DEPARTMENT OF HEALTH AND HUMAN SERVICES

CFDA 93.600 HEAD START

I. PROGRAM OBJECTIVES

The objective of the Head Start program (including Early Head Start and Early Head Start-Child Care Partnerships) is to promote school readiness of low-income children (including American Indians, Alaska Natives, and migrant and seasonal farm workers) by enhancing children’s cognitive, social, and emotional development.

Comprehensive services are provided to enrolled children, pregnant women and their families, which include health, nutrition, social, and other services determined to be necessary by family needs assessments, in addition to education and cognitive development services.

II. PROGRAM PROCEDURES

Administration and Services

The Office of Head Start (OHS), Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS), administers the Head Start program.

Services for children ages 3–5 are funded by a Head Start award and services for pregnant women and children ages 0–3 are funded by an Early Head Start award. Early Head Start services may include those delivered through a partnership with existing child care centers or family child care homes under funding specially designated as an Early Head Start – Child Care Partnership award. Grantees may receive one-time awards, primarily for facilities activities, and during FY 2017, funds were offered on a non-competitive basis for programs eligible to increase the duration (length of service day and number of annual service days) of program services.

Comprehensive center-based or home-based services are provided to enrolled children, pregnant women, and their families. These include health, nutrition, social, and other services determined to be necessary by a family needs assessment, in addition to education and cognitive development services. Services are designed to be responsive to each child’s and family’s ethnic, cultural, and linguistic heritage.

OHS makes Head Start awards to local public, nonprofit agencies, and for-profit entities known as Head Start Agencies (HSA). The awards are made for a period not-to-exceed 5 years. A HSA may enter into an agreement with a delegate agency (subrecipient) for delivery of Head Start services; however, the HSA (pass-through entity) retains legal and fiscal responsibility for the grant. Delegate agencies may be public, non-profit, or for-profit organizations. HSAs must establish and implement procedures for the ongoing monitoring of each delegate agency (42 USC 9836a(d) and 45 CFR sections 1303.30 and 32).

Program Design and Management – Upon receiving designation as a HSA, the entity must establish and maintain a formal structure for program governance, oversight of quality services for children and families, and decision-making related to program design and implementation. Such a structure must include (1) a governing body, with legal and fiscal responsibility for the Head Start award; and (2) a policy council responsible for aspects of program design and operation and long-and short-term planning and goals and objectives. A majority of the members of the policy council must be parents of children who are currently enrolled in the Head Start program. The policy council may also include members at large of the community served by the HSA. Policy committees at the delegate agency level perform the functions of a policy council and have the same composition requirements.

Designation Renewal System – In 2011, OHS implemented regulations for a designation renewal system to determine whether HSAs deliver high-quality and comprehensive services to meet the educational, health, nutritional, and social needs of the children and families they serve; meet the program and financial requirements and standards described in 42 USC 9840A(a)(1); and qualify to be designated for funding for 5 years without competing for such funding as required under 42 USC 9836 and 42 USC 9840A(b)(12) and (d).

Source of Governing Requirements

The Head Start program is authorized under the Improving Head Start for School Readiness Act of 2007 (Pub. L. No. 110-134 (42 USC 9831-9852).

On September 7, 2016, OHS promulgated new regulations governing program operations, referred to as the Head Start Program Performance Standards (HSPPS) (45 CFR parts 1301 through 1305). HSPPS became effective beginning November 7, 2016, although some provisions are deferred as described in PI-HS-16-04, Head Start Program Performance Standards (HSPPS) Final Rule (https://eclkc.ohs.acf.hhs.gov/policy/pi/acf-pi-hs-16-04). The full implementing program regulations are 45 CFR parts 1301 through 1310.

Availability of Other Program Information

The Early Childhood Learning and Knowledge Center (http://eclkc.ohs.acf.hhs.gov/hslc) is the OHS website that provides information about this program.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

Compliance Requirements											
A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement/ Suspension and Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y

A. Activities Allowed or Unallowed

1. Funds may be used for the following program services consistent with HSPPS:

    a. Providing for the direct participation of parents of children in the development, conduct, and program direction at the local community level (42 USC 9833 and 42 USC 9837(b)(1));

    b. Training and technical assistance activities which may include the establishment of local or regional agreements with community experts, institutions of higher education, or private consultants, to make program improvements (42 USC 9835(a)(2)(C));

    c. Improving the compensation (including benefits) of educational personnel, family service workers, and child counselors to—

        (1) ensure that compensation is adequate to attract and retain qualified staff;

        (2) improve staff qualifications and assist with the implementation of career development programs for staff that support ongoing improvement of their skills and expertise; and

        (3) provide educational and professional development to enable teachers to meet professional standards, including providing assistance to complete post-secondary course work, improve the qualifications and skills of educational personnel to become certified and licensed as bilingual education teachers, or as teachers of English as a second language, and improve the qualifications and skills of educational personnel to teach and

provide services to children with disabilities (42 USC 9835(a)(5)(A) and 42 USC 9835(j));

d. Supporting staff training, child counseling, and other services necessary to address the challenges of children from immigrant, refugee, and asylee families, homeless children, children in foster care, limited English proficient children, children of migrant or seasonal farmworker families, children from families in crisis, children referred to Head Start programs by child welfare agencies, and children who are exposed to chronic violence or substance abuse (42 USC 9835(a)(5)(B)(i));

e. Ensuring the physical environment is conducive to providing effective program services to children and families and are accessible to children and others with disabilities (42 USC 9835(a)(5)(B)(ii));

f. Employing additional qualified classroom staff to reduce the child-to-teacher ratio in the classroom and additional qualified family service workers to reduce the family-to-staff ratio for those workers (42 USC 9835(a)(5)(B)(iii));

g. Ensuring that programs have qualified staff that promote the language skills and literacy growth of children and that provide children with a variety of skills that have been identified, through scientifically based reading research, as predictive of later reading achievement. (42 USC 9835(a)(5)(B)(iv);

h. Increasing hours of program operation, including the conversion of part-day programs to full-working day programs and increasing the number of weeks of operation in a calendar year (42 USC 9835(a)(5)(B)(v));

i. Improving community-wide strategic planning and needs assessments and collaboration efforts, including outreach (42 USC 9835(a)(5)(B)(vi));

j. Transporting children safely except that not more than 10 percent of designated quality improvement funds may be used for transportation costs (42 USC 9835(a)(5)(B)(vii) and 45 CFR part 1310);

k. Establishing and implementing procedures to evaluate the performance of delegate agencies and ensure corrective action for deficiencies identified through such evaluations (42 USC 9836a(d));

l. Correcting areas of noncompliance or deficiencies and developing quality improvement plans (42 USC 9836a(e));

m. Carrying out activities related to operation of the governing body. This includes activities related to administering and overseeing the Head Start grant; developing or implementing practices that ensure, active, independent, and informed governance of the HSA; and ensuring the necessary membership on the governing body (42 USC 9837(c)(1));

n. With the consultation and participation of policy councils, and as appropriate, policy committees and community members, the conduct of an annual self-assessment of the HSA's effectiveness and progress in meeting program goals and objectives as well as in implementing and complying with HSPPS (42 USC 9836a(g));

o. Offering directly, or through referral to local entities, family literacy services, parenting skills training, substance abuse counseling, including information on the effect of drug exposure on infants and fetal alcohol syndrome (42 USC 9837(b)(4) and 42 USC 9837(b)(5));

p. Provision of family needs assessments that include consultation with parents (including foster parents, grandparents, and kinship caregivers) (42 USC 9837(b)(7));

q. Outreach and information to parents of limited English proficient children in an understandable and uniform format (42 USC 9837(b)(11));

r. Collaboration and coordination with public and private entities to improve the availability and quality of services to Head Start children and families, including outreach to the schools in which children participating in Head Start programs will enroll (42 USC 9837(e) and 42 USC 9837A(a));

s. Implementation of a research-based early childhood curriculum (42 USC 9837(f)(3)); and

t. In the case of an Early Head Start program or program component, provision, either directly or through referral, of early continuous, intensive, and comprehensive child development and family support services that enhance the physical, social, emotional, and intellectual development of children under the age of 3 (42 USC 9840A(b)).

2. Funds may be used for development and administrative costs, subject to the limitation in III.G.3, "Matching, Level of Effort, Earmarking – Earmarking." The term "development and administrative costs" means costs incurred in accordance with an approved Head Start budget that do not directly relate to the provision of program component services, as described under paragraph 1, above (42 USC 9839(b) and 45 CFR section 1301.32 (a)).

3. With ACF prior written approval, HSAs may use funds for capital expenditures (including paying the cost of amortizing the principal, and paying interest on, loans), such as construction of new facilities, purchase of new or existing facilities, major renovations of existing facilities, and purchase of vehicles used for programs conducted at the Head Start facilities (42 USC 9839(f) and (g)).

4. Funds may not be used by HSAs to engage in any partisan or nonpartisan political activity associated with a candidate, or contending faction or group, in an election for public or party office or any activity to provide voters or prospective voters with transportation to the polls or similar assistance in connection with any such election (42 USC 9851(b)(1)). These prohibitions do not apply to the use of Head Start facilities during hours of operation for any nonpartisan organization to increase the number of eligible citizens who register to vote in elections for Federal office (42 USC 9851(b)(2)).

5. HSAs and delegate agencies must use funds from USDA's Child and Adult Care Food Program (CFDA 10.558) as the primary source of payment for children's nutritional services (meals and snacks). Head Start funds may be used only to cover those allowable costs not covered by USDA (45 CFR section 1302.44(b)).

6. Funds may be used for professional medical and oral health services when no other funding source is available. When funds are used for such services, HSAs and delegate agencies must have written documentation of their efforts to access other available sources of funding (45 CFR section 1302.42(e)(2)).

B. Allowable Costs/Cost Principles

Indirect costs attributable to common or joint use of facilities or services by Head Start programs and other programs must be fairly allocated among the various programs that utilize such services (42 USC 9839(c)).

E. Eligibility

1. Eligibility for Individuals – Not Applicable

2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable

3. Eligibility for Subrecipients

A HSA must not make a subaward to a delegate agency unless there is a written agreement and OHS approves the agreement before the HSA makes the subaward to the delegate agency (45 CFR section 1303.31).

G. Matching, Level of Effort, Earmarking

1. Matching

Grantees are required to contribute at least 20 percent of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved by OHS, referred to as a waiver of non-Federal share (42 USC 9835(b)).

2. Level of Effort – Not Applicable

3. Earmarking

a. *Administrative earmark*. The costs of developing and administering a Head Start program shall not exceed 15 percent of the annual total program costs, including the required non-Federal contribution to such costs (i.e., matching/non-Federal share), unless a written waiver has been granted by OHS. Development and administrative costs include, but are not limited to, the cost of organization-wide planning, coordination and general-purpose direction, accounting and auditing, purchasing and personnel functions, and the cost of operating and maintaining space for these purposes (42 USC 9839(b)(2); 45 CFR section 1301.32).

b. *Targeted earmark*. A program must ensure that at least 10 percent of its total funded enrollment is filled by children eligible for service under the Individuals with Disabilities Education Act, unless a waiver has been approved in writing by OHS (42 USC 9835(d) and 45 CFR section 1302.14(b)).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Applicable

2. Performance Reporting – Not Applicable

3. Special Reporting

SF-429 – *Real Property Status Report* and SF-429-A *General Reporting (OMB No. 4040-0016)* - These forms are filed annually based upon the end of the budget period. A separate SF-429-A must be completed for each parcel of real property reported and accompany the annual SF-429.

Key Line Items – The following line items contain critical information:

SF-429

1. Federal Agency and Organizational Element to Which Report is Submitted

2. Federal Grant(s) or Other Identifying Number(s) Assigned by Federal Agency(ies)

3. Recipient Organization Name

4b. EIN

SF-429-A

13. Period and type of Federal interest

14a. Description of Real Property

14b. Address of Real Property

14f. Real Property Cost

Any non-Federal match associated with facilities activities becomes part of the Federal share of the facility (45 CFR section 1303.44(c) and 45 CFR section 1305.2 definition of Federal interest).

14g. Has a deed, lien, covenant, or other related documentation been recorded to establish Federal interest in this real property?

14h. Has federally required insurance coverage been secured for this real property?

15. Has a significant change occurred with the real property, or is there an anticipated change expected during the next reporting period?

Note: If the response to the question is "Yes," but only in anticipation of an expected change, the auditor is not expected to review this line item.

16. Real Property Disposition Status

M. Subrecipient Monitoring

HSAs must establish and implement procedures for the ongoing monitoring of their own Head Start and Early Head Start operations, as well as those of their delegate agencies, to ensure that these operations effectively implement Federal regulations, including procedures for evaluating delegate agencies and procedures for defunding them. Grantees must inform delegate agency governing bodies of any identified deficiencies in delegate agency operations identified in the monitoring review and assist them in developing plans, including timetables, for addressing identified problems (42 USC 9836a(d) and 45 CFR sections 1304.51(i)(2) and (3)).

N. Special Tests and Provisions

1. Protection of Federal Interest in Real Property and Facilities

Compliance Requirements

Head Start uses specific terms related to real property and facilities, which are defined at 45 CFR section 1305.2, including construction, facility, Federal interest, major renovation, and modular unit.

Facilities activities (purchase, construction, major renovation, subordination of a Federal interest, refinancing, and disposition) are initiated through the submission of Form SF-429 (cover sheet) and applicable Attachments B (*Request to Acquire, Improve or Furnish)* or C (*Disposition or Encumbrance Request*).

With written prior approval from ACF, a HSA may use Head Start funds to purchase, construct, or renovate (major) a facility, including using Head Start funds to pay ongoing purchase costs which include principal and interest on approved loans (45 CFR sections 1303.40 through 1303.44).

A HSA that uses Head Start funds to purchase real property or purchase, construct, or renovate (major) a facility appurtenant to real property (either owned or leased) must record a Notice of Federal Interest (also referred to as “reversionary interest”) (45 CFR sections 1303.46). The Notice of Federal Interest must include the required language content from 45 CFR section 1303.47(a) and be properly recorded in the official real property records for the jurisdiction where the facility is or will be located. A similar Notice of Federal Interest is required for leased facilities on land the HSA does not own (45 CFR section 1303.47(b)).

A HSA that uses Head Start funds to purchase or renovate (major) a modular unit must post a Notice of Federal Interest which includes the required language content in clearly visible locations on the exterior and the interior of the modular unit (45 CFR sections 1303.46(b)(4) and 47(c)).

A HSA cannot mortgage, use as collateral for a credit line or for other loan obligations, or sell or transfer to another party, a facility, real property, or a modular unit it has purchased, constructed, or renovated (major) with Head Start funds, without the prior written approval of ACF (45 CFR sections 1303.48 and 1303.51). A HSA must include specific language in any mortgage agreement or other security instrument that encumbers real property or a modular unit constructed or purchased with Head Start fund to ensure protection of ACF interests (45 CFR section 1303.49).

A HSA must have written approval from ACF before it can use real property, a facility, or a modular unit subject to Federal interest for a purpose other than that for which the HSA’s application was approved (45 CFR section 1303.48(b)).

Audit Objectives – Determine whether the Federal interest in real property and facilities is protected by the required Notice of Federal Interest and language content and the required prior written approvals were obtained from ACF.

Suggested Audit Procedures

a. Review the HSA's general ledger accounts and the meeting minutes of its governing body and inquire of HSA management to identify if any of the following transactions, which are subject to the requirements for protecting the Federal interest, occurred during the audit period and, if so, that the required prior written approvals were obtained from ACF:

(1) Purchase of real property or purchase, construction, or major renovation of a facility, including a modular unit.

(2) Sale, lease, or encumbrance, such as a mortgage of real property or a facility (including modular units).

(3) Changes in approved use of facilities.

b. For purchase, construction, or major renovation, ascertain if the required Notice of Federal Interest was properly recorded in the locality's official real property records and, for a modular unit, if this Notice was properly posted on the exterior and interior of the modular unit.

c. Review the Notices of Federal Interest and mortgage agreements and other security instruments executed during the audit period to ascertain if the documents include the required language content.

d. For sales, leases, and encumbrances and property used for a different purpose during the audit period, review the change in use to ascertain if the HSA obtained and complied with the requirement for ACF prior written approval.

2. Program Governance

Compliance Requirement

OHS has found a high correlation between HSAs that fail to comply with the program governance requirements and HSAs that have serious fiscal problems, which puts both the HSA and the Head Start programs they administer at risk.

The governing body has legal and fiscal responsibility for the HSA. The HSA governing body must include not less than one member with a background and expertise in fiscal management or accounting and not less than one licensed attorney familiar with issues that come before the governing body. If the types of persons described above are not available to serve as members of the governing body, the governing body must use a consultant, or another individual(s) with relevant expertise who must work directly with the governing body (42 USC 9837(c)(1)(B)).

A HSA must share accurate and regular financial information with the governing body and the policy council, including monthly financial statements, including credit card expenditures and the financial audit (42 USC 9837(d)(2)(A) and (E)).

The HSA must make available to the public a report published at least once in each fiscal year that discloses for the most recently concluded fiscal year (a) the total amount of public and private funds received and the amount from each source; (b) an explanation of budgetary expenditures and proposed budget for the fiscal year; and (c) the financial audit (42 USC 9839(a)(2)(A), (B), and (D)).

Audit Objectives – Determine whether the entity complied with the program governance requirements for (a) composition and qualifications of board members, and (b) providing financial information to the governing body and the public.

Suggested Audit Procedures

1. Identify the HSA's governing body member who is an attorney and ascertain if that individual is licensed and has the required familiarity with issues that come before the governing body, or that the governing body used a consultant, or another individual with relevant expertise with the required qualifications who worked directly with the governing body.

2. Identify the HSA's governing body member with fiscal management or accounting expertise and ascertain if that individual has the required background and expertise or that the governing body used a consultant, or another individual with the required qualifications who worked directly with the governing body.

3. Ascertain if the HSA shared the required monthly financial information with the governing body and the policy council.

4. Ascertain if the HSA made available to the public the required annual financial information.

IV. OTHER INFORMATION

Monitoring of HSAs and delegate agencies by OHS has identified the following areas of risk for deficiencies in internal controls and non-compliance.

A. Activities Allowed or Unallowed

   1. Paying meal services costs which were eligible for funding by the USDA Child and Adult Care Food Program.

   2. Paying for professional medical and oral health services when other sources of funding are available.

B. Allowable Costs/Cost Principles

1. Many Head Start grantees, such as community action agencies, have multiple funding streams and few revenue sources other than Federal awards. Federal programs only cover costs that are reasonable, allowable, and allocable for the accomplishment of the program objectives leaving the entity with limited options to cover unallowable costs.

2. The Head Start program is usually the largest funding source with a risk that shared costs are over-allocated or billed entirely to Head Start. For example, costs of central services, such as equipment, information and communications systems, and rent are charged entirely to Head Start when the costs should be allocated to all benefiting programs.

3. A large portion of Head Start costs are payroll and grantees may fail to maintain adequate documentation of shared staff time or charge those costs based on the application budget rather than reconciling to actual hours worked. For example:

   a. A teacher working for both Head Start and Child Care or a director for multiple programs erroneously charged entirely to Head Start.

   b. Charging the same costs as both direct costs and indirect costs (e.g., administrative staff).

   c. Double charging the same costs by including them in the indirect cost rate and direct charging them through allocation.

   d. Large dollar costs charged through journal entries to move costs between programs or between program years without adequate support.

   e. Rent charged at full fair market value instead of depreciation or use allowance under capital or related party leases.

4. Transactions with related parties resulting in excessive charges. For example, in the area of professional services (e.g., financial services, information technology, mental health professionals, and nutrition consultants), grantees awarding contracts to related parties without competitive procurement or paying rental rates in excess of fair market value.

C. Cash Management

Head Start funds drawn in advance of cash needs of the Head Start program in order to pay costs of other programs awaiting reimbursement or a general overspending of other programs.

G. Matching, Level of Effort, Earmarking

1. Economic conditions reducing donations.

2. Property and services claimed as matching not complying with cost principles, e.g., inadequate documentation of volunteer services or using Federal funds as match.

3. Misclassifying administrative costs as program costs to circumvent the 15 percent administrative earmark requirement.

H. Period of Performance

1. Failure to properly allocate payrolls that span fiscal years or shifting expenses from the end of one fiscal year into the next fiscal year to address budget shortages.

2. Bank account reconciliations showing unissued checks as outstanding at year end or large dollar checks issued at year end not clearing promptly.