Organizations
- OMB Circular 133, Audits of States, Local Governments, and Nonprofit Organizations
- ACF Discretionary Grants Administration Manual

Components. This activity can be done by one person, an informal group, or as part of a formal workshop. Suggested time limits are provided below, but participants and facilitators may wish to adjust these to their own timetables.

Step 1. Worksheet: Reflecting on Budget Practices	30 min
Step 2. Background Reading: Budget Planning and Development	15 min
Step 3. Worksheet/Discussion: More Reflections on Budget Practices	20 min
Step 4. Background Reading: Budget Development Steps	30 min
Step 5. Exercise: Linking Identified Needs with Budget Development	30 min
Step 6. Background Reading: Budget Implementation and Reporting	20 min
Step 7. Exercise: Budget Management and Reporting	30 min
Step 8. Guidance Session: Collaborative Budget Planning	60 min
Step 9. Summary	10 min

Suggested Total Time 4 hours, 5 min

STEP 1. WORKSHEET: REFLECTING ON BUDGET PRACTICES

Suggested time: 30 min.

Purpose: To allow participants to reflect on their practices and experiences in developing the Head Start budget.

Part I (15 min.) Individually complete this worksheet.

Getting Started (Federal staff substitute words in parentheses)

Think about the process you use to develop **(or approve)** a Head Start budget. Do you approach the task alone or with a group of staff? Think about when you begin the budgeting **(review)** process in relation to the due date. How is the space arranged so that necessary information, supplies, and materials are handy? Approximately how many days/weeks are you engaged in developing **(reviewing/approving)** an annual budget?

Information Needed

Make a list of the information you **(Head Start Program)** need to have available for the budget. What do you consider the most important information for the foundation of your **(the program's)** annual budget?

Understanding Activity-Based and Zero-Based Budgeting

What is your **(your assigned program's)** experience with activity-based or zero-based budgeting? What are the obstacles to using this method of budgeting? What are the advantages?

The Evolution of Your Budgeting Process

How did you learn the budgeting process? Who taught you to develop **(review or approve)** your first Head Start budget? What method did he or she use to develop **(check/approve)** the budget? What new techniques have you adopted? What original techniques do you still find useful?

Linking Program Planning and Budgeting

What is the relationship between the community assessment, program goals, and the annual Head Start budget? How do you determine that the budget you develop (**approve**) is a reflection of, and adequate to meet, identified program priorities?

Part II (15 min.) If you are working in a group, discuss your answers, why you gave them, and any points of difference.

STEP 2. BACKGROUND READING: BUDGET PLANNING AND DEVELOPMENT

Suggested time: 30 min.

Study the following reading. Feel free to highlight sections or write comments in the margin throughout these activities.

Introduction

Effective financial management entails building a strong foundation for the present and future operation of Head Start programs. A well-developed and thought-out program plan and supporting budget provide such a foundation. Good financial planning and budget development make management of program resources less fractured and more focused. Building a solid financial foundation ensures that program activities and services are appropriately funded for successful implementation.

Each year Head Start directors and financial officers are challenged by the task of budget development and submission. Many factors must be considered in putting together a budget that reflects the vision, goals, and objectives of each Head Start program and provides sufficient resources to support short and long-term operation of program systems. Therefore, the major challenge is determining how dollars will be allocated to specific program activities, based on the level of funding commitment. Such a challenge can be met only through careful budget planning and development.

Definition of a Budget

“A budget is the numerical expression of an organization’s dreams that serves as a guide or measure of acceptable financial performance.” (Financial Planning for Non-Profit Organizations)

For Head Start programs, the budget is the financial framework within which the vision and mission of the program are defined. The success of the budget development process determines whether the vision will become reality and the mission will be achieved. Whether for a new grant application or a continuation grant, the budget will define what the program will actually be able to achieve. The lack of a connection between financial resources and desired results is a major reason that budgets often fail to reflect and support a program’s vision for service delivery. The budget should be a dollars-and-cents expression of a detailed, strategic plan for how (and to what degree) Head Start programs will serve the needs of the children in their communities. The budget is not the plan itself, but a financial blueprint for carrying out the plan.

The Budget Development Process

Every year, each Head Start program goes about the task of determining the resources that will be needed to provide program services in a manner equal to, or better than, the year before. This process always entails examining the amount of resources expended in the preceding year and weighing that against the quantity and quality of services the program was able to provide. The major concern is usually whether or not the funds supported what the program sought to accomplish, and if not, why not? The answer to this question is a reflection of how well the program defined its needs during budget development.

Developing a budget is just one aspect of a broad-based strategic planning process that is designed to allocate resources on the basis of identified program goals. The strategic plan outlines the program’s vision of the future in terms of community needs, internal strengths and weaknesses, priority goals and activities, and desired quantity and quality of services. The budget is then developed to support the plan. An effectively developed budget will:

- Incorporate a long-term view of the program beyond the 1-year funding period, in anticipation of changing community dynamics

- Support program goals and activities, reflecting the direction of adequate resources toward priority program areas
- Ensure that the program can realistically accomplish its goals and maintain financial stability
- Incorporate the input of those critical to the process (e.g., staff, stakeholders, and customers)

Long-term strategic planning allows for budget development to become more than a mechanism for balancing revenues and expenditures on a yearly basis. A plan-supported budget is based on realistic data of changes within the community. This budget becomes a living document that facilitates the maximum use of resources, is continually updated, and provides a positive framework for working toward the program's long-range vision.

Budget development for Head Start programs must take into account a number of factors:

- **Proper weighing and balancing of program priorities to ensure that resources are allocated in a manner that supports maximum program impact.** Budgets should be developed to support those program activities that are most critical to service delivery, and avoid deficits in areas that could have the most impact on the program's operations and effectiveness. For example, if the community assessment and self-assessment show gaps in services (e.g., medical or dental health for a group of enrolled children that are new immigrants), it could be necessary to adjust customary budgeted costs to secure the needed services for this population.
- **Allowance of sufficient time for budget planning prior to annual grant application and refunding periods.** Target dates and activities must be properly timed to collect information and data on expenditures, determine future program goals, develop program plans, and conduct cost analysis of critical program activities. Accurate budget planning requires time for giving thought and consideration to all aspects of Head Start program operations, as well as the cost of implementation to produce the quantity and quality of service desired.
- **Consideration of the program's evolution over time and the need to reconsider cost objectives and modify the budget.** As changes occur within the community, the depth and scope of Head Start services will need to keep pace. Unanticipated and unplanned-for changes may occur after the budget has been developed and operationalized. Therefore, it is beneficial to the program and the community to establish timelines and procedures for reviewing and making necessary changes to budgets at predetermined intervals, or as changes dictate.
- **Selection of the budget system that most effectively meets the needs of the program.** Although most Head Start programs use an incremental budgeting process, consideration should be given to zero-based or activity-based budgeting systems as well. Whereas incremental budgeting automatically increases or decreases funding to existing program activities, zero-based and activity-based budgeting require evaluation of all activities to determine their worth to the program in terms of cost and the program's future direction. The evolution of the program and the community may warrant a closer examination of program activities to determine their suitability in meeting the program's objectives. (Note: Budget types are discussed in more detail in next background reading.)
- **Use of appropriate information to determine future resource needs, as opposed to making "good guesses."** Community assessments, previous budget expenditures, and staff input provide an informational base for decisions on program resource requirements. Simple incremental budget changes that are not supported by current and accurate information may lead to the creation of insufficient budgets.
- **Assignment, early on, of accountability and responsibility for the planning, development, monitoring, and review of program budgets is critical to the development process.** The fiscal manager and program director are not solely responsible for planning and developing budgets. Community stakeholders, parents, and program staff must also have some level of

accountability for providing valuable input regarding program objectives and associated costs.

Each of the above considerations must be taken into account before, during, and after the budget development process for Head Start programs. Detailed attention must be paid to every aspect of preparing the Standard Form 424A.

STEP 3. WORKSHEET/DISCUSSION: MORE REFLECTION ON BUDGET CHANGES

Suggested time: 20 min.

Purpose: Participants will continue reflecting on their current budget practices based on the previous background reading. The worksheet is to be completed individually or used as a discussion guide with a colleague or small learning group.

Please answer and discuss the following questions:

1. After it has been developed and approved, how often is your budget referred to for program implementation?
2. How much future planning takes place in the development of the budget (e.g., forecasting of future needs)? What is the process used for future budget planning?
3. Does your program establish cost objectives for program activities (e.g., determining spending requirements for successful implementation of program activities)? If so, how?
4. What is the level of involvement of your governing body and Policy Council in the development of the budget?

STEP 4. BACKGROUND READING: BUDGET DEVELOPMENT STEPS

Suggested time: 30 min.

Study the following reading. Feel free to highlight sections or write comments in the margin throughout these activities.

The following is a list of action steps for budget planning with suggestions for formulating decisions, collecting information, soliciting input, identifying costs, and assigning responsibilities. These steps follow the Budget Planning Worksheet in Step 8A.

BUDGET DEVELOPMENT STEPS

Action Step One: Establish Budget Planning and Development Team

The planning and preparation of the budget will require the input of staff and others directly related to, and outside of, the program who have a vested interest in, or who benefit from, the services provided. Therefore, the first step in the planning process is to establish a team to set the parameters for how the budget will be developed and provide input into the information base that will support proposed costs. Although individual programs should determine the composition of the team, it is suggested that, at a minimum, it be composed of the following:

- Program director
- Fiscal officer
- Program managers
- Selected staff members
- Representatives of the Policy Council
- Representatives of the governing body, school board, or Tribal Council
- A parent representative

The collective and individual roles and responsibilities of the team should be clearly determined. It must be specified whether team members will be responsible for providing input, collecting data, or conducting cost analyses. Responsibility for final approval of the budget (e.g., the program director or the team through consensus) must also be specified.

The role of the program's governing body and Policy Council is critical to effective budgeting. Responsibilities of these groups include ensuring that the program's budget development and spending practices are within Federal and organizational policies and procedures. The governing body (also sometimes known as the Board of Directors, Tribal Council, School Board, or Board of Commissioners) and the Policy Council have the "big picture" of the program, including its strengths, areas needing improvement, and other special needs. Both groups offer perspectives of the program that are invaluable and essential to determining how funds will be allocated and spent. It is critical that representatives of both groups be a part of a budget development team.

The team approach to budget planning and development generates dialogue between fiscal and program staff and enhances the knowledge of the program's governing body, thus facilitating a deeper level of commitment to the financial objectives of the program. Each team member brings to the process a particular perspective that can help produce a budget that reflects the realities the program must address. For example, the program director and managers will have a broader view of program operations, while staff will be more familiar with the day-to-day realities of program operations. In addition, Policy Council and parent representatives will be able to provide valuable insight into how program services are received within the community and where increases or decreases in delivery of specific services may be needed.

Although a team approach to budget planning and development has its advantages, there are cautions as well. It is important that team members be given a thorough orientation as to what will be involved in the

budget process. This orientation should also include a discussion of expectations of how decisions will be made on program activities, cost objectives, and final budget approval. Team members should be adequately prepared in advance and told exactly what they will be expected to contribute to the process. Orientation could also include an overview of the previous year's budget against actual expenditures, as well as a review of deficits, overruns and under-runs by activity or line item. Such a review will provide a basis for determining needed changes to next year's budget.

Action Step Two: Define Budget Development Process

Once the team has been established, it is critical that attention be given to the sequence of tasks and activities that will make up the budget planning and development process. Everyone needs to understand and agree with how the budget will be developed, and what specifically will need to be done. Lack of clarity regarding specific tasks, roles, and responsibilities will slow the process and possibly cause team members to work at cross-purposes.

Effective budget planning entails examining past performance and determining the future direction of the program, in both programmatic and cost terms. Defining the budget development process allows those responsible to identify and structure the questions that will need to be answered. The following are examples of the types of questions that will shape the dialogue about, and development of, the Head Start budget:

- How will the program's *vision, goals, and objectives* be defined?
- How will *information concerning the previous years' performance*, both programmatic and cost, be reviewed and incorporated into the process?
- What *factors of the external environment* (e.g., community, funding sources, changes in the early childhood development field, etc.) will need to be considered in the development of future cost objectives?
- What *factors of the program's internal resources and capabilities* (e.g., current staff qualifications, use of physical space, condition of vehicles and equipment, etc.) will need to also be considered?
- How will the *program's priority areas* (e.g., expansion issues; staff development; priorities emerging from local, state, or federal mandates; etc.) be identified and factored in?

The budget development team will have the task of generating responses to these and other questions as they go about planning how the budget will take shape. It is at this point that the development of the budget is linked to the program's overall planning process. Critical aspects of the program's past and present performance and resources must be considered in the planning of the program's future. What the program wants to accomplish and the projected costs of succeeding in these goals are inescapably linked. Program planning cannot take place without consideration of costs; neither can budgets be developed without a clear picture of program vision, goals, needs, and priorities.

A major resource in producing a clear program picture is the Policy Council. The Council's insight into how the program has evolved over time and the external factors within the community that will impact future program directors is extremely beneficial to budget development. Policy Council members must be included in any dialogue about the program's future financial direction.

In this step the team will also need to identify roles and responsibilities for specific tasks within the process. Who will take leadership of the team? Which members will be assigned specific tasks regarding the collection of information/data from the community, program staff, parents, etc.? What assistance, if any, will be needed from the Head Start Regional Office? How often will the team meet and what timelines will be put in place for the development of the budget?

Action Step Three: Establish A Budget Development Schedule

Planning and developing the program's budget for the next year should not be a last minute endeavor. Sufficient time must be allocated to the process of identifying weaknesses in the current budget and revisiting program priorities and objectives. Essentially, planning and developing the budget should be an ongoing process throughout the year as the program monitors its costs and expenditures. Once the budget development process has been defined, the next step is to establish clear and firm timelines for each step in the process.

Unfortunately, budget development is often considered to be an annual, necessary evil that must be tolerated in order to access needed program funding. Program staff often bemoan the task of providing information and input because it is usually requested in an "I need it yesterday" manner. Therefore, the budget is viewed as the task that must be endured at the end of every year, as opposed to an ongoing element of program operations and management.

Establishing a schedule for budget development can help to integrate the process into the program's routine financial management tasks. Each program must decide what works best for them. As a guide, the following are considerations for establishing a budget planning and development schedule:

- The length of the funding period (1 year vs. 3 years) and how often a full budget must be submitted
- Whether budgets need to be developed for multiple funding sources, and if they are in sync or staggered
- How often critical information is collected and when it is made available before the conclusion of the fiscal year (e.g., community assessment data, self-assessment results, program plans and updates, audit reports, etc.)
- The timing of the budget approval process, taking into consideration internal reviews before submission to the Head Start Regional Office

All of the above will determine when key budget planning and development activities will take place. Creating an actual calendar of events for the budget process ensures the integration of budget development into the Head Start program's ongoing financial management. Budget planning and development activities could be included in the program's financial calendar, which is usually included in the financial procedures manual. The financial calendar typically displays critical financial management activities such as accounting closing dates, payroll submission and paydays, and paid holidays. Specific tasks such as reviews of critical cost and program data, developing or updating program plans and community assessments, conducting cost analyses, and establishing cost objectives for the coming year can be earmarked for completion during strategic times in the fiscal calendar.

Action Step Four: Select the Appropriate Budget Type

Historically, Head Start programs have used the incremental, line-item budget structure. The Standard Form 424A requires that programs submit costs by specified line item categories for each program function or activity. Costs are summarized by category with attached calculation breakdowns. Budgets for continuation of program grants beyond the first year can be incrementally increased or decreased by line item with proper justification attached for those specific increases or decreases.

While this structure continues to be widely used and accepted within Head Start, it may not meet the needs of programs with more complicated costing structures or those seeking more accuracy in developing detailed budgets. Incremental and line-item budget structures are most appropriate for programs that have consistent resource needs over time, with very little fluctuation in expenditures or anticipated increases or decreases in service delivery.

Programs that need to be responsive to changing needs for quantity and quality of services, or that project major changes in the program structure in future years, may require a more detailed type of budget development format. Two options for structuring program costs are the zero-based and activity-based budget. These two formats can be used to determine costs that are reflected in the line item budget form 424A.

Zero-based budgeting incorporates program planning and objective setting as an integral part of the budgeting process. It assumes that no program function or activity is necessary unless it is directly tied to current objectives. Therefore, unlike incremental budgets that assume all current activities are necessary and pre-approved, the zero-based budget requires that *each* activity and its associated costs be justified and prioritized. As opposed to incremental increases in current allocations, zero-based budgets require the program to ask, “if we start at zero, which program activities are necessary, and are there alternatives that are more beneficial programmatically and fiscally?” The zero-based budgeting process requires a deeper level of planning and evaluation of program activities, with emphasis on what is currently necessary to provide a quality program, not just incrementally increase current activities.

Activity-based budgeting offers a somewhat similar approach to budget development, in that the focus is on developing costs based on detailed analysis, rather than unjustified assumptions. The focus is determining what activities are driving costs, as opposed to how costs are guiding activities. In the activity-based budget program, activities are defined as either primary or secondary to the accomplishment of program goals, with emphasis on ensuring that the budget focuses most of the resources on primary activities.

Within Head Start, activity-based budgeting allows programs to identify cost drivers for each functional area (e.g., program design and management, family and community partnerships, early childhood development and health services, etc.) and its associated activities. Costs would be allocated according to what was needed to ensure that primary program activities were adequately funded, and that secondary activities were not over-funded.

Programs that are planning to grow at a fast pace because of program expansion, or the addition of Early Head Start, and other comprehensive projects could benefit from using a zero-based or activity-based budgeting approach to the entire Head Start program. In addition, programs that are restructuring and reorganizing around program areas or other functions would find an activity-based budgeting approach useful. On the other hand, programs may choose to continue with the incremental approach if slow or minimal growth is expected, *and* the budget framework has been working with minimal cost overage or under-budgeted categories.

Handout A outlines the advantages and considerations for using each type of budgeting for Head Start Programs.

Action Step Five: Collect Budget Support Data

The foundation for the development of the budget consists of the data and information that provides a picture of past, present, and projected program performance. Compiling and analyzing this information is one of the most critical tasks in the budget development process. The link between the budget and the program it supports must be strong and convey the program’s philosophy, as well as its future direction.

Head Start programs routinely collect information and data (discussed in detail in Step 6) on their external environment, internal resources, and operations to assist in determining the effectiveness of past cost expenditures in meeting program goals. This information also helps to determine changes that must be made to ensure adequate financial support for future program efforts. The key to using all of this available information and data in the budget development process is to know what the information will yield that will be helpful in identifying program activities and associated costs.

Handout B describes how critical program data and information can be used to support the development

of the budget.

In addition, input from the Policy Council should be used to supplement program data. Council representatives can be helpful in providing insights from parents and community members. Such information will be especially beneficial during those periods where a full community assessment is not completed.

Action Step Six: Specify Program Goals

Three key pieces of information are crucial to program planning and budget development: community assessment, internal program self-assessment, and program plans. All will provide guidance and direction regarding program goals and objectives for upcoming budget year(s).

The **community assessment** is completed before the submission of the initial grant. A community assessment should be completed in total every 3 years and updated and revisited during the intervening years. The Community Assessment constitutes a very large research project that explores the make-up of the community served by the Head Start program. The objective is to determine what community factors will impact on the services needed and the expected level of program enrollment. Statistics are collected on location of pockets of poverty; where the young children reside within the community; the educational level of community residents; and other social, economic, and demographic information.

The Federal program review and the annual **internal program self-assessment** are designed to assess the internal needs of the program. Information collected through the formal review and self-assessment includes:

- existing program strengths
- areas in which services to children and families can be improved
- internal systems, staff, or elements in the environment that contribute to the program's strengths and areas for improvement
- untapped resources in the program or its local environment
- compliance and noncompliance with both Federal and other governing regulations and the program's own goals and objectives.

Both the formal program review and the internal self-assessment are designed to assist programs in identifying gaps between their stated philosophy, mission, and goals, and what they actually achieved.

Last, but not least, are the **Head Start Program Plans** which, like the community assessment, are developed every three years and updated and revisited in the intervening years. The overall Program Plan will contain individual plans for each Head Start program system component. The function of the plan is to address identified needs resulting from the community assessment and internal self-assessments. The identified needs are translated into goals for each Head Start program area.

Program plans are similar to annual operating plans that are developed for businesses. They allow the program, at the end of each year (or every third year) to design a blueprint for the coming year. They are a crucial tool in the drafting of annual goals, identifying priorities, and structuring cost objectives.

For example, programs may need to upgrade staff qualifications. While this identified need would require a long-term plan, the steps to accomplishing goals and objectives will be prioritized and set out in annual steps that can be budgeted, such as tuition assistance, substitutes to allow classroom staff to attend classes, etc.

Action Step Seven: Identify Cost Objectives

Each identified program goal should have corresponding program functions or activities that are designed to accomplish the goal. The process of specifying what the program will accomplish (down to the activity level) makes it possible to establish cost objectives for program activities. This, in turn,

provides a realistic and verifiable base for cost allocations; budget development; and cost tracking, monitoring, and reporting.

Developing cost objectives for program activities requires an in-depth understanding of the costs inherent in operationalizing program activities and all of their associated tasks. Cost objectives define what will need to be spent to achieve the desired quantity and quality of implementation of a specific program activity. Therefore, the process of establishing cost objectives allows the program to respond to the question of “how much do we need to spend on this activity to ensure that we successfully implement it and achieve our goal?”

Cost objectives should reflect both historical cost accounting data (if available) and projections for future needs. In other words, cost objectives should capture what is known about the cost of a specific activity and any anticipated future changes in how the activity will need to be implemented.

The development of cost objectives should include cost considerations for:

- required increases or decreases in funding levels to support program goals
- number of staff assigned to a particular activity and the amount of time spent on associated tasks and across tasks and activities
- space, material, and other non-staff resources required for the activity and the associated tasks
- direct costs associated with the activity and tasks (e.g., telephone service, if significant to implementation)
- how costs will need to be adjusted for a specific activity during the funding period to correspond with anticipated and planned changes
- administrative and management support specific to the activity, above and beyond overall program support
- multiple funding source activities that may have specific tasks that are funded from various sources.

Defining cost objectives for program activities supports the process of assignment or allocation of costs to program activities. When programs take the opportunity to set objectives for the resources they will spend on project activities, they set the stage for a cost allocation process that ensures that each activity and associated task is adequately funded to meet program goals.

Action Step Eight: Determine Budget Impacts and Constraints

Once the program has identified and allocated costs, the next step is to review the budgeted costs against any future impact or constraint.

Consideration should be given to changes that are anticipated in Head Start priorities or guidelines that would make changes in program focus necessary during the next budget period. Not giving consideration to such anticipated changes could cause potential budget shortfalls if resources have to be re-allocated to address unplanned-for program changes.

For example, when new mandates are issued, programs usually have a reasonable timeframe to begin to comply. If program planning is not proactive and needs are not anticipated, the deadline for compliance may arrive without adequate financial provisions. For instance: modifications to facilities to comply with the Americans with Disabilities Act (ADA), changed staffing requirements as a result of the revised Performance Standards, and mandates coming from Head Start reauthorization legislation that

require higher staff credentials require long-term budget planning.

Summary

The above action steps serve as a general guide to budget planning and development and can be modified to meet specific program needs. In essence these steps are designed to ensure that (1) sufficient involvement of people internal and external to the program, (2) adequate budget development to support the goals of the program, and (3) ongoing budget planning and development is linked to overall program planning.

HANDOUT A. ADVANTAGES/ CONSIDERATIONS OF THE THREE BUDGET TYPES

Object Class (Line Item) Budgeting

What's Budgeted	Advantages	Considerations
Personnel Fringe benefits Travel Equipment Supplies Contractual Construction Other indirect costs	Least time consuming Based on prior expenditures More simplified accounting system Controls line item expenditures	Difficult to relate to performance Cannot relate data to activities Data not conducive to making timely adjustments Difficult to determine reasons for over/ under expenditures

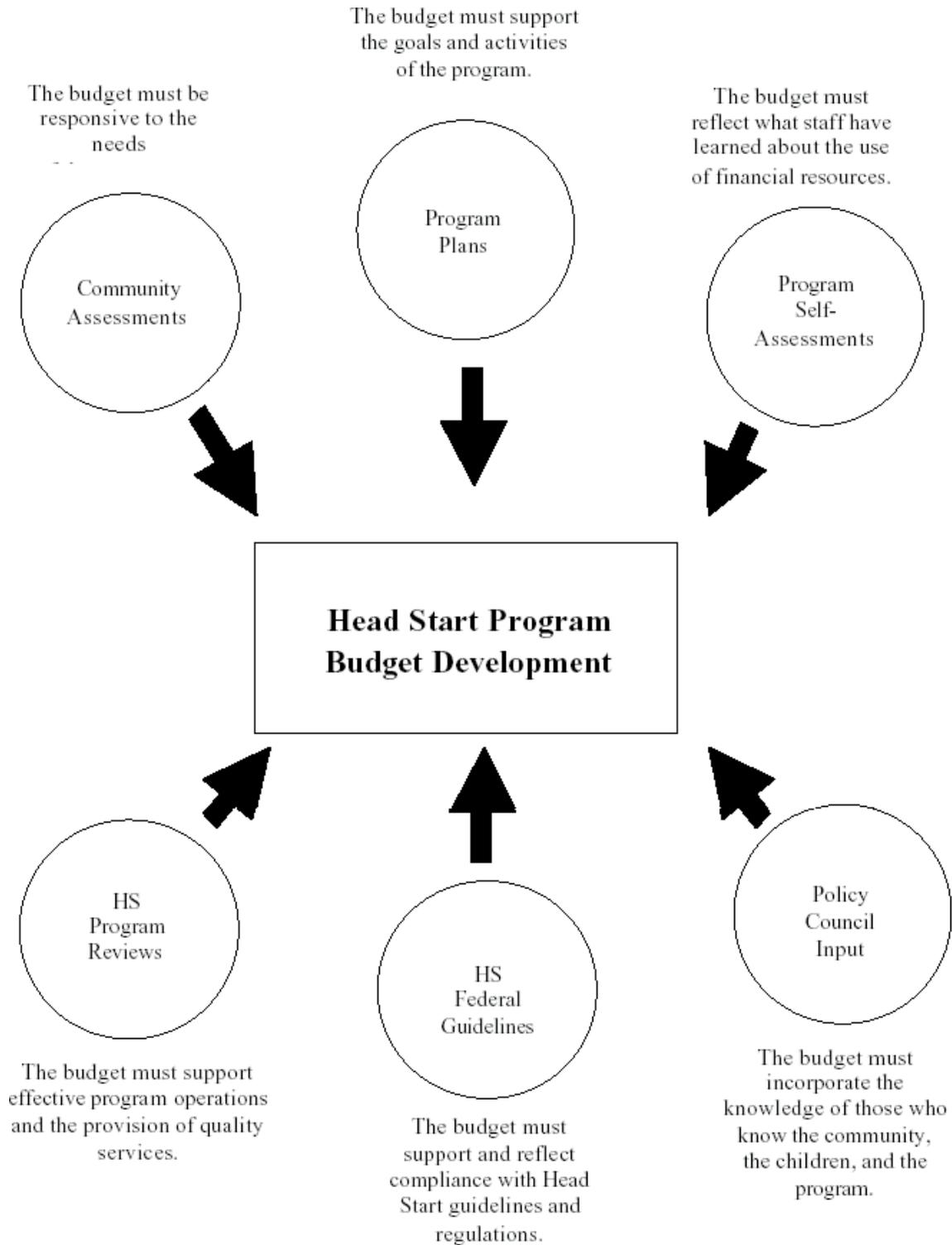
Activity-Based Budgeting

What's Budgeted	Advantages	Considerations
Child health and development Education and early childhood development Child health and safety Child nutrition Child mental health Family partnerships Community partnerships Program governance Management systems Quality improvement	Can identify opportunities for improvement and cost reduction Relates costs to performance data Enables assessment of processes that are effective in serving customers	Requires an accounting system that records at the needed levels Time consuming Requires a detailed project plan

Zero-Based Budgeting

What's Budgeted	Advantages	Considerations
Begins at zero resources Forces ranking of purposes Requires a clear focus on priorities Emphasizes tangible results Process must consider mandates Modified version called "targeted budgeting" puts only 5 or 10 percent at risk	Requires justification of proposed activities Useful for analyzing priorities Managers must argue the merits of their efforts	Potential generation of competition and conflict among program components Time consuming Requires an accounting systems that records at the needed levels

HANDOUT B



STEP 5. EXERCISE: LINKING IDENTIFIED NEEDS WITH BUDGET DEVELOPMENT

Suggested time: 30 min.

Purpose: To recognize the relationship between identified program needs and budget development.

Read the following scenario and answer the questions individually, with a colleague or in a small learning group.

In the county next to Child and Family Services Head Start is a Head Start grantee with an urban service area. The program is called Unified Head Start, an apt name for a program that serves nine different ethnic groups, each with its own language. There are about 600 children enrolled, of which 50 percent are not English speaking.

Unified's community assessment has consistently shown a variety of health problems that immigrant families often exhibit when they first arrive in the community. Tuberculosis and dental problems are recurring health concerns. Unified's program self-assessment shows how the program struggles with providing enough staff and resources to reflect the many cultures of its families. All cultures are welcome at Unified, and the staff can speak a combined total of 4 languages, but that leaves 5 languages that are not spoken by anyone on Unified's staff.

Unified has always left budget development up to the fiscal department. Over the last few years, the Unified Head Start director, health services manager, and education manager have noticed that there is not enough money in the budget to meet the health services needs. There is also not enough money for outreach activities in the communities to recruit classroom helpers who speak the language of the children. The health services manager actually had an argument with the fiscal director over the cost overruns for health screenings and follow up. They decide to approach the fiscal department about these issues before the budget is set for the next year.

- Within this brief scenario, what program needs do you see?
- For each need you identified list some specific activities in which the program could engage in order to address those needs.
- For the activities identified, what specific cost objectives would you link to those activities?
- What do the community assessment results and the concern regarding cost overruns indicate about the program's current budget? About where changes should occur in the new budget?
- What additional information is necessary to justify budget changes that are responsive to the needs of the children in their community?

STEP 6: BACKGROUND READING: BUDGET IMPLEMENTATION AND REPORTING

Suggested Time: 20 min.

Study the following reading. Feel free to highlight sections or write comments in the margin throughout these activities.

Putting the Budget in Motion

A very important component of effective Head Start program financial management is operationalizing the budget to support the goals and activities outlined in program plans. Many programs are successful in developing a sound budget, but often neglect to put in motion processes and procedures to ensure that the budget is understood and utilized by staff to guide the operation of the program.

Due to lack of communication between fiscal and program staff, budgets sometimes seem shrouded in secrecy. Outside of fiscal staff, the program director, and Regional Office staff, there is little or no knowledge of the program's financial resources. Staff are often asked to be responsible and accountable for planning and conducting program activities without knowledge of the dollars allocated for those activities. Not only does this limit the effectiveness of staff, but can eventually limit the effectiveness of the program in accomplishing its goals.

The connection between the budget and operationalization of program activities is not always a given. Program, fiscal and Regional Office staff must make an intentional effort to work collaboratively to ensure that program activities are carried out within the framework of available resources. The lines of communication must be open enough to allow give and take around the most effective way to operate the program, both in terms of cost and quality of services to the children enrolled.

Successfully putting a budget in motion requires that programs develop and follow processes for (1) informing and educating staff at all levels on resource allocations and costs constraints for program activities, (2) routinely reviewing spending, as well as sharing budget concerns, and (3) engaging staff in budget monitoring and cost containment efforts.

Educating and Informing Staff

Often when the issue of budgets and expenditures arise within a program, the response is to "let the experts handle it," in other words, let the fiscal staff take all of the responsibility. Fiscal staff are "experts" in regards to costing and accounting procedures. But fiscal staff do not always have an in-depth knowledge of the ins-and-outs of program implementation. In this respect, program staff are the "experts," and should be equally responsible for ensuring that the program operates within its resources. The combination of fiscal and program knowledge will produce an expert approach to the financial management of the program.

All staff need to understand how the program's financial resources are allocated and tracked, as well as their role in supporting cost effective program implementation. There will undoubtedly be a need to structure the ways in which staff are informed and educated about the program's financial processes according to the level of involvement they will have in financial management. For example, program managers may need to have a deeper level of knowledge than teachers, cooks, or bus drivers. At a minimum, all staff should have a basic knowledge of:

- the program's annual budget and its link to overall program goals
- the financial resources allocated to their areas of responsibility within the program
- increasing or decreasing level of effort within specific program areas due to funding changes.

It is assumed that program managers will play an integral role in developing the budget and, therefore, will have intimate knowledge of how it was developed. Program managers can then share

this knowledge with all staff. Increasing staff knowledge and understanding of the process can increase their commitment to successful financial management.

Educating and informing staff of the budget process and resource allocations should be an ongoing, routine task that is built into the program's management. There are a number of actions that programs can take to ensure that staff and Policy Council members are informed. They include:

1. Conducting an all-staff meeting following the approval of the new budget to review it and discuss any major changes that will impact program activities. This type of meeting helps to establish expectations of how activities will be carried out in the coming year, particularly in respect to increases and/or decreases in effort in specific areas (e.g., increased enrollment). It is also a time to ensure that everyone hears the same information, as well as for addressing questions and concerns. This allows the program to cut down on rumors and misunderstandings regarding the impact of funding on program activities.
2. Have managers periodically include discussion of costs guidelines and regulations in staff meetings. It is important for staff to understand the constraints and guidelines that define how program resources can be utilized, particularly if they have direct responsibility for the disbursement of funds or materials. Managers can use time during staff meetings to review the basic intent of specific cost principles (e.g., use of non-Federal share resources, allowable and unallowable costs, etc.) to provide staff with an understanding of the guidelines they must work within when expending resources.
3. Seek opportunities for team training in financial management that program and fiscal staff can attend together. Having fiscal and program staff participate in a shared learning environment can increase knowledge and understanding of each other's issues and concerns regarding the program's financial management. This also helps to open the lines of communication. An added benefit would be the inclusion of Policy Council members in the team training environment.

Regardless of what method is used, informing and educating program staff on allocation of program resources and guidelines for their expenditure can only strengthen Head Start's financial management. The key is to develop routine processes for keeping staff informed.

Routine Budget Reviews and Reports

Keeping the lines of communication open between fiscal and program staff can most easily be accomplished through routine budget reviews where both can share concerns of the program's progress in resource allocation and expenditure.

One way of ensuring that budget reviews are made a part of the program's management routine is to make them coincide with the submission of Standard Form 269, Financial Status Report. The SF 269 is completed and submitted to the Head Start Regional Office three times during the grant year. An initial report is due 30 days following the sixth month of the budget period, a second report is submitted within 30 days of the end of the period, and a final report is submitted 90 days following the end of the period. Within this report, Head Start programs provide a detailed accounting of cumulative expenditures.

Completion of the SF 269 provides a perfect opportunity to update staff on the financial status of the program, including budgeted and actual 2-D Page 29 expenditures for each program area. Reviewing this information with staff allows time to discuss the underlying reasons for specific expenditure concerns (e.g., over- or under-spending in certain activities). Program staff can provide insights into how and why funds were expended in a particular way, and also contribute to identifying strategies for addressing problems.

Regardless of when or how often budget reviews are conducted and reports developed, it is critical that fiscal and program staff take time to reassess prior assumptions about program needs and resources. There needs to be time to reflect on what worked and what didn't regarding allocation and

expenditure of the program's financial resources. Reviews need to occur at various times during the budget (grant) year to allow for adjustments and modifications. Waiting until the end of the budget year to review costs leaves the program open to potential budget overruns or under-spending, as well as possible lack of resources for critical program activities.

Engaging Staff in Budget Monitoring and Cost Containment

A major concern in the financial management of Head Start programs is how to monitor and contain costs before problems arise. How can program staff at all levels assist in monitoring expenditures in their areas and also work to contain costs? What can a staff person do to help ensure that the program's financial resources are used effectively?

The answer lies in the manner in which the program informs and educates staff through sharing of critical information. Staff who are actively involved and engaged in the process are more likely to view the program's financial management as everyone's concern, not just that of the fiscal staff. Specifically, program staff have the best insight as to how resources are used on a daily basis. They can identify where more or fewer resources are needed, and help to track how funds are being used to support program activities. Engaging staff in budget monitoring and cost containment can be achieved by:

- Making staff aware of budget constraints and encouraging them to factor those constraints into their implementation of program activities
- Encouraging staff to discuss concerns regarding the availability and use of resources, as well as being open to their suggested ways of reducing costs in their program areas
- Ensuring that directives and guidance for implementing program activities are consistent with available resources (e.g., not asking staff to perform tasks that are outside of budgeted resources)

In essence, the best way to engage staff in monitoring and containing costs is to provide sufficient information about the budget, routinely report on its effectiveness, and support staff in using this information as they go about their jobs.

STEP 7. EXERCISE: BUDGET MANAGEMENT AND REPORTING

Suggested Time: 40 min.

Working individually, in your program teams, or in small groups, brainstorm responses for the following questions. Your responses should reflect the best practices for a budget management team in your Head Start program or in a program you are monitoring. Be as creative as possible with your ideas. You may record your responses on this page, or if you are working with a team or small group, you can record responses on newsprint, using the headings on the graphic below.

Brainstorming questions:

- Who should be part of the budget management team? List specific positions in your program or in a program with which you are familiar.
- How can the fiscal department and Head Start program managers share information related to monthly financial reports? Give ideas for distribution and discussion of the monthly financial report.
- Does the monthly financial report in your agency (or any agency you are familiar with) show “actual against budgeted” costs for each account code or line item? How is the financial report made user-friendly for program staff?
- What are some ideas for ways that the budget team can track the program’s budget and expenses?

Team

Information Sharing

Monthly Financial Report

Budget Monitoring

STEP 8. WORKSHEET AND EXERCISE: COLLABORATIVE BUDGET PLANNING

Suggested Time: 60 min.

Purpose: To provide program and Federal staff with a tool for collaboratively planning the design and review of program budgets, as well as a process for working collaboratively to ensure a cost-effective approach to financial management. This activity is most effective if done as a team or small group, with a facilitator.

Part I (40 minutes) Program and Federal staff will work independently (individually or in small groups) to respond to the questions and requests for information in the Action Steps contained in Worksheets A (for program staff), and B (for Federal staff).

Part II (20 minutes) After completing the steps, individuals and groups will come together to discuss how they responded to each step, making note of the following:

1. What do you consider the most difficult aspect of budget planning for programs?

2. What were the similarities and differences in your perspectives as to how a particular step in the budget planning process should be approached?

3. Where there are differences? What do you feel is the basis for the difference? For example:
 - We have a different understanding or interpretation of a regulation or guideline
 - We see certain aspects of the program differently
 - We focus on different aspects of the financial management process
 - We have not had a prior opportunity to discuss this issue.
 - Other (please specify)

4. In which areas of the program's budget development process do you feel collaboration between program and federal staff is critical?

5. How specifically can program and federal staff collaborate in the areas identified above?

STEP 8. WORKSHEET A (PROGRAM STAFF): BUDGET PLANNING WORKSHEET

Suggested time: 40 min.

Purpose: Use this worksheet as a guide for planning the critical tasks in budget development. Answer as many of the questions as possible. Feel free to customize the steps to meet your program’s specific needs.

Action Step 1: Establishing Budget Planning and Development Team

Check all that apply regarding your program’s needs for a budget development team:

- A. We need to seek more involvement in developing the program’s budget. _____
- B. We need to seek input and involvement from:
 - _____ program staff
 - _____ Policy Council
 - _____ parents
 - _____ managers
 - _____ program director
 - others (specify) _____
- C. We need to establish an ongoing budget planning and development team. _____
- D. We need to provide an orientation to the team on budget process, responsibilities, and expectations. _____

Action Step 2: Defining Budget Development Process

A. Who will lead your budget development effort, and why?

B. What will be the roles/responsibilities of the various team members?

Team Members	Role	Responsibility
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C. What will be the key questions that need to be answered to develop an effective budget?

D. Identify the major tasks that need to be accomplished to develop the budget:

Action Step 3: Establishing A Budget Development Schedule

- A. The length of your funding period: ___ 1 year ___ 3 years ___ Other: _____
- B. Do you currently have a fiscal calendar? ___ Yes ___ No
- C. When will you begin developing the grant application and budget for the next funding period?

- D. Given the tasks identified in Action Step 2, identify when these tasks will need to take place in order to have the budget completed in time for submission:

Task	To Be Completed By:
------	---------------------

Action Step 4: Selecting the Appropriate Budget Type

- A. What process have you used in the past to develop your annual budget?
____ Incremental increases by line item (e.g., 10%)
____ Total re-budgeting of specific line items based on detailed cost analysis _____
Combination of both
____ Other (specify): _____
- B. What would you specify as the current primary program activities that drive program costs?
- C. Specify any major program changes that will have a definitive impact on any future budget development.
- D. Based on the above information, which budget type would most effectively meet your cost allocation needs?
____ Incremental: Standard or predetermined increase or decrease of current line item figure
____ Zero-based: Re-costing of program activities, as justified by an analysis of their necessity and priority
____ Activity-based: Re-costing of program activities, with focus on those that are primary to achieving program goals
____ Any combination of the above (please explain):

Action Step 5: Collecting Budget Support Data

- A. List the information/data you will need to determine program needs for budget development:

Information/Data	Source
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- B. List the information/data you will need to ensure budget compliance:

Information/Data	Source
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Action Step 6: Specifying Program Goals

Based on the information gathered in Steps 4 and 5, specify the major program goals that will need to be supported by your budget.

Action Step 7: Identifying Cost Objectives

Based on the program goals identified in Step 6, specify the cost objectives for each goal.

GOAL	ACTIVITIES	COST OBJECTIVES
Example: Develop an effective transition program to assist parents in preparing for kindergarten	Home visits Parent involvement in classrooms	Increase funding for parent activities by 20%
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		

Action Step 8: Determining Budget Impacts and Constraints

Based on the cost objectives specified in Step 7, what factors need to be considered that may impact or place constraints on development of your budget (e.g., changes in guidelines, anticipated reduction in non-Federal share resources, etc.).

Note: Use a separate sheet for additional activities.

	COST OBJECTIVES	IMPACTS / CONSTRAINTS
1.		
2.		
3.		
4.		
5.		

STEP 8. WORKSHEET B (FEDERAL STAFF): BUDGET GUIDANCE PLAN

Suggested time: 40 min.

Purpose: Use this worksheet to specify critical areas for guidance to programs in the planning and development of program budgets. Feel free to customize the steps to meet your region's specific needs.

Action Step 1: Establishing A Budget Planning and Development Team

A. Specify ways in which Federal staff can interface with a program's budget development team:

B. Specify what guidance you would provide to a program's budget development team as part of an orientation to the budget development process:

Action Step 2: Defining the Budget Development Process

A. Specify critical questions to be answered by the program's budget development team as they commence the budget planning process:

B. Identify tasks the Regional Office considers critical to budget development:

Action Step 3: Establishing A Budget Development Schedule

Specify the most beneficial timeframes for programs to begin the budget development process:

- during original grant application:

- during grant continuation:

Action Step 4: Selecting the Appropriate Budget Type

- A. Specify general guidance the Regional Office would give to programs regarding the selection of an appropriate budget type for determining costs

- B. Factors that would make a total line item re-budgeting necessary:

- C. Program activities that generally tend to drive costs:

- D. Typical program changes that need to be considered in budget development:

Action Step 5: Collecting Budget Support Data

Program data considered critical to effective budget justification:

Action Step 6: Specifying Program Goals

Specify reasons it is important to link costs to program goals and activities:

Action Step 7: Identifying Cost Objectives

- A. Specify ways it is beneficial to budget development to identify cost objectives:

- B. Specify key program activities that would benefit from the identification of cost objectives:

Action Step 8: Determining Budget Impacts and Constraints

- A. Common budget constraints programs should be aware of:

- B. Factors that may impact program budgets for the upcoming period:

STEP 9. SUMMARY

Suggested Time: 10 min.

Key Points

- A team approach to budget development
- Critical budget planning tasks
- Establishing cost objectives
- Types of budgets
- Budget monitoring and cost containment

PERSONAL REVIEW

What did you learn from this activity?

1. _____

2. _____

3. _____

How will you use your new knowledge and skills in your work?

1. _____

2. _____

3. _____

What other things do you think you might need to learn in order to master the skill of budget planning and development?

1. _____

2. _____

3. _____

2-X OVERVIEW

Application Activity: Child and Family Services Head Start

Outcomes. Participants who complete this activity will practice some of the following skills:

- Define programmatic intent of basic principles relating to allowable and reasonable costs, direct and indirect costs, and use of non-Federal share resources
- Identify sources of guidance for the appropriate application of cost principles
- Understand how core principles are applied during program reviews
- Demonstrate the application of principles to specific Head Start financial management situations
- Determine what constitutes appropriate use of non-Federal share
- Identify common errors in the allocation and use of Federal resources
- Establish a team approach to budget planning and development
- Identify and implement critical planning tasks for budget development
- Utilize standard program planning information to establish cost objectives
- Select the appropriate budget type to meet program needs
- Engage staff in budget monitoring and cost containment

Recommended Group Size. Three to fifteen participants, with at least one participant who has engaged in skill building activities 2–C, Understanding and Applying Basic Cost Principles and 2–D, Linking Budget Development and Planning.

Materials. The following materials are used as guidance references:

- 45 CFR Part 1301, Head Start Grants Administration
- 45 CFR Part 92, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments
- 45 CFR Part 74, Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments.
- OMB Circular A-21, Cost Principles for Educational Institutions
- OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments 2-X Page 3
- OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- OMB Circular A-122, Cost Principles for Nonprofit Organizations
- OMB Circular -133, Audits of States, Local Governments, and Nonprofit Organizations
- ACF Discretionary Grants Administration Manual

Components.

This activity can be completed by one person, an informal group, or as part of a formal workshop. Suggested time limits are provided below, but participants and facilitators may wish to adjust these to their own timetables.

Step 1. Handout: Child Head Start Case Scenario	10 minutes
Step 2. Worksheet: Case Analysis	40 minutes
Step 3. Worksheet: Cost Benefit and Allocation	55 minutes
Step 4. Handout: Child Head Start (Scene 2)	5 minutes
Step 5. Exercise: Sharing and Reporting Financial Information	30 minutes
Step 6. Post-Assessment	15 minutes

Suggested total time 2 hours, 35 minutes

STEP 1. HANDOUT: CHILD AND FAMILY SERVICES HEAD START

Suggested time: 10 min.

Read the following scenario and then proceed to Step 2, Worksheet.

Child and Family Services Head Start

Child and Family Services Head Start is a center-based program that currently serves 100 children, 18 of whom have special needs. There is a long waiting list at the center. Sam, the Program Director, has a “take charge” personality and often takes shortcuts to get the job done. Walking down the hall, he encounters Beth, the center’s cook.

“You know, Beth, I really don’t understand what is taking the Board and the Policy Council so long to approve our budget. After all, our needs are clear: We need money to expand and get a bigger facility. We also need to replace our broken buses. The children are our first priority.” Beth agrees; she has five grandchildren who have attended Head Start, and two more who will be of age next year.

“When I was putting out coffee for the joint budget meeting, I heard one of the members asking to read a report; it sounded like ‘Assessment of the Community,’” Beth confided. “And there was another member who said she had never seen a copy of the proposed or current budget,” Beth added, hoping this would be useful information. “There’s not much to completing a budget,” Sam replied, adding, “You look at what you did last year and usually add 10 percent, that’s all.”

“Well, the bus driver told me he heard that the teachers are upset because they didn’t get a salary increase again this year. And now they have to pay for classroom supplies out of their own pockets,” Beth responded.

“Everybody knows things are tight these days,” Sam replied. “But didn’t our center’s parents do a good job of fundraising? And didn’t they raise enough to pay off our propane bill?” he added, beaming. Beth nodded in agreement, remembering how the program was closed for 10 days last winter because there was no heat.

Don, the Grantee’s Fiscal Administrator, has his office offsite. Don is very proud of the customized accounting software he installed. The software doesn’t track or categorize administrative costs for Head Start, as he doesn’t believe that these are important functions. Don is showing off his system to John, the new Accounts Payable supervisor, who just moved to the area with his family. Don takes this opportunity to fill him in on Head Start.

“I have to warn you about Sam,” said Don. “He isn’t very experienced with budgets and is often reluctant to ask questions.”

“What do you mean?” asked John.

“Well, the program was given tickets to the wrestling match and he wouldn’t take that as in-kind. On the other hand, he wanted to claim time spent by parents at home, which, of course, you can’t do,” responded Don. “The budget he gives me is almost always unbalanced. He runs out of money in one place, but has monies left on other line items that end up not being spent.”

“Why don’t you explain to him how to correct this?” asked John.

“Sam and I just communicate through memos now,” replied Don, “and it just takes too long to put that all in writing.” He went on to explain, “We had a disagreement when a wheelchair-accessible bus was ordered that wouldn’t fit under the roadway underpass.”

“What did you do about the situation?” inquired John.

“Well, the mother drove the child to school whenever she could get gas money,” said Don.

“Sounds to me like the program could use some training on budget planning and development, being sure to consider the Community Assessment information. It would be a good idea to include cost principles as well,” said John.

“How did you become so familiar with the budgeting process?” asked Don.

“Back home, my daughter was in Head Start and I served on the Policy Council,” replied John.

“I think some training for the Board, Policy Council, and management staff is a good idea, John. You know, next year we’ll be getting Department of Education preschool funds and adding an early intervention program for children with special needs,” said Don.

Just then, the phone rang. It was Lynn, the Program Specialist in the Regional Office. Lynn finds Don to be an especially challenging person to work with. She and Don went round and round when she disallowed the occupancy costs he used as non-Federal share. Don is married to a successful realtor who established the fair market value for the program.

“Lynn is going to remind me again about the delinquent SF-269,” said Don. “If she thinks our SF-269 is a major problem, just wait until Sam integrates additional funding sources with Head Start funds,” he declared as he picked up the phone. “Hello Lynn, how are you?” asked Don.

STEP 2. WORKSHEET: CASE ANALYSIS

Suggested time: 40 min.

Purpose: To provide the learner with the opportunity to apply skill/knowledge acquired from the skill building activities to a Head Start job performance situation. This worksheet may be completed individually, with a colleague, or as a team.

Part I (20 min.) Individually answer the following questions. Feel free to refer back to the Child and Family Services Head Start case scenario; activity 2-C, Understanding and Applying Basic Cost Principles; and activity 2-D, Linking Budget Development to Planning. You may also refer to any notes or observations you made from the skill building activities.

1. How would you describe Child and Family Services Head Start's approach to budget planning and development?

2. What are the potential drawbacks of this approach to the program's efforts to allocate and manage its financial resources?

3. Referring back to the budget planning and development steps outlined in activity 2-D, what steps would you consider critical to correcting the concerns you identified in the case scenario?

4. What errors has the program made in terms of how they are allocating costs and using Federal resources?

5. Program Staff: As the Program Director, what guidance should Sam seek from the Regional Office to assist in improving the program's financial situation?

6. Federal Staff: Given the scenario, what areas would the Regional Office explore in a review of the program's financial management practices?

Part II (20 min.) Pair off with a colleague or continue in your small group to discuss your responses to the questions. Make note of any additional knowledge or insights that result from the discussion.

STEP 3. WORKSHEET: DETERMINING COST BENEFITS AND ALLOCATIONS

Suggested time: 55 min.

Purpose: To apply the process of determining cost benefits and allocations to a Head Start job performance situation. This exercise may be completed individually, with a colleague, or as a team.

Part I (15 min.) Pairing Costs and Benefits. Based on the Child and Family Services Head Start case scenario, respond to the following:

One of the keys to successful budgeting is proper cost allocation. The first step is to determine the costs that support (benefit) each activity/program. When adding programs, a grantee must determine what costs will benefit the new program(s) in addition to Head Start. Once these costs have been identified, different methods may be used for allocating each cost. For example, if a classroom is located in a building that houses activities in addition to Head Start, the space costs (e.g., rent, utilities, etc.) could be allocated using square footage. If both Head Start and non-Head Start children are in a classroom together, the costs of space associated with the classroom could be allocated using the average daily attendance.

You may, at your option, review the Budget Development background reading in section 2-D and the section on Cost Allocation in 2-C or go on with the following exercise. You will need to “pool” your knowledge of the Child and Family Services Head Start program with that of your own personal experience to answer the questions.

1. List the current activities/positions at Child and Family Services Head Start that will support the Department of Education preschool program and the early intervention program. At what point should this information be developed, and why?

2. How would you group these activities?

3. Once you have grouped the activities/positions, how would you allocate them based on benefits received? (Hint: Department of Education funds are earmarked to support educational activities, early intervention funds, and disability services.)

Part II (5 min.) **Sorting Out Activities.** Review the activity categories listed below; add any you identified in Part I that are not represented in this list. Put an “x” by each program fund that will benefit from the cost activities. Feel free to refer to the background reading in activity 2-C.

Cost Activity Category	Head Start	Early Intervention	Dept. of Education
Sam, his secretary			
Don, fiscal administrator			
Beth, other food services			
Classroom, staff, supplies			
Health screenings and follow-ups			
Social services and assessments			
Office supplies and copying			
Rent and utilities			
Transportation of children			

Part III (10 min.) **Specifying Direct, Shared, and Common (Indirect) Costs.** Based on the selections made in Part II, specify the direct, shared, and common (indirect) costs.

Direct Costs	Shared Costs	Common (Indirect) Costs

Part IV (15 min.) **Determining Cost Allocation Methods.** Identify the method(s) you would utilize to allocate funds to the direct and shared cost activities. Feel free to refer back to the section on cost allocation in activity 2-C.

Direct Cost Activity	Allocation Method(s)

Common (Indirect) Cost Activity	Allocation Method(s)

Part V (10 min.) **Review and Discuss.** Take 10 minutes to review your responses to each part of this exercise and discuss with a colleague or with your group. Identify what you learned on how costs and activities are linked, as well as the most appropriate methods for determining how costs should be allocated to program activities.

STEP 4. HANDOUT: CHILD AND FAMILY SERVICES (SCENE 2)

Suggested time: 5 min.

Read the following scenario and then proceed to the Step 5, Exercise.

The Child and Family Services Head Start Board of Directors has just held its monthly meeting. One Board Member complained about never, ever seeing a budget. The Board Chair, George Governor, decides to meet with the fiscal administrator, Don, and find out why this is happening.

“Well, Don, in spite of your new computer system, we are still not getting accurate financial information in a timely manner. In fact, one of our board members doesn’t even seem to be on your mailing list and she is always left out of the information loop,” said George impatiently.

“We’ve been short-staffed and it’s been hard to keep up,” Don meekly replied.

“I still don’t see how you can disseminate accurate information to everyone who needs to be in the know. The system you installed doesn’t track or categorize administrative costs. I don’t even think you can relate financial data to performance data, can you?” persisted George.

“We might have to tweak the system a bit,” admitted Don. “But I also need the full cooperation of the Head Start staff.”

“What do you mean?” asked George.

“Well, the program doesn’t keep me informed when budget changes occur, and then they panic when they overspend.”

“Seems to me there is a communication problem across the board here. You need to get some training for everyone, and revise and implement your plans, especially for the budget. This type of program mandates a team effort, and by golly, I’m going to see to it that it is done,” declared George.

STEP 5. WORKSHEET: SHARING AND REPORTING FINANCIAL INFORMATION

Suggested time: 30 min.

Purpose: To allow learners to explore and apply processes and procedures for sharing and reporting financial information in a Head Start job performance situation. This exercise is most effective if completed in pairs or a small group. Individuals may answer the questions and engage a colleague in discussion.

Based on the Child and Family Services Head Start scene described in Step 4, use the following questions to guide the discussion of your responses. You may want to make note of knowledge and insights that result from the discussion.

1. Considering Don's perspective, how could Child and Family Services Head Start benefit from sharing financial information with staff, governing body members, and Policy Council members?

2. What are some ways in which the Child and Family Services Head Start program and fiscal staff can begin to share and utilize fiscal information—both in budget planning and in ongoing program operations?

3. As program and fiscal staff, what are your concerns regarding sharing of fiscal information? How can these concerns be addressed?

4. As Federal staff, what are your concerns regarding the reporting of financial information and data by programs? What guidance would you give to programs as to the most effective process for providing financial information to the Regional Office?

5. In the case of Child and Family Services Head Start, what changes need to be made in the way staff communicates regarding the program's financial resources?

- C. How can managers, your supervisor, team members, and other colleagues support you in your skills and knowledge development?

References

Sources: *Financial Planning for Non-Profit Organizations*. Jody Blazek. Wiley Non-Profit Series; John Wiley & Sons, Inc.: NY. 1996.

The Basics of Budgeting. Terry Dickey; Crisp Publications: Menlo Park, California. 1992.