

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

**CFDA 93.224 HEALTH CENTER PROGRAM (COMMUNITY HEALTH CENTERS, MIGRANT HEALTH CENTERS, HEALTH CARE FOR THE HOMELESS, AND PUBLIC HOUSING PRIMARY CARE)**

**CFDA 93.527 GRANTS FOR NEW AND EXPANDED SERVICES UNDER THE HEALTH CENTER PROGRAM**

### I. PROGRAM OBJECTIVES

The purpose of the Health Center Program (HCP) is to improve the health of the Nation's underserved communities and vulnerable populations by assuring continued access to comprehensive, culturally competent, quality primary health care services. HCP grants support a variety of community-based and patient-directed public and private nonprofit organizations that provide primary and preventive health care services to the Nation's underserved.

### II. PROGRAM PROCEDURES

The purpose of the HCP grants is to support the costs of operating health centers that serve medically underserved populations.

#### Administration and Services

HCP grants (Section 330 grants) are awarded and administered at the Federal level by the Bureau of Primary Health Care (BPHC), HRSA, HHS. Based on applications submitted to and approved by HRSA, grants are provided to public and private non-profit organizations including tribal, faith-based and community-based organizations. Factors considered include the population to be served and the current availability of services in the geographical area to be served. Grantees may enter into service and care arrangements via contracts or other formal referral arrangements.

The authorizing statute for the HCP requires health centers to annually develop and submit to HRSA a budget that reflects expenses and revenues (including the Section 330 grant) necessary to accomplish the health center project service delivery plan. As such, the total budget must include projections from all revenue sources, including fees, premiums, and third-party reimbursements reasonably expected to be received to support operations, and State, local, private and other operational funding provided to the health center. The amount of the Section 330 grant funding to be provided by HRSA may not exceed the amount by which the projected cost of operations exceeds the projected non-grant revenue sources (42 USC 254(e)(5)(A), (k)(3)(D), and (k)(3)(I)(i) and 42 CFR section 51c.106).

#### Source of Governing Requirements

The HCP is authorized under Section 330 of the Public Health Service Act, as amended by Section 10503 of The Patient Protection and Affordable Care Act (Pub. L. No. 111-148). The statutory provisions are codified at 42 USC 254b. The implementing program regulations for Community Health Centers (CHCs) and Migrant Health Centers (MHCs) are codified at 42 CFR

parts 51c and 56, respectively. The Health Care for the Homeless (HCH) and Public Housing Primary Care (PHPC) components do not have program-specific regulations.

**Availability of Other Program Information**

Additional program information is available from the BPHC website at <http://www.bphc.hrsa.gov/> and <http://www.bphc.hrsa.gov/programrequirements/index.html>.

**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	N	Y	N	Y	Y	N	Y	N	Y

**A. Activities Allowed or Unallowed**

1. *Activities Allowed*

a. Required primary health services include:

- (1) Basic health services related to family medicine, internal medicine, pediatrics, obstetrics, or gynecology that are furnished by physicians and, where appropriate, by physician assistants, nurse practitioners, and nurse midwives (42 USC 254b(b)(1)(A)(i)(I)).

- (2) Diagnostic laboratory and radiological services (42 USC 254b(b)(1)(A)(i)(II)).
  - (3) Preventive health services, including prenatal and perinatal services; appropriate cancer screening; well-child services; immunizations against vaccine-preventable diseases; screenings for elevated blood lead levels, communicable diseases and cholesterol; pediatric eye, ear, and dental screenings; voluntary family planning services; and preventive dental services (42 USC 254b(b)(1)(A)(i)(III)).
  - (4) Emergency medical services (42 USC 254b(b)(1)(A)(i)(IV)).
  - (5) Pharmaceutical services, as may be appropriate for particular centers (42 USC 254b(b)(1)(A)(i)(V)).
  - (6) Referrals to providers of medical services, (including specialty referral when medically indicated) and other health-related services (including substance abuse and mental health services) (42 USC 254b(b)(1)(A)(ii)).
  - (7) Patient case management services (including counseling, referral, and follow-up services) and other services designed to assist health center patients in establishing eligibility for and gaining access to Federal, State, and local programs that provide or financially support the provision of medical, social, educational, housing, or other related services (42 USC 254b(b)(1)(A)(iii)).
  - (8) Services that enable individuals to use the services of the health center (including outreach and transportation services and, if a substantial number of the individuals in the population served by the center are of limited English-speaking ability, the services of appropriate personnel fluent in the language spoken by a predominant number of such individuals) (42 USC 254b(b)(1)(A)(iv)).
  - (9) Education of patients and the general population served by the health center regarding the availability and proper use of health services (42 USC 254b(b)(1)(A)(v)).
  - (10) Substance abuse services for grantees with HCH grants (42 USC 254b(h)(2)).
- b. Additional health services that may be provided as appropriate to meet the health needs of the population to be served include:
- (1) Behavioral and mental health and substance abuse services  
42 USC 254b(2)(A).

- (2) Recuperative care services (42 USC 254b(b)(2)(B)).
  - (3) Environmental health services, including the detection and alleviation of unhealthful conditions associated with water supply, chemical and pesticide exposures, air quality, or exposure to lead; sewage treatment; solid waste disposal; rodent and parasitic infestation; field sanitation; housing; and other environmental factors related to health (42 USC 254b(b)(2)(C)).
  - (4) For MHCs, special occupation-related health services for migratory and seasonal agricultural workers, including screening for and control of infectious diseases (including parasitic diseases) and injury prevention programs (including prevention of exposure to unsafe levels of agricultural chemicals including pesticides) (42 USC 254b(b)(2)(D)).
- c. Funds may be used for the reimbursement of members of the grantee's governing board, if any, for reasonable expenses incurred by reason of their participation in board activities (42 CFR sections 51c.107(b)(3) and 56.108(b)(3)).
  - d. Funds may be used for the cost of insurance for medical emergency and out-of-area coverage (42 CFR section 51c.107(b)(6)).
  - e. Funds may be used for the acquisition and lease of buildings and equipment (including the costs of amortizing the principal of, and paying the interest on, loans for equipment) (42 USC 254b(e)(2)).
  - f. Funds may be used for the costs of providing training related to the provision of required primary health care services and additional health services and to the management of health center programs (42 USC 254b(e)(2)).

## 2. *Activities Unallowed*

- a. Federal funds awarded under the HCP may not be expended for any abortion. These limitations do not apply to an abortion (1) if the pregnancy is the result of an act of rape or incest; or (2) in the case where a woman suffers from a physical disorder, physical injury, or physical illness, including a life-endangering physical condition caused by or arising from the pregnancy itself, that would, as certified by a physician, place the woman in danger of death unless an abortion is performed (Consolidated Appropriations Act, 2017, Pub. L. No. 115-31), Division H, Title V, Sections 506 and 507).
- b. Federal funds awarded under the HCP may not be used to purchase sterile needles or syringes for the hypodermic injection of any illegal drug, provided that this limitation does not apply to the use of funds for elements

of a program other than making such purchases if the relevant State or local health department, in consultation with the Centers for Disease Control and Prevention, determines that the State or local jurisdiction, as applicable, is experiencing, or is at risk for, a significant increase in hepatitis infections or an HIV outbreak due to injection drug use, and such program is operating in accordance with State and local law (Consolidated Appropriations Act, 2016 (Pub. L. No. 114-113), Division H, Title V, Section 520, and subsequent appropriations, as applicable).

## **B. Allowable Costs/Cost Principles**

Costs charged to Federal funds under the HCP award funds must comply with the cost principles at 45 CFR part 75, subpart E, and any other requirements or restrictions on the use of Federal funding.

## **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** – *Uniform Data System (UDS) (OMB No. 0915-0193)* – This system is comprised of two separate sets of reports, the Universal Report and Grant Reports. The conditions for their use are:

- a. Grantees that receive a single grant under the HCP or that receive CHC funding only are required to complete the *Universal Report* only.
- b. Grantees that receive multiple awards (in addition to or other than CHC funding) must complete a *Universal Report* for the combined grants and individual *Grant Reports* for their HCH, MCH, and PHPC funding, if applicable.

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

See the Calendar Year 2016 UDS Reporting Manual for additional detail available at:

<http://bphc.hrsa.gov/datareporting/reporting/2016udsreportingmanual.pdf>

Total accrued cost before donations and after allocation of overhead (Table 8A Line 17 Column c)

Total number of patients (Table 4 Line 6 Column a)

Total accrued medical staff and other medical cost after allocation of overhead excluding medical lab and x-ray cost (Table 8A, Line 1, Column c and Table 8A, Line 3, Column c)

Non-nursing medical visits (excludes nursing (RN) visits) (Table 5, Line 15, Column b and Table 5, Line 11, Column b)

Total accrued BPHC section 330 grants drawn-down for the period from January 1 to December 31, of the calendar measurement year (Table 9E, Line 1g, Column a)

Total number of patients (Table 4, Line 6, Column a)

## **N. Special Tests and Provisions**

### **1. Sliding Fee Discounts**

#### **Compliance Requirement**

Health centers must prepare and apply a sliding fee discount schedule (SFDS) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay as follows:

- a. Sliding fee discounts are applied to fees for health center services provided to all individuals and families with annual incomes at or below 200 percent of the Federal Poverty Guidelines (FPG);
- b. A full discount is applied to fees for health center services provided to individuals and families with annual incomes at or below 100 percent of the FPG, or the health center applies only a nominal charge;
- c. Fees for health center services are discounted based on gradations in family size and income for individuals and families with incomes above 100 and at or below 200 percent of the FPG; and
- d. No sliding fee discount is applied to fees for health center services provided to individuals and families with annual incomes above 200 percent of the FPG

(42 USC 254(k)(3)(E), (F), and (G); 42 CFR sections 51c.303(e), (f), and (g); and 42 CFR sections 56.303(e), (f), and (g)).

#### **Audit Objective**

Determine whether the health center has applied sliding fee discounts to patient charges consistent with its sliding fee discount schedule.

### **Suggested Audit Procedures**

- a. Review the health center's sliding fee discount schedule(s).
- b. Review a sample of financial records for patients treated during the audit period to determine whether patient charges were appropriately adjusted based on income and family size by applying the health center's sliding fee discount schedule. (**Note:** Auditors are not required to test any documentation used to establish or verify income.)

## **2. Activities Unallowed**

### **Compliance Requirement**

Federal funds awarded under the HCP may not be expended for any abortion. These limitations do not apply to an abortion (1) if the pregnancy is the result of an act of rape or incest; or (2) in the case where a woman suffers from a physical disorder, physical injury, or physical illness, including a life-endangering physical condition caused by or arising from the pregnancy itself, that would, as certified by a physician, place the woman in danger of death unless an abortion is performed (Consolidated Appropriations Act, 2017, Pub. L. No. 115-31 Division H, Title V, Sections 506 and 507).

### **Audit Objective**

Determine whether the health center (HC) performs abortions and if so, whether it has policies and procedures in place to ensure compliance with the Consolidated Appropriations Act, 2017, Pub. L. No. 115-31 Division H, Title V, Sections 506 and 507.

### **Suggested Audit Procedures**

- a. Inquire of the HC staff and examine the accounting records to determine whether any abortions were performed during the audit period. If yes, proceed to b.
- b. Gain an understanding if policies and procedures are in place that address the appropriate use of federal funds awarded under the HCP, specifically related to not utilizing the HCP grant for abortion activities unless one of the exceptions in the Consolidated Appropriations Act is met. If yes, proceed to c.
- c. Plan the testing of internal control to support a low assessed level of control risk for the activities precluded under the Consolidated Appropriations Act and perform the testing of internal control as planned. If internal control over the precluded activities are likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether reporting is required because of ineffective internal control.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### CFDA 93.508 AFFORDABLE CARE ACT (ACA) TRIBAL MATERNAL, INFANT, AND EARLY CHILDHOOD HOME VISITING GRANT PROGRAM

### CFDA 93.872 TRIBAL MATERNAL, INFANT, AND EARLY CHILDHOOD HOME VISITING PROGRAM

#### I. PROGRAM OBJECTIVES

The goals of the Tribal Maternal, Infant, and Early Childhood Home Visiting (Tribal MIECHV) Grant Program include both supporting the development of healthy, happy, successful American Indian and Alaska Native (AIAN) children and families through a coordinated, high-quality, evidence-based home visiting strategy and expanding the evidence base around home visiting programs for AIAN populations. Home visiting programs are intended to promote outcomes such as improvements in maternal and prenatal health, infant health, and child health and development; reduced child maltreatment; improved parenting practices related to child development outcomes; improved school readiness; improved family socio-economic status; improved coordination of referrals to community resources and supports; and reduced incidence of injuries, crime, and domestic violence. It is envisioned that this program will support and strengthen cooperation and coordination and promote linkages among various programs that serve pregnant women, expectant fathers, young children, and families in tribal communities and result in high-quality, comprehensive early childhood systems in every community.

The Tribal MIECHV program supports critical maternal, infant, and early childhood home visiting services for AIANs in tribal communities, including Indian tribes or urban Indian centers (as defined by Section 4 of the Indian Health Care Improvement Act, Pub. L. No. 94-437).

#### II. PROGRAM PROCEDURES

##### Agency Administration and Services

The Administration for Children and Families (ACF) and the Health Resources and Services Administration (HRSA) are jointly funding this program, with awards made by ACF.

##### *Phase 1: Needs Assessment, Planning, and Capacity-Building (Year 1)*

Grantees must (1) conduct a comprehensive community needs assessment, and (2) develop a plan and begin to build capacity to respond to identified needs through an evidence-based home visiting program (including a plan for measuring and reporting on program participants' progress toward meeting legislatively mandated benchmarks and a plan for rigorous evaluation of the home visiting program). For Tribal MIECHV Implementation and Expansion Grants awarded under 93.872, existing home visiting services are also to be provided in Year 1.

## ***Phase 2: Implementation Phase (Years 2-5 or 6)***

Grantees will implement the various components of their approved plan to respond to identified needs (submitted at the end of Phase 1) and work closely with ACF and HRSA to ensure high-quality, evidence-based home visiting programs in their community.

### ***Cooperative Agreements***

Cooperative agreements are awarded to tribes (or a consortium of tribes), tribal organizations, or urban Indian organizations to conduct needs assessments; develop the infrastructure needed for the widespread planning, adopting, implementing, and sustaining of evidence-based maternal, infant, and early childhood home visiting programs; provide high-quality, evidence-based home visiting services to pregnant women and families with young children aged birth to kindergarten entry; measure program participants' progress toward meeting legislatively mandated benchmarks; and conduct a rigorous evaluation of the implemented home visiting program. The project period for these cooperative agreements is 5-6 years.

### **Source of Governing Requirements**

This program is authorized under Section 511(h)(2)(A) of Title V of the Social Security Act, as added by Section 2951 of the Patient Protection and Affordable Care Act (Affordable Care Act) (Pub. L. No. 111-148), and amended by the Protecting Access to Medicare Act of 2014 (Pub. L. No. 113-93) and the Medicare Access and CHIP Reauthorization Act of 2015 (Pub. L. No. 114-10).

### **Availability of Other Program Information**

A copy of the FY 2012 Funding Opportunity Announcement under CFDA 93.508 for the Tribal Maternal, Infant, and Early Childhood Home Visiting Program is available at the following website: <https://www.acf.hhs.gov/ecd/home-visiting/tribal-home-visiting/reports-and-resources>.

A copy of the FY 2016 Funding Opportunity Announcements under CFDA 93.872 for the Tribal Maternal, Infant, and Early Childhood Home Visiting Program are available at the following websites:

Tribal MIECHV Implementation and Expansion Grants:

[https://ami.grantsolutions.gov/files/HHS-2016-ACF-OCC-TH-1162\\_0.pdf](https://ami.grantsolutions.gov/files/HHS-2016-ACF-OCC-TH-1162_0.pdf).

Tribal MIECHV Development and Implementation Grants:

[https://ami.grantsolutions.gov/files/HHS-2016-ACF-OCC-TH-1161\\_0.pdf](https://ami.grantsolutions.gov/files/HHS-2016-ACF-OCC-TH-1161_0.pdf).

The ACF website provides general information on this program at

<http://www.acf.hhs.gov/programs/ecd/home-visiting/tribal-home-visiting>.

## **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.**

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Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N

**A. Activities Allowed or Unallowed**

1. *Activities Allowed*

Funds may be used to

- a. conduct a needs and readiness assessment of the tribal community (or communities) that considers community characteristics and the quality and capacity of existing home visiting programs and other supportive services, examines community readiness to implement a quality home visiting program, is coordinated with other relevant needs assessments, and involves community stakeholders as appropriate;
- b. engage in collaborative planning efforts to address identified needs by developing capacity and infrastructure to fully plan for, adopt, implement, and sustain high-quality home visiting programs that have strong fidelity to evidence-based models;
- c. provide evidence-based home visiting services to pregnant women, expectant fathers, and parents and primary caregivers of young children aged birth to kindergarten entry;

- d. develop a data system and mechanism to measure, track, and report on progress toward meeting legislatively mandated benchmarks for participating children and families with reliability and validity; and
- e. conduct or participate in rigorous program evaluation activities that may include examining effectiveness of home visiting models in serving tribal populations, adaptations of home visiting models for tribal communities, or questions regarding implementation or infrastructure necessary to support implementation of home visiting programs in tribal communities.

(FY 2016 Funding Opportunity Announcements for the Tribal Maternal, Infant, and Early Childhood Home Visiting Program)

2. *Activities Unallowed*

- a. Pre-award costs may not be paid under this program.
- b. Construction is not an allowable activity.
- c. Purchase of real property is not an allowable activity

(FY 2016 Funding Opportunity Announcements, Section IV.6).

**E. Eligibility**

**1. Eligibility for Individuals – Not Applicable**

**2. Eligibility for Group of Individuals or Area of Service Delivery**

- a. Eligible families in at-risk AIAN communities include pregnant women, expectant fathers, parents, and primary caregivers of children aged birth through kindergarten entry, including grandparents or other relatives of the child, foster parents who are serving as the child's primary caregiver, and non-custodial parents who have an ongoing relationship with, and at times provide physical care for, the child (Section 511(k)(2) of Title V of the Social Security Act).
- b. Grantees are required to give priority to serving high-risk groups, including (1) eligible families who reside in communities in need of such services, as identified in the needs assessment; (2) low-income eligible families; (3) eligible families who are pregnant women who have not attained age 21; (4) eligible families that have a history of child abuse or neglect or have had interactions with child welfare services; (5) eligible families that have a history of substance abuse or need substance abuse treatment; (6) eligible families that have users of tobacco products in the home; (7) eligible families that are or have children with low student achievement; (8) eligible families with children with

developmental delays or disabilities; and (9) eligible families who, or that include individuals who, are serving or formerly served in the Armed Forces, including such families that have members of the Armed Forces who have had multiple deployments outside of the United States (Section 511(d)(4) of Title V of the Social Security Act).

- c. For the purposes of this program, in order to reflect the diverse circumstances of tribal populations, ACF and HRSA take a broad and inclusive view of the definition of “at-risk community.” Grantees may define an at-risk community in the following ways:
  - (1) An entire tribe within a discrete geographic region (i.e., on a reservation) could be considered an at-risk community;
  - (2) Subgroups of a tribe within a discrete geographic region (i.e., on a reservation) could be considered at-risk communities; or
  - (3) Members of a tribe(s) could live scattered throughout a larger, non-tribal geographic area interspersed with non-tribal members (i.e., Indians living in an urban environment) and be considered an at-risk community.
- d. The award of home visiting funds to an Indian tribe, tribal organization, or urban Indian organization shall not affect the eligibility of any eligible families in at-risk AIAN communities to receive home visiting services in the State or States in which the grantee is located.

### **3. Eligibility for Subrecipients – Not Applicable**

## **H. Period of Performance**

Funds are available for expenditure by a grantee through the end of the second succeeding fiscal year after award (Section 511(j)(3) of the Social Security Act (42 USC 711(j)(3))).

## **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** – Not Applicable

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### **CFDA 93.575 CHILD CARE AND DEVELOPMENT BLOCK GRANT** **CFDA 93.596 CHILD CARE MANDATORY AND MATCHING FUNDS OF THE** **CHILD CARE AND DEVELOPMENT FUND**

#### **I. PROGRAM OBJECTIVES**

The Child Care and Development Fund (CCDF) provides funds to States, Territories, and Indian tribes (tribe) to increase the availability, affordability, and quality of child care services. Funds are used to subsidize child care for low-income families where the parents are working or attending training or educational programs, as well as for activities to promote overall child care quality for all children, regardless of subsidy receipt. The CCDF consolidates the Child Care and Development Block Grant (CCDBG) and funding formerly provided to States through the child care programs under Title IV-A of the Social Security Act.

#### **II. PROGRAM PROCEDURES**

The CCDF consists of three distinct funding sources: the Discretionary Fund (CFDA 93.575), the Mandatory Fund (CFDA 93.596), and the Matching Fund (CFDA 93.596). Additionally, under the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558), a State may transfer TANF funds to CCDF and, if so, the funds transferred in are treated as Discretionary Funds (42 USC 604(d); 45 CFR section 98.54(a)).

#### **Administration and Services**

The Office of Child Care (OCC), Administration for Children and Families (ACF), Department of Health and Human Services (HHS), administers the CCDF. To receive funds, a State, Territory, or tribe must submit a plan containing specific information and assurances. The plan serves as the application for funding for States, Territories, and tribes, and is effective for a 3-year period (**Note:** previously, the plans were effective for a 2-year period). For States and Territories, the first 3-year plans cover the period FY 2016-2018. For tribes, the FY 2014-15 plans were extended for an additional year to cover FY 2016. For Tribes, the first 3-year plans will cover FY 2017-2019.

Following ACF approval of the plan, funds are awarded to the designated State, territorial or tribal entity (generally referred to as the Lead Agency) based on statutory/regulatory formulas. State awards are not adjusted by separate direct Federal funding of counterpart tribal programs within the State. As long as statutory and regulatory requirements are met (e.g., that the States and Territories offer parents certificates for the purchase of child care services), grantees have flexibility in designing programs and offering services. For example, CCDF funds may be used in collaborative efforts with Head Start (CFDA 93.600), including Early Head Start, programs to provide comprehensive child care and development services for children who are eligible for both programs. In fact, the coordination and collaboration between Head Start/Early Head Start and the CCDF is strongly encouraged by sections 640(g)(1)(D) and (E), 640(h), 641(d)(2)(H)(v), and 642(e)(3) of the Head Start Act in the provision of full working day, full calendar year comprehensive services. In order to implement such collaborative programs, which share, for

example, space, equipment or materials, grantees may layer several funding streams so that seamless services are provided.

See IV, “Other Information - Tribal CCDF grantees under a Pub. L. No. 102-477 Demonstration Project (477),” for guidance on whether this CCDF Cluster or the 477 Cluster is applicable for an audit of a CCDF Cluster program included in an Indian tribal government’s approved 477 Plan.

Tribes may operate the CCDF program under a consolidated Pub. L. No. 102-477 demonstration project. Pub. L. No. 102-477 refers to the Indian Employment, Training, and Related Services Demonstration Act of 1992, the purpose of which is to provide for the integration of employment, training, and related services to improve the effectiveness of those services. Under Pub. L. No. 102-477, funds received from a program must be used and spent in accordance with the applicable rules for that program, subject to any waivers granted by the Secretary of HHS. The auditing of these funds should be based on determining that the funds were spent in compliance with the applicable approved plan. Tribes participating under a Pub. L. No. 102-477 project submit alternative plans and reports to the Department of the Interior, which serves as the lead Federal agency for Pub. L. No. 102-477.

### Source of Governing Requirements

The Discretionary Fund (CFDA 93.575) is authorized by the CCDBG Act of 1990, as amended (most recently by the CCDBG Act of 2014 (Pub. L. No. 113-186), discussed further below), and codified at 42 USC 9858 *et seq.* The Mandatory and Matching Funds (CFDA 93.596) are authorized under section 418 of Title IV-A of the Social Security Act as amended, and codified at 42 USC 618. The CCDF (i.e., CFDA 93.575 and 93.596) is subject to the regulations at 45 CFR parts 98 and 99.

The CCDBG Act of 2014 made a number of substantive changes to program requirements, including provisions related to eligibility of children, consumer education, and health and safety (including monitoring inspections and criminal background checks). For provisions that were effective upon enactment of the CCDBG Act of 2014, States and Territories were required to complete implementation based on a reasonable interpretation of the law by September 30, 2016 unless the State or Territory submitted and received approval for a temporary extension under a waiver (**Note:** a copy of any approval letter may be obtained from the Lead Agency). Some provisions have later effective dates specified in the law.

On September 30, 2016, HHS published a final rule to update the CCDF regulations at 45 CFR parts 98 and 99 based on the reauthorized Act. States and Territories have until the start of the next CCDF plan period (i.e., October 1, 2018) to comply with any provisions of the rule that go beyond the State’s/Territory’s reasonable interpretation of the Act.

The reauthorized Act did not address how most of its provisions apply to tribes, so this was clarified in the final rule. Under the rule, tribes are subject to a tiered set of requirements based on the size of their CCDF funding allocation. Tribes have until the start of the next tribal plan period (i.e., October 1, 2019) to comply with the new provisions (with the exception of the quality expenditure requirements that apply to all tribes beginning in FY 2017). Therefore, tribes do not have to implement the majority of the new requirements within the timeframe covered by

the 2017 Supplement. Pending compliance with the final rule, tribes must implement their CCDF programs in accordance with their approved CCDF plans.

Other than 2 CFR section 200.202 and sections 200.330 through 200.332, as implemented by 45 CFR sections 75.202 and 75.351 through 75.353, CCDF is not subject to the post Federal award or cost principles requirements in 2 CFR part 200, subparts D and E, respectively, or the associated HHS implementing regulations at 45 CFR part 75.

**Availability of Other Program Information**

OCC’s website (<http://www.acf.hhs.gov/programs/occ/>) provides general information on 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.**

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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 child care services in the form of certificates, grants, or contracts (42 USC 9858c(c)(2)(A)).

2. Funds may be used for activities that improve the quality or availability of child care services, consumer education, and parental choice (42 USC 9858e).
3. Funds may be used for activities that improve access to child care services, including the use of procedures to permit enrollment of homeless children (after an initial eligibility determination) while required documentation is obtained; training and technical assistance on identifying and serving homeless children and their families; and specific outreach to homeless families (42 USC 9858c(c)(3)(B)(i)).
4. Funds may be used for any other activity that the State deems appropriate to (a) promote parental choice; (b) provide comprehensive consumer education information to help parents and the public make informed choices about child care services and promote involvement by parents and family members in the development of their children in child care settings; (c) deliver high-quality, coordinated early childhood care and education services to maximize parents' options and support parents trying to achieve independence from public assistance; (d) improve the overall quality of child care services and programs by implementing the health, safety, licensing, training and oversight standards established in the CCDBG Act and in State law and regulations; (e) improve child care and development of participating children; and (f) increase the number and percentage of low-income children in high-quality child care settings (42 USC 9857 and 9858c(c)(3)(B)).
5. No funds may be expended through any grant or contract for child care services for any sectarian purpose or activity, including sectarian worship or instruction (42 USC 9858k(a)).
6. With regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services that supplant or duplicate the academic program of any public or private school (42 USC 9858k(b)).
7. Except for tribes, no funds can be used for the purchase or improvement of land, or for the purchase, construction, or permanent improvement (other than minor remodeling) of any building or facility (42 USC 9858d(b)).

Tribes may use funds for the construction and major renovation of child care facilities with ACF approval (42 USC 9858m(c)(6); 45 CFR section 98.84).

“Construction” is defined as the erection of a facility that does not currently exist. “Major renovation” is considered permanent improvement and is defined as:  
(1) structural changes to the foundation, roof, floor, exterior or load-bearing walls of a facility, or the extension of a facility to increase its floor area; or  
(2) extensive alteration of a facility such as to significantly change its function and purpose, even if such renovation does not include any structural change (45

CFR section 98.2). Improvements or upgrades to a facility which are not specified under the definitions of construction or major renovation may be considered minor remodeling and are, therefore, not prohibited.

8. Except for sectarian organizations, funds may be used for the minor remodeling of child care facilities. For sectarian organizations, funds may be used for the renovation or repair of facilities only to the extent that it is necessary to bring the facility into compliance with the health and safety standards required by 42 USC 9858c(c)(2)(F) (42 USC 9858d(b)).

## **B. Allowable Costs/Cost Principles**

As indicated in Appendix I to the Supplement, “Federal Programs Excluded from the A-102 Common Rule and Portions of 2 CFR Part 200,” grantees (Lead Agencies) expend and account for CCDF funds in accordance with the laws and procedures they use for expending and accounting for their own funds (45 CFR section 98.67).

## **C. Cash Management**

For the Matching Fund’s (CFDA 93.596) requirement, the drawdown of Federal cash should not exceed the federally funded portion of the State’s Matching Funds, taking into account the State matching requirements. For example, the total Matching Fund expenditures for a year—both State and Federal shares—for a fiscal year are \$100. Of this \$100, the State share of the Matching Fund is \$40. For any period, the amount of Federal funds drawn down should not exceed 60 percent of the total expenditures for that period (31 CFR section 205.15(d)).

As described in III.N.3, “Special Tests and Provisions - Accountability, Deposit, and Investment of Lump-Sum Drawdowns,” special provisions apply to Tribal CCDF grantees participating in Pub. L. No. 102-477 demonstration projects.

## **E. Eligibility**

### **1. Eligibility for Individuals**

Lead Agencies must have in place procedures for documenting and verifying eligibility in accordance with the following Federal requirements, as well as the specific eligibility requirements selected by each State/Territory/tribe in its approved Plan. A Lead Agency is the designated State, territorial or tribal entity to which the CCDF grant is awarded and that is accountable for administering the CCDF program.

- a. Children must be under age 13 (or up to age 19, if incapable of self care or under court supervision), who reside with a family whose income does not exceed 85 percent of State/territorial/tribal median income for a family of the same size, and reside with a parent (or parents) who is working or attending a job-training or education program; or are in need of, or are receiving, protective services. Lead Agencies may choose to provide

services during periods of job search. Tribes may elect to use State or tribal median income (42 USC 9858n(4); 45 CFR sections 98.20(a) and 98.81(b)).

- b. States and Territories must establish minimum 12-month eligibility periods before re-determining eligibility of CCDF families, and must consider a child to be eligible between eligibility re-determinations, regardless of (1) changes in income (as long as income does not exceed 85 percent of State median income); or (2) temporary changes in participation in work, training, or education activities. If a parent experiences a non-temporary loss of job, education, or training that affects eligibility, States have the option—but are not required—to terminate assistance prior to the next re-determination (i.e., prior to the end of the minimum 12-month eligibility period). However, if a State exercises this option, the State must provide (prior to terminating the subsidy) a period of continued assistance of at least 3 months to allow parents to engage in job search, resume work, or attend an education or training program as soon as possible. States and Territories must have implemented these eligibility provisions by September 30, 2016 unless the State or Territory requested and received approval for a temporary extension under a waiver (42 USC 9858c(c)(2)(N)).
- c. Because a child meeting eligibility requirements at the most recent eligibility determination or re-determination is considered eligible between re-determinations as described in paragraph b. above, any payment for such a child shall not be considered an error or improper payment due to a change in the family's circumstances (45 CFR sections 98.21(a)(4) and 98.68(c)(2)). There is no Federal requirement for Lead Agencies to recoup CCDF overpayments, except in instances of fraud (45 CFR section 98.68(b)(2)).
- d. States and Territories must have procedures to permit enrollment of homeless children (after an initial eligibility determination) while required documentation is obtained. States and Territories must also have a grace period that allows children experiencing homelessness and children in foster care to receive services while providing families a reasonable time to take any necessary action to comply with immunization and health and safety requirements.
- e. Lead Agencies must establish a sliding fee scale, based on family size, income, and other appropriate factors, that provides for cost sharing by families that receive CCDF child care services (42 USC 9858c(c)(3)(B)(i); 45 CFR section 98.45(k)). Lead Agencies may exempt families meeting criteria established by the Lead Agency from making copayments and must establish a payment rate schedule for child care providers caring for subsidized children (45 CFR section 98.45).

- f. Lead Agencies must, to the extent practicable, implement enrollment and eligibility policies that support the fixed costs of providing child care services by delinking provider reimbursement rates from an eligible child's occasional absences (42 USC 9858c(c)(2)(S)). Lead Agencies are not required to limit authorized child care services strictly based on the work, training, or educational schedule of the parent(s) or the number of hours the parent(s) spend in work, training, or educational activities (45 CFR section 98.21(g)).

## **2. Eligibility for Group of Individuals or Area of Service Delivery**

The award of CCDF funds to a tribe shall not affect the eligibility of any Indian child to receive CCDF services in the State or States in which the tribe is located (42 USC 9858m(c)(5); 45 CFR section 98.80(d)).

## **3. Eligibility for Subrecipients – Not Applicable**

### **G. Matching, Level of Effort, Earmarking**

The matching and MOE requirements apply only to the Matching Fund (CFDA 93.596). The State's matching and MOE expenditures are closely related. For a State to receive the allotted share of the Matching Fund, the State must meet the MOE requirement and obligate the Mandatory Fund by year end (see III.H, "Period of Performance"). The matching and MOE amounts are reported on the CCDF Financial Report (ACF-696) (see III.L.1, "Reporting – Financial Reporting").

#### **1. Matching**

- a. A State is eligible for Federal matching funds (limit specified in 42 USC 618 and 45 CFR section 98.63) only for those allowable State expenditures that exceed the State's MOE requirement, provided all of the Mandatory Funds (CFDA 93.596) allocated to the State are also obligated by the end of the fiscal year (45 CFR section 98.53).
- b. State expenditures will be matched at the Federal Medical Assistance Percentage (FMAP) rate for the applicable fiscal year. This percentage varies by State and is available at <http://www.aspe.hhs.gov/health/fmap.htm>. To be eligible an activity must be allowable and be described in the approved State plan (45 CFR section 98.53).
- c. Private or public donated funds may be counted as State expenditures for this purpose subject to the limitations in 45 CFR section 98.53.
- d. No more than 30 percent of State matching claims may be for pre-kindergarten services (45 CFR section 98.53(h)(3)). The same expenditure may not be used for both MOE and matching purposes (45 CFR sections 98.53(d) and 98.53(h)).

## 2.1 Level of Effort – *Maintenance of Effort*

If a State requests Matching Funds (CFDA 93.596), State MOE (non-Federal) funds for child care activities must be expended in the year for which Matching Funds are claimed in an amount that is at least equal to the State's share of expenditures for FY 1994 or 1995 (whichever is greater) under former Sections 402(g) and (i) of the Social Security Act (42 USC 618). Private or public donated funds may be counted as State expenditures for this purpose (45 CFR section 98.53).

No more than 20 percent of the MOE requirement may be met with State expenditures for pre-kindergarten services. The same expenditure may not be used for both MOE and matching purposes (45 CFR sections 98.53(d) and 98.53(h)).

## 2.2 Level of Effort – *Supplement Not Supplant* – Not Applicable

## 3. Earmarking

- a. *Administrative Earmark* – A State/Territory may not spend on administrative costs more than five percent of total CCDF awards expended (i.e., the total of CFDA 93.575 and 93.596) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (42 USC 9858c(c)(3)(C); 45 CFR section 98.52).

Tribes are allowed 15 percent of the amount expended under CFDA 93.575 and 93.596 for administrative costs. Tribes with at least 50 children under age 13 are provided a base amount, which may be expended for any purpose consistent with the purpose and requirements of the CCDF. Tribes with fewer than 50 children who are members of a consortium receive a pro rata amount of the base amount in proportion to the number of children under age 13 in relation to 50. The base amount is not included in the amount against which the administrative earmark is calculated. For FY 2016 and earlier fiscal years, the base amount was \$20,000; the base amount was increased to \$30,000 starting in FY 2017 (45 CFR sections 98.61(c), 98.83(h), and 98.83(i)).

The following activities are not considered administrative costs (45 CFR section 98.54(b)):

- (1) Eligibility determination and redetermination.
- (2) Preparation and participation in judicial hearings.
- (3) Child care placement.
- (4) Recruitment, licensing, inspection, review and supervision of child care placements.

- (5) Rate-setting.
  - (6) Resource and referral services.
  - (7) Training of child care staff.
  - (8) Establishment and maintenance of computerized child care information systems.
  - (9) Establishment and operation of a certificate program.
- b. *Quality Earmark* – For FY 2015 and earlier fiscal years, States and Territories must spend on quality and availability activities, as provided in the State/territorial plan, not less than four percent of CCDF funds expended (i.e., the total of CFDA 93.575 and 93.596 funds) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (45 CFR section 98.53). For FY 2016 and FY 2017, States and Territories must spend no less than seven percent on quality activities.
- For FY 2016 and earlier fiscal years, only those tribes receiving grants over \$500,000 must spend at least four percent of CCDF funds expended on quality activities as described in the tribal plan/application. In FY 2017, all tribes must spend at least four percent on quality activities. The base amount (discussed in paragraph 3.a above, *Administrative Earmark*) is not included in the amount against which the quality earmark is calculated (45 CFR sections 98.53(a), and 98.83(g)).
- *Targeted Funds* – Congress may also specifically target funds for certain purposes. For example, in the FY 2016 HHS appropriation, Congress specified that amounts be used for activities that improve the quality of infant and toddler care.

## H. Period of Performance

1. Discretionary Funds (CFDA 93.575) must be obligated by the end of the succeeding fiscal year after award, and expended by the end of the third fiscal year after award (42 USC 9858h(c); 45 CFR section 98.60).
2. Mandatory Funds (CFDA 93.596) for States must be obligated by the end of the fiscal year in which they are awarded if the State also requests Matching Funds (CFDA 93.596). If no Matching Funds are requested for the fiscal year, then the Mandatory Funds (CFDA 93.596) are available until liquidated (45 CFR section 98.60(d)).
3. Mandatory Funds (CFDA 93.596) for tribes must be obligated by the end of the succeeding fiscal year after award, and liquidated by the end of the third fiscal year after award (45 CFR section 98.60(e)).

4. Matching Funds (CFDA 93.596) must be obligated by the end of the fiscal year in which they are awarded, and liquidated by the end of the succeeding fiscal year after award (45 CFR section 98.60(d)).

For example, availability periods for FY 2016 funds awarded on any date in FY 2016 (October 1, 2015 through September 30, 2016):

<b>If Source of Obligation Is --</b>	<b>Obligation must Be Made by End of --</b>	<b>Obligation must Be Liquidated by End of --</b>
FY 2016 Discretionary <sup>1,2</sup> (CFDA 93.575)	FY 2017 (i.e., by 9/30/17)	FY 2018 (i.e., by 9/30/18)
FY 2016 Mandatory (State) (CFDA 93.596)	FY 2016 (i.e., by 9/30/16 but ONLY if Matching Funds are used)	No requirement for liquidation by a specific date
FY 2016 Mandatory (Tribes) <sup>2</sup> (CFDA 93.596)	FY 2017 (i.e., by 9/30/17)	FY 2018 (i.e., by 9/30/18)
FY 2016 Matching (CFDA 93.596)	FY 2016 (i.e., by 9/30/16)	FY 2017 (i.e., by 9/30/17)

<sup>1</sup> TANF funds (CFDA 93.558) transferred to the CCDF during a fiscal year are treated as Discretionary Funds of the year they are transferred for purposes of the period of availability (45 CFR section 98.54(a)(1)).

<sup>2</sup> In lieu of the obligation and liquidation requirements cited above, tribes are required to liquidate CCDF funds used for construction or major renovation by the end of the second fiscal year following the fiscal year for which the grant is awarded (45 CFR section 98.84(e)).

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- b. SF-271, *Outlay Report and Request from Reimbursement for Construction Programs* – Not Applicable
- c. SF-425, *Federal Financial Report* – Not applicable for financial status; Applicable for cash status
- d. ACF-696, *Child Care and Development Fund Financial Report (OMB No 0970-0163)* is due quarterly from States and Territories. The ACF-696T, *Child Care and Development Fund Financial Report for Tribes (OMB No. 0970-0195)* is due annually from tribes except for tribes operating their CCDF program under a Pub. L. No.102-477 project. These reports are in

lieu of the SF-425, *Federal Financial Report* (financial status). Each fiscal year's expenditure report must be separate, therefore, multiple reports may be required if awards from more than one fiscal year are expended in a given quarter. Any funds transferred from TANF are treated as Discretionary Funds for reporting on the ACF-696 (42 USC 604(d); 45 CFR section 98.54(a)).

2. **Performance Reporting** – Not Applicable
3. **Special Reporting** – Applicable only to Tribal Lead Agencies administering child care programs under CCDF that have used CCDF funds for the construction or major renovation of child care facilities.

SF-429 – *Real Property Status Report* and SF-429-A *General Reporting* (OMB No. 4040-0016) - These forms are filed on an annual basis at the same time as the ACF-696T Financial Report. A separate SF-429-A must be completed for each parcel of real property reported and accompany the annual SF-429. OCC issued program instruction CCDF-ACF-PI-2017-06 “Electronic Submission of Real Property Standard Form (SF)-429 and Attachments” (<https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2017-06>) to assist Tribal Lead Agencies in submitting the SF-429 forms electronically.

*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
7. Report End Date

SF-429-A

13. Period and type of Federal interest
- 14a. Description of Real Property
- 14b. Address of Real Property
- 14f. Real Property Cost

- 14g. Has a deed, lien, covenant, or other related documentation been recorded to establish Federal interest in this real property? Note: a Notice of Federal Interest is not required if the facility is located on tribal lands held in trust by the U.S. government.
- 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

Lead Agencies that use other governmental or non-governmental subrecipients to administer the program must have written agreements in place outlining roles and responsibilities for meeting CCDF requirements. Lead Agencies shall oversee the expenditure of funds by sub-grantees, monitor programs and services, and ensure that sub-grantees that determine individual eligibility operate according to rules established by the program (45 CFR section 98.11).

## N. Special Tests and Provisions

### 1. Health and Safety Requirements

**Compliance Requirement** – As part of their CCDF plans, Lead Agencies must certify that procedures are in effect (e.g., monitoring and enforcement) to ensure that providers serving children who receive subsidies comply with all applicable health and safety requirements. This includes verifying and documenting that child care providers (unless they meet an exception, e.g., family members who are caregivers or individuals who object to immunization on certain grounds) serving children who receive subsidies meet requirements pertaining to health and safety. Prior to September 30, 2016, these requirements included prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers. Starting September 30, 2016 (unless the State received a temporary extension under a waiver), these requirements must address 10 specific areas—including first aid and CPR, safe sleeping practices, and administration of medication—and child care workers must be trained in these areas (42 USC 9858c(c)(2)(I); 45 CFR section 98.41).

**Audit Objective** – Determine whether Lead Agencies ensure that child care providers serving children who receive subsidies meet applicable health and safety requirements.

### **Suggested Audit Procedures**

- a. Request that the Lead Agency identify State health and safety requirements for child care providers serving children who receive subsidies.
- b. Review the Lead Agency's procedures, including any monitoring and enforcement procedures, for ensuring child care provider compliance with relevant health and safety requirements for those providers serving children who receive subsidies. This review should include, at a minimum, relevant information in the Lead Agency's CCDF Plan.
- c. Review a sample of Lead Agency payments to child care providers serving children who receive subsidies to verify that the Lead Agency followed its procedures for ensuring child care provider compliance with relevant State health and safety requirements, including training requirements.

## **2. Fraud Detection and Repayment**

**Compliance Requirement** – Lead Agencies shall recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud (45 CFR section 98.60).

**Audit Objective** – Determine if the Lead Agency correctly identified and reported fraud and took steps to recover payment.

### **Suggested Audit Procedures**

- a. Review the Lead Agency's procedures for identifying and recovering payments resulting from fraud, including the Lead Agency's definition of fraudulent child care payments.
- b. Request documentation of any fraudulent payments that have been identified by the Lead Agency. If fraudulent payments occurred, review a sample of those payments to verify that proper procedures were followed to authenticate that a payment was actually fraudulent and, as applicable, recover payment.

## **3. Accountability, Deposit, and Investment of Lump-Sum Drawdowns**

**Compliance Requirement** - Effective October 1, 2011, once program funds are available, Tribal CCDF grantees participating in a Pub. L. No. 102-477 demonstration project may draw down the full amount of available Pub. L. No. 102-477 CCDF demonstration project funding. Lump-sum drawdown/payments must be retained in clearly identifiable cash or investment accounts which are readily accessible for payment of allowable expenditures in accordance with the approved Pub. L. No. 102-477 plan from which it was derived and in compliance with applicable requirements and, to the extent practical, earn interest. This does not require a Tribal CCDF grantee to open a separate account with a financial institution or an investment manager. All eligible funds deposited in an appropriate account and earmarked as Pub. L. No. 102-477 demonstration

funds must be identified as such. Investments of lump-sum payments must comply with 25 USC 450e-3, "Investment of Advance Payments: Restrictions." All interest earned must be used on allowable expenditures in accordance with the approved Pub. L. No. 102-477 plan from which it was derived and in compliance with applicable requirements. (Tri-Agency 477 Tribal Leader Letter 9-30-11, Tri-Agency Letter to Committee on Appropriations 10-7-11, and Frequently Asked Questions Regarding P.L. 102-477 (Questions 2 through 4) found at <http://www.indianaffairs.gov/WhoWeAre/AS-IA/IEED/DWD/index.htm>).

Tribal CCDF grantees receiving lump-sum drawdown/payments under a Pub. L. No. 102-477 demonstration project may invest these payments (some recipients refer to these advance payments as "deferred revenue") before such funds are expended in accordance with the approved Pub. L. No. 102-477 plan, as long as such funds are (1) invested only in obligations of the United States or in obligations or securities that are guaranteed or insured by the United States, or mutual (or other) funds registered with the Securities and Exchange Commission and which only invest in obligations of the United States or securities that are guaranteed or insured by the United States or (2) deposited only in accounts that are insured by an agency or instrumentality of the United States, or are fully collateralized to ensure protection of the advance funds, even in the event of a bank failure (25 USC 450e-3).

**Audit Objective** – Determine whether the Tribal CCDF grantee participating in a Pub. L. No. 102-477 demonstration project has properly accounted for, deposited, and invested lump-sum drawdowns/payments received under a Pub. L. No. 102-477 demonstration project and unexpended funds are identifiable and readily accessible for use to carry out the approved Pub. L. No. 102-477 plan.

### **Suggested Audit Procedures**

- a. Obtain and review the Tribal CCDF grantee policies and procedures and verify that those procedures comply with the requirements for lump-sum drawdowns/payments under a Pub. L. No. 102-477 demonstration project.
- b. Test lump-sum drawdowns/payments and ascertain if they were properly accounted for, deposited, and invested throughout the audit period.
- c. Review unused/unexpended CCDF lump-sum drawdowns/payments at year-end, and verify that they are properly invested/deposited and are identifiable and readily accessible for use to carry out the work outlined in the approved Pub. L. No. 102-477 Plan.

### **4. Tribal Lead Agencies - Protection of Federal Interest in Real Property and Facilities**

### **Compliance Requirements**

The requirements for construction and renovation of child care facilities by Tribal Lead Agencies are described in 45 CFR section 98.84. As required by this section, OCC

established uniform procedures in program instruction CCDF-ACF-PI-2016-05, “Procedures for Requests for Tribal Lead Agencies to Use Child Care and Development Fund (CCDF) Funds for Construction or Renovation of Child Care Facilities” (<https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2016-05>).

Facilities activities (construction, major renovation, 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*).

The Federal government has a continuing reversionary interest in property that is constructed or renovated with Federal funds. At the commencement of construction or major renovation of a facility with CCDF funds, the Tribal Lead Agency must record a Notice of Federal Interest in the appropriate official records of the jurisdiction in which the facility will be located (unless the facility will be located on Tribal lands held in trust by the U.S. government). The full requirements for the protection of the Federal interest are described in program instruction CCDF-ACF-PI-2016-05.

**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 appropriate documentation (e.g., Tribal Lead Agency’s general ledger accounts and the meeting minutes of its governing body) and inquire of the Tribal Lead Agency’s 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) 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 construction, or major renovation during the audit period, 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 in a conspicuous place.
- 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 Tribal Lead

Agency obtained and complied with the requirement for ACF prior written approval.

#### **IV. OTHER INFORMATION**

Under the TANF program (CFDA 93.558), a State may transfer TANF funds to CCDF and the funds transferred are treated as Discretionary Funds under CCDF (42 USC 604(d); 45 CFR section 98.54(a)). The amounts transferred into CCDF should be included in the audit universe and in total expenditures of CCDF when determining Type A programs. On the Schedule of Expenditures of Federal Awards (SEFA), the amount transferred in should be shown as CCDF expenditures when expended.

##### *Tribal CCDF Grantees under a Pub. L. No. 102-477 Demonstration Project*

Audits of Indian tribal governments with Tribal CCDF in their approved 477 Plan with reporting under Version 2 forms (75 FR 57970 (September 26, 2014)) must follow the guidance in the 477 Cluster found in the Department of the Interior's section of Part 4 of this Supplement. See the "Note" at the beginning of the 477 Cluster for additional information.

Audits of Indian tribal governments with Tribal CCDF in their approved 477 Plan with reporting under Version 1 forms must follow the CCDF Cluster, including the following (per Tri-Agency 477 Tribal Leader Letter 9-30-11, Tri-Agency Letter to Committee on Appropriations 10-7-11, and Frequently Asked Questions Regarding P. L. 102-477 (Questions 5 through 9) found at <http://www.indianaffairs.gov/WhoWeAre/AS-IA/IEED/DWD/index.htm>):

1. the auditor should use the approved Pub. L. No. 102-477 plan in determining compliance requirements to be tested;
2. the auditor is permitted to audit the Pub. L. No. 102-477 demonstration project as a cluster of programs; and
3. the Tribal CCDF grantee may present demonstration project expenditures in its Schedule of Expenditures of Federal Awards (SEFA) in the same manner in which it had been presenting these expenditures in the period immediately prior to this Supplement or in the same manner in which it had been presenting these expenditures in the period immediately prior to the 2009 Compliance Supplement.

## 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/hsle>) 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. OHS issued program instruction ACF-PI-HS-17-03, “Electronic Submission of Real Property Standard Form (SF)-429 and Attachments,” (<https://eclkc.ohs.acf.hhs.gov/policy/pi/acf-pi-hs-17-03>) to assist HSAs in submitting the SF-429 forms electronically.

*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
7. Report End Date

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 during the audit period, 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.