

HEAD START FISCAL FREQUENTLY ASKED QUESTIONS

Note: Questions and answers from page 1 through page 13 are extracted from Policy Clarifications of the website:

http://eclkc.ohs.acf.hhs.gov/hslc/Program%20Design%20and%20Management/Head%20Start%20Requirements/Policy%20Clarifications%20and%20FAQs/a_pc.htm

Q - Can programs charge parents a fee for being late to pick up their children?

A - Head Start regulations preclude the charging of fees to parents for Head Start services. However, if a program incurs expenses to compensate employees for the caring of a child after the Head Start program has ended, parents may be charged a reasonable fee for "after care". In all cases, fees should be collected by the program and not the employee who is providing "after care" services.

Q - If a staff member is volunteering for a Head Start related activity during non-paid time, or if they donate materials to the Head Start program and/or its parents, is this allowable as non-federal share?

A - In regards to staff volunteering time there are three important considerations:

1. In order to be allowable as non-federal share a particular cost would have to be allowable as "federal share". That is, these costs would have to be expended on an activity that is consistent with all relevant laws and regulations.
2. The activity being done by the Head Start staff must not in any way be part of the person's job responsibilities.
3. The work must truly be voluntary; there can be no hint that the employee was in any way made to feel that there was no choice in the matter of volunteering. In addition, an employee cannot earn 'comp' time or other benefit in exchange for or as a reward for volunteering.

If the three above conditions are met then a staff's time as a volunteer engaged in an activity is allowable and can be claimed toward a grantee's non-federal share, valued at a rate for the type of work being done, not necessarily at the employee's Head Start salary. For example, the time of a Head Start teacher volunteering to help paint the outside of a Head Start center should be valued at the rate of a painter not of a teacher.

In terms of donating materials, the only types of materials that can be counted as non-federal share are those that the program could use grant funds to purchase. So for example, donated classroom supplies would be considered as allowable non-federal share. Clothing for Head Start children could not generally be counted as non-federal share, as Head Start grantees are not authorized to use grant funds to purchase clothing for routine use by Head Start enrolled children and families. However, there are situations where a Head Start child may need a change of clothes during program hours of operation, and if the agency has received donated clothes (including diapers) that are kept on hand for such situations, the value of the clothes could be counted as non-federal share.

Q - Can a grantee that owns a facility and makes the facility available to the Head Start program at no charge count this as non-federal share?

A - If a grantee owns a building that was not purchased with Head Start (or other federal) grant funds and is operating a Head Start program in that building, that grantee may calculate a 'depreciation and use' allowance for the building and include those costs as non-federal share. For example, a grantee is using a building that it owns to operate a Head Start program. The building is worth, say, \$500,000 and has a 25 year useful life. The annual depreciation and use charge for this building is \$20,000. The grantee, if Head Start was using the entire building, could include the \$20,000 as non-federal share. If Head Start is occupying less than the whole building, the non-federal share would be calculated proportionately based on what percentage of the building was being used by Head Start.

Q - Can Head Start federal or non-federal share funds be used to pay membership dues or fees?

A - Head Start agencies may use Head Start funds to pay the costs of the agency's membership in business, technical, professional, civic or community organizations. Such membership dues or fees should be included in the annual grant application or supplemental application subject to the review and approval of DFFS.

Expenditure of Head Start funds for the membership dues of individual agency staff may be allowable if an organization doesn't accept agency memberships or, if an agency membership would be more expensive. In either case, the agency would need to be able to demonstrate the advantages of an individual membership to the Head Start program. Any

membership dues or fees should be included in the annual grant application or supplemental application subject to the review and approval of DFSS.

Q - What types of activities between an enrolled Head Start child and that child's parent(s) or guardian(s) can be conducted in the child's home and counted, by the Head Start program, as non-federal share?

A - If a Head Start child's teacher (or home visitor) provides the child's parents with written plans or guidance as to the types of activities that need to be done with the child at home in order to support the child's Head Start experience these activities may, when fairly valued, be counted as non-federal share. The "countability" of the parent's efforts hinge on doing things with the enrolled child that support the child's Head Start experience, that are articulated by the teacher (or home visitor) and that support the curriculum used by the program. General parenting duties do not constitute activities that can be counted as non-federal share, unless these activities meet the requirements noted above. The valuation of the parent's time should, unless a program can demonstrate otherwise, be valued at the rate of a teacher's assistant.

Q - A year-end employee bonus, based upon a board approved plan two months before year end, for services during the year, is allowable cost to HS fund?

A – To be allowable personal compensation cost must be reasonable 'and conform(s) to the established policy of the agency.' Therefore the same principle would apply. The program must be established in grantees policies.

Thus, for example, an impromptu payment to staff (bonus) motivated by the fact that there is a Head Start budget surplus and staff have 'done a good job' would **not** be allowable. However, the kind of system described in the question would be an example of an allowable incentive payment as long as grantee policies, and probably most appropriately the personnel policies, describe the incentive program.

Q - Can a Head Start program have a graduation ceremony for their children at the end of the year?

A - Yes. A graduation ceremony is an acceptable activity for a Head Start program to sponsor and it is permissible to use the Head Start center for such an event and for Head Start staff to participate in the graduation ceremony. However, it is important to note that Head Start grant funds may

not be used to cover any of the costs of such an event (i.e. special clothing, refreshments, etc.). Programs can seek to get such items donated to the program or parents can raise funds through appropriate fund raising activities. However, the value of such donations cannot be claimed as non-Federal share.

Q - What are the requirements regarding when a grantee must get prior approval before purchasing equipment?

A - Equipment is defined as any item with a life expectancy of more than one year and an acquisition cost of \$5,000 or more per unit. DFSS' agencies must receive prior approval from its DFSS before purchasing any equipment that is valued at \$5,000 or more.

Q - How should a Head Start program value parent volunteer time for purposes of claiming non-federal share?

A - The value of the time should be equal to what it would have cost the program to employ someone to do the task for which the parent had volunteered. (It is important to note that for something to be allowable as non-federal it needs to be something for which grant funds could have been used). For example, if a parent is volunteering in the classroom, that parent is, in effect, functioning as a second teacher assistant and the average hourly rate for an assistant in that program (salary and benefits) would be a reasonable charge. If a parent volunteered to help paint the exterior of a Head Start center, then the program can fairly charge as non-federal what it would have cost to hire a painter to do the same work. Programs must ensure that all parent volunteer time is adequately documented.

Q - Can a grantee that provides land for a Head Start program to build a facility that will be paid by federal funds use the value of the land as in-kind?

A - Yes, as long as the land's value has been recently established and the size of the land is appropriate to the proposed facility; i.e. a 200 acre parcel of land is not appropriate for a two classroom facility. The land's value should be amortized over the expected life of the building and the grantee may claim the annual amortization as non-federal share.

Q - How should a Head Start program cover the costs of providing health services to an enrolled child if the child's family is not eligible for Medicaid or some other publicly supported health care system?

A - The vast majority of Head Start families will be eligible for Medicaid or some other publicly supported health care system. If a Head Start program enrolls a child whose family is not eligible for any such system, the Head Start program should seek to have services provided to the child by the program's local health care providers at no or reduced costs. However, if all other funding sources have been exhausted, a grantee should cover any costs related to a child's health care by using Head Start grant funds. DFSS's agencies can charge these expenses to account 0122 or 0123 of their budget.

Q - If a Head Start program enrolls (as part of its 10%) children from families who are not low-income and these families do not have medical insurance, how would the program pay for health services provided to these children?

A - Head Start programs must seek all alternative sources of funding for the costs to provide enrolled children health services. Such sources could include Medicaid/EPSDT, CHIP or services provided by your community doctor at no or reduced cost to your program. However, when a program is unable to find alternative funding sources to cover the costs of all required health services, the program should use Head Start grant funds to cover these costs. This should be made clear in your annual budget submission or, as appropriate, in your budget revision request. DFSS's agencies can charge these expenses to account 0122 or 0123 of their budget.

Q - We have some employees who, after calculating the COLA, will be over the top of the scale for their positions and therefore cannot get the COLA. It has been suggested that some sort of lump sum payment could be used to compensate these employees. Would this be permissible?

A - No. Head Start grantees have been instructed since FY 1999 that when allocating any funding increases designed to provide staff cost-of-living raises that "COLA increases should be used to permanently increase Head Start pay scales, rather than only increasing the salaries of current employees." Thus, assuming that there are not issues involving either the 'compensation cap' or 'wage comparability', every employee should get a COLA and the top step of the salary scale (as well as all the other steps) should be adjusted upward commensurate with the amount of the COLA. Please also see the statute, Sec. 653 of [42 U.S.C. 9848], for further guidance.

Q - Our agency is self-insured for workmen's comp costs. The agency submits an annual bill to Head Start for workmen's comp costs fund. This bill covers the costs for staff who are employed in

the Head Start program. Should Head Start related workmen's comp costs exceed the funds paid, a subsequent bill will be submitted by the agency. This fiscal procedure has afforded Head Start to make more effective budgetary decisions about this expenditure. Is this procedure within federal regulations and policies?

A - Yes, such a practice is acceptable. However, grantees need to carefully evaluate the cost effectiveness of such an approach. Where a grantee receives funding from multiple sources it is important in any such arrangement that the cost of this program be allocated over all of the benefiting programs in an equitable way using a documented methodology. Grantees must maintain records documenting how this (as well as other) shared costs are allocated among all parts of the organization that benefit from incurring the cost. Grantees must have a cost allocation system in place and the allocation should be based on actual cost. Many states and local governments, such as counties and local school districts, are self insured.

Q - We have some parents who sometimes volunteer in the classroom by helping the teachers with whatever is necessary. In essence they are doing the job of an "Assistant Teacher". Does the regulation require these volunteers to specify exactly what they did, i.e. read a story, cleaned up after lunch, prepared the cots for naptime etc. or can they just put it down as "Teacher's Assistant"?

A -It would be sufficient to simply categorize the parent's activity as 'Teacher's Assistant', assuming there is a 'Teacher Assistant's' job description maintained by the Head Start program. Grantees should use the same procedure for any of the jobs for which there are paid employees and, therefore, job descriptions. For volunteer activities for which there is not a job description, grantees that anticipate using those volunteer services on an ongoing basis should establish a position description for that volunteer activity and in the description explain the basis for arriving at the hourly compensation level that will be used for claiming non-federal share. For example, if a grantee twice a year has a volunteer Saturday Center Clean-up Day that grantee might create a position description for a maintenance worker (assuming it does not already have one) and describe the duties and basis for valuing the service. Then on the individual timesheets for all the volunteers the grantee would only have to put Activity: Maintenance Worker (Volunteer). When a grantee does not have a valid position description it will have to create individual documentation for a particular volunteer activity, including a description of the work, the basis for valuation etc. As an alternative to developing job descriptions for all of the volunteer donated

activity, programs may choose to identify and describe the activity on the volunteer time sheet.

Grantees are reminded that irrespective of how they determine the type of work performed by the volunteer (and, therefore, its value to the program), the use of volunteer time as match must include the establishment of a wage scale based upon the grantee agency's internal scale or prevailing wages in the area. All volunteer time needs to be carefully documented by time sheets with the hours recorded and be verifiable from the grantee's records; i.e. the date, times and location of the volunteer service and corroborated by the signature of both the volunteer and the volunteer's supervisor. Programs may choose to use a monthly time sheet for regular volunteers or daily time sheets for occasional volunteers.

Q - Please explain why 1304.40(b)(1)(i) does not allow for donated clothing to be counted as in-kind when it is provided for families to take home, especially in crisis situations such as house fires, or fleeing domestic violence.

A - The limitations on what can be counted as non-federal share is an issue of what would be an allowable cost to be charged to the Head Start grant. That is largely defined by the Head Start program performance standards which describe what a grantee is expected to provide in terms of services to children and families. A good gauge of whether something would be allowable as non-federal share is whether it could be justified as a federal cost charged to your grant. The purchase of clothing for children and families would not be an allowable use of federal funds (and therefore non-federal) because providing such an activity is beyond the scope of the purposes of the Head Start program. The language at 1304.40(b) is under the heading of "Accessing community services and resources" and is not meant to suggest that Head Start programs could use grant funds to directly provide such services or resources.

Please note: Donated clothing used for class room activities (e.g. dress-up time) or rain coats for use in inclement weather are examples of allowable in-kind contributions.

Q - Can a Head Start program purchase gift certificates for Head Start children with donations/fund raising, etc.?

If the Head Start program itself is conducting a fund raising effort or receives a donation these funds need to be considered as program income and DFSS needs to be advised that your program has generated program income. Program income can only be used for purposes consistent with the

Head Start grant and, therefore, could not be used, for example, to give Head Start children gift certificates.

However, if the fund raising was done by an entity other than the Head Start program; i.e. friends of ABC Head Start, then whatever monies were collected from the fund raising event could be used at the discretion of the entity doing the fund raising including, if so desired, giving Head Start children gift certificates. This entity could also use funds that were donated to it at its own discretion consistent, of course, with any applicable state or local requirements.

Q - Can federal dollars be used to give incentives to Head Start parents for reasons such as perfect attendance at meetings, referring another eligible child, etc?

A - No, federal dollars can only be used to provide those services required by Head Start statute or regulation to enrolled children and families.

Q - Can program funds be used to reimburse families for mileage expenses to and from socialization activities in the home-based program option?

A - Head Start agencies may use funds to reimburse families for transporting their children to and from socialization activities in the home-based program option.

Transportation services to children served under the home-based option for Head Start and Early Head Start services are excluded from the requirements of 45 CFR 1310.12, 1310.15(c), and 1310.16 related to the use of school buses and allowable alternate vehicles, child restraint systems, and bus monitors.

Q - Can programs count, as non-federal share, the time spent by a parent walking his/her child to the Head Start center?

A - No. If a Head Start/Early Head Start program transports a Head Start child to a center, that child becomes Head Start's responsibility from the time the child boards the bus. If a program is not providing transportation, the child becomes Head Start's responsibility at the time the child enters the Head Start center. Any activities prior to either of these times is not considered to be part of the Head Start day and, therefore, not chargeable to the Head Start grant, as either federal or non-federal share.

Q - Please clarify if a program that does not offer any transportation services may count as non-federal share the costs incurred by parents in transporting their children to and from the Head Start center.

A - No. No center-based Head Start program may claim as non-federal share the costs for transporting Head Start children to and from the Head Start center unless these children are being transported on a vehicle that meets the requirements of 45 CFR Part 1310.12(a).

Q - If a program receives state pre-K funding that is blended with its Head Start funding can the state funds be counted as non-federal share?

A - Yes. State pre-K funds, appropriated by the state legislature and not in any way tied to federal funds may be used as non-federal share in the Head Start grant.

Q - Can the time parents in a home-based program spend between home visits working on goals planned during the home visits count as non-federal share?

A - If the activities are part of the Head Start program's curriculum and if the home visitor has given the parent, in writing, instructions as to what that parent can do at home to better implement that program's curriculum, such time can be counted as non-federal share.

Q - Does the 10% administrative cap include the total of both federal and non-federal share?

A - Yes. The 10% administrative cap applies to the total cost; i.e. the federal and non-federal share.

Q - Is it necessary for parents or other community members to provide a receipt for purchases that are being donated to the Head Start program and are being counted as non-federal share?

A - All Head Start grantee claims of non-federal share need to be reasonably documented and fairly valued. While there is not a specific requirement that a receipt accompany a donation, it is helpful for the program to have such a receipt in determining the donation's value and a receipt will minimize the likelihood that the appropriateness of the grantee's non-federal share will be called into question by an auditor or by DFSS.

Q - Are programs allowed to keep monies funded for Head Start positions when the position becomes vacant?

A - If an agency determines that it will not need all of the funds for which it has budgeted, i.e., because of unexpected vacancies, the agency may submit a budget revision to DFSS to use these funds. Any unspent grant funds as of the end of the grant's budget period are no longer available to the agency.

Q - Can we spend cash donations any way we want or do we have to follow federal regulations?

A - Any cash donated to a Head Start program must be treated as program income and can only be spent for purposes related to the agency's Head Start program. An expense that could not be charged to the Head Start grant cannot be covered with program income.

Q - When determining how to value a volunteer's time for purposes of non-federal share, can a Head Start program include the average fringe benefit rate for the program in addition to the volunteer's "salary"?

A - Yes. A volunteer's rate should be determined based on the nature of the work being done and the experience and education brought to the job by the volunteer. A program may include, in this valuation, a fringe benefit rate for the volunteer that is comparable to the grantee's average fringe benefit rate.

Q - Can a Head Start program use as in-kind the costs incurred by parents in transporting their children, who are enrolled in a home-based option, to socialization activities?

A - Yes. As discussed at Head Start regulation 45 CFR Part 1310.2(a), home-based programs are excluded from meeting the vehicle requirements of 45 CFR Part 1310.12(a). Therefore, children in home-based programs may be transported in vehicles other than a school bus or allowable alternate vehicle and the costs incurred by parents in transporting their children to socialization activities may be counted as non-federal share.

Q - Can a Head Start grantee that has done a recent wage comparability study and determined that Head Start staff is paid wages below those received in the community for comparable positions claim this difference as non-federal share?

A - No. While Head Start staff may not be paid wages that exceed those paid for comparable positions in the community, there is no corollary requirement that all Head Start staff must be paid the same wages as others in the community holding comparable positions.

Q - Can a Head Start Staff write a grant for money that would benefit Head Start children and families?

A - Yes, grantee and delegate agencies often seek other public or private funding to expand services or assure the highest quality services to their Head Start children and families. A reasonable amount of staff time may be spent writing applications for these additional funds.

Q - Can a Head Start program use the total value of volunteers from the Foster Grandparent program as non-federal share?

A - No. A program should calculate the value of the time volunteered by a foster grandparent by determining a fair market rate for the type of work being done by the grandparent at the Head Start program (salary and fringe benefits) and subtracting from that rate the reimbursement being given that foster grandparent for the time he or she is volunteering at the Head Start program. A foster grandparent, for example, who is doing work that is valued at \$10 per hour and whom is given a stipend equal to \$1 per hour may be charged as non-federal share at a rate of \$9 per hour.

Q - If books are donated to the Head Start program for training on how to use books and at the end of the program year the books are given to the children, can the donated books be valued as non-federal share?

A - Yes, in that the books will be an important part of each child's Head Start experience their value may be included as non-federal share.

Q - If parents come to the center to have lunch with their child, can that time be counted as non-federal share?

A - No. To be claimed as non-federal share a "parent volunteer" must be engaged in activities that are integral and necessary to a Head Start program. Simply having lunch is not such an activity; helping with the preparation of the lunch or assisting in other ways that benefit the children's lunchtime experience can be counted as non-federal share

Q - Can Federal dollars be used for outreach purposes; i.e. paying for advertisements?

A - Yes. Head Start grantees can incur reasonable costs related to informing the community about their Head Start program, including information on how interested parents can apply to have their child enrolled and how community members can volunteer their services.

Q - Is it allowable to count as non-federal share the amount of time a Policy Council member attended a conference that was relevant to the member's Head Start responsibilities?

A - Yes. Time spent by Policy Council members in training or conferences that are designed to enable them to better perform their responsibilities may be counted as non-federal share.

Q - Our non-profit agency operates three different programs, only one of which is an Early Childhood Education Program that includes Head Start funded classrooms, among others. Are there any restrictions or penalties for fundraising and/or grant writing to supplement activities provided by the Head Start grant (i.e. to secure funds to raise teacher salary scales to more competitive rates, or to pay for transportation services with other funds so that those Head Start funds could be rebudgeted to raise salary scales)? It has been implied that such fundraising would, in effect, have to be deducted from the original grant award, thus defeating the purpose.

A - A reasonable amount of staff time spent applying for other grants to expand or improve Head Start services is an allowable Head Start grant cost. The conditions under which a grantee may engage in other forms of fund-raising are restricted. In this regard, grantees should refer to [ACYF-PI-HS-06-06](#), Fund-raising, issued 5/10/2006. Funds from other grant awards or those obtained through permissible fund-raising activities do not have to be deducted from the original Head Start grant.

Q - Is it acceptable to use program funds to place an ad for enrollment in local newspapers?

A - Yes. The use of funds for advertising costs which are solely for specific purposes necessary to meet the requirements of the Federal award are allowable. Maintaining full enrollment is a requirement of the grant award. Therefore using Head Start funds to place an ad for enrollment in local newspapers is an allowable cost since the ad is necessary to meet the requirements of the program.

Q - Can Head Start programs count speech services that local school systems are required to provide to children eligible under the Individuals with Disabilities Education Act (IDEA), at no charge to Head Start, as non-federal share (in-kind donation)?

A - The time used to provide special education and/or related services by a therapist provided by a Local Education Agency (LEA) may be considered by the Head Start program as volunteer time for in-kind match purposes to the extent that part or all of the therapists pay is from non-federal sources. In that case, and assuming none of those non-federal resources are being used to match any other federal grant, the proportion of the therapist's salary (and fringe benefits) coming from non-federal sources should be used to calculate the non-federal share that can be claimed for that therapist's work in the Head Start program. Calculations on the value of the service must be consistent with the rate of a therapist with similar credentials and experience plus an appropriate amount of fringe benefits.

Q - Is in-kind allowable for the person who baby-sits while the Head Start mother volunteers in the classroom?

A - A service which benefits a program or lends to the accomplishment of program objectives is considered an in-kind contribution. For example, a mother who is providing volunteer services in a classroom may be supporting young children in their learning. This contributes to the program objective of children increasing their interest in books, identifying letters, and reading. A person who baby-sits while the Head Start mother volunteers leads to accomplishing this goal for the program and may be considered an allowable in-kind cost.

Q – Is it true that checks must be sent or given out to vendors and employees in order to request for reimbursement from HS fund?

A - Head Start costs are reimbursable only after the agency has made payment.

Q - Parents Council Committee has voted to use the HS fund for a year-end event by going to a cruise dinner, can the costs be charged to Head Start funds.

A - These costs are not allowable because they are not allocable (do not provide a service to Head Start), are not reasonable and are not necessary.

Q – In FY’08, my agency incurred the following cost for our Head Start program:

	Reimbursed by HS fund	Reported as In-Kind	TOTAL COST
Program	\$914,836	\$183,144	\$1,097,980
Administrative	\$134,275	\$22,100	\$156,375
Total P & A	\$1,049,110	\$205,244	\$1,254,355

DFSS notified us that we did not comply with its requirements for both in-kind and administrative. Please explain.

A – DFSS’ agencies are required to contribute at least one-third of the HS cost as in-kind.

Your minimum required in-kind should be:

$$\text{HS cost} / 3 \quad \text{or} \quad \$1,049,111 / 3 = \$349,704$$

If imposed by HHS, your agency may have to return the portion of HS fund that was not properly match calculated as follows:

$$\$205,244 \times 3 = \quad \$615,732 \text{ HS fund that was matched}$$

$$\text{Reimbursed by HS} \quad \underline{\quad \$1,049,110 \quad}$$

\$433,378 (HS fund that was not matched may have to return)

The maximum allowable administration for DFSS delegate agencies is **10%** of the total cost including In-Kind. Your total administration cost of \$156,375 exceeds the allowable amount.

$$\$1,254,355 \times 10\% = \quad \$125,435 \text{ Maximum allowable administration cost.}$$

$$\text{Total admin cost} \quad \$156,375$$

$$\text{Unallowable admin cost} \quad \$30,940$$

Q - An executive director of a Head Start agency is compensated at the rate of \$177,100 a year on January 2009. Time study shows that she spends 95% of her time in Head Start program and 5% in fund raising activities, is it justified to charge 95% of her salaries to the Head Start fund?

A – No salaries and fringes can be charged to the Head Start grant or to any other Federal program either as a direct cost or any proration as an indirect cost for an employee whose compensation exceeds \$177,000 @ January 2009.

The same limitation applies to in-kind.

Q - My agency is based in Chicago. There are two identical Head Start related trainings, one held in San Diego, CA and one held in Minnesota, MN. Which training we can use HS funds to pay for out-of-town travel?

Head Start funds made available under section 640(a)(2)(C)(i) shall not be used for long distance travel expenses for training activities available locally or regionally or for training activities substantially similar to locally or regionally available training activities. Since Minnesota and Chicago are within the same region, you may use HS fund to pay for the out-of-town travel held in Minnesota, MN.

Q - My agency receives COLA @ 2%. Can we distribute the COLA based on the performance of the employee during the year?

A - Cost of living funds are to be used to increase the salaries, fringe benefits and pay scales of all staff in your Head Start or Early Head Start program. COLA increases should be used to permanently increase Head Start pay scales rather than only increasing the salaries of current employees. Each position is to receive a cost-of-living increase of 2% in the hourly rate of pay, regardless of their performance during the year.

Q – What is program income?

A – Program income means gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. Program income includes, but is not limited to, income from fees for services performed.

Q – In FY’08, our agency collected and expended from DFSS in Child Care funds:

	Child Care Collaboration Programs	Child Care only Programs	State Pre-K Programs	TOTAL
Collected	\$250,000	\$200,000	\$545,000	\$995,000
Expended	\$225,000	\$180,000	\$545,000	\$950,000
Unspent	\$25,000	\$20,000	\$0	\$45,000

How much we can count as Non-Federal Share for Head Start program and what should we do with the unspent fund \$45,000?

A – You may count as in-kind \$657,500 calculated as follows:

\$112,500 which is 50% of expended Child Care Collaboration funds

\$545,000 which is 100% of expended State Pre-K funds

These are program income earned during the project period, unspent funds must be carried over to subsequent years and shall be used to further eligible project or program objectives. The same cost principles must be applied to these funds.

Q - Parents Council Committee goes bowling once a monthly. Can the costs be charged to Head Start funds?

A - The Parent Activity Fund should be spent on the basis of project relatedness. The Parent Activity Fund must not be used for activities that are solely for entertainment. Entertainment can be defined as cost of amusement, diversion, social activities, ceremonials and incidental cost relating thereto, such as meals, lodging, transportation and gratuities.

Q – Are Head Start programs required to provide free meals to assigned classroom staff and volunteers?

A - Head Start performance standard 1304.23(c)(4) requires assigned classroom staff and volunteers to eat together with children, family style. Thus the program must pay for their meals.

Q - A store in the neighborhood is closing. The owner contributes all the winter coats to the Head Start children. The agency allows the children wear these coats home. Is this allowable as in-kind?

A - Materials not used in the Head Start program itself are neither reimbursable nor eligible to be counted as in-kind.

Q - The same store contributes blankets which the children use during nap time at the center. Is this allowable as in-kind?

A - Yes, because they are used in a Head Start activity and remain at the center, they may be counted as in-kind.

Q - The education coordinator has subscribed in her name to several periodicals dealing with early childhood education. Can she be reimbursed for these periodicals because the information in them benefits the Head Start program?

A - Periodicals purchased in the name of an employee are the possession of the employee and should the employee leave service with the agency, simply by notifying the publisher of a change of address, may continue to receive the periodicals.

Subscriptions should always be purchased in the name of the agency. (There is an exception, however, when a periodical is sold only to individuals and not to entities or the cost for an entity is excessive.)

Q - When preparing the budget for fringes, what are best practices?

A - List all the expenses in the description column and enter the total amount. Avoid listing a specific percentage or a specific amount for each expense (e.g. Workers Compensation @ 3%, Unemployment @ 7.2%...).

Q - When preparing the budget for salaries, what are best practices if we anticipate that all employees will be receiving annual increase 2%-5% in July?

A - If an employee's current salary is \$1,200 per pay period, you may want to estimate the salary with an increase of 5% which is \$1,260 per pay period, and on page 3 you will enter the Personnel Turn Over to balance the budget.

For example:

Current total salaries for 10 employees =	\$1,200,000
Projected salaries @ 5% increase	\$1,260,000
Estimate Personnel Turn Over (PTO)	\$30,000
Total salaries with PTO	\$1,230,000

From December through June, you are able to bill for the employees at the actual rate of \$1,200 per pay period. When the salary increase takes place in July, you will be able to bill for the employees at the new rate without the need to revise the budget. If all employee receive an increase of 5% or less, you still can bill at the actual new rate.

Q – In June, we laid off one employee. In addition to the last pay check, we also issued a check for 10 unused vacation days. We included it in the voucher for June, but the City did not reimburse us for the payment for vacation. What should we do?

A - A budget revision is needed to add one line in the salaries as follows:

- Column 2 - Teacher Aide – lump sum payment for unused vacation
- Column 3 - Enter the gross amount of the check (e.g \$957.00)
- Column 4 - 1
- Column 5 - Enter the amount charged to Head Start (based on your agency’s allocation plan)
- Column 6 - Enter the amount charged to NFS (if applicable)

If this is the only change that you need, and if you do not want to move monies from one account to another account, you can adjust the PTO on page 3 so the total budgeted amount for account 0005 remains the same.

Q – Our agency has contracts with Partners/Private Providers, what does DFSS require from us regarding the terms of the contracts and payments?

A – Your agency has a contract agreement with DFSS. DFSS holds your agency accountable for the enrollment and compliance with Head Start Performance Standards. The partners/private providers are your agency’s sub-contractors, thus they are your responsibilities. The agreement between your agency and your partners/private providers should be drafted and reviewed by an attorney.

In term of payment, many agencies choose to reimburse their partners/private providers for their actual costs. There are agencies which choose to compensate their partners/private providers for actual enrollment and offer additional compensation if the provider has achieved and maintained 100% funded enrollment and at least 85% daily attendance rate.

Q – Our agency has been under-enrolled. To cut costs, instead of laying off some employees, can we convert them to contractors if their job duties remain the same?

When is someone considered an employee and when should they be treated as an Independent Contractor?

A - When someone is an employee they are paid through the payroll system; taxes are withheld and the employer is responsible for the matching piece of Old Age, Survivors and Disability Insurance (OASDI) and Hospitalization Insurance (HI).

When someone is an independent contractor, they are not on the payroll, taxes are not withheld from their payments and their income is reported as nonemployee compensation on Form 1099-Misc (if payments exceed \$600). The party making the payment is not required to pay OASDI and HI.

Q - How do we determine if an individual is an employee or Independent Contractor?

A - To make this determination we must examine the relationship of the worker and the business. The main focus of this examination is control and independence. This usually falls into three categories:

Behavioral Control
Financial Control
Type of Relationship

Behavioral Control: Does the business have the right to direct and control how the worker does the task for which they are hired?

What is the level of instruction that the business gives the worker? The more defined these instructions are, the more likely the worker is an employee. These instructions could include, but are not limited to:

When and where to do the work
What tools or equipment to use
What workers to hire or assist with work
Where to purchase supplies and services
What work must be performed by a specified individual
What order or sequence to follow

Even if no instruction is given, sufficient behavioral control may exist if the employer has the right to control how the work results are achieved. The key

is whether or not the business has retained the right to control the details of a worker's performance.

Does the business provide any training to the worker? Normally an employee is trained to perform services in a particular manner. Independent contractors ordinarily use their own methods.

Financial Control: Does the business have the right to control the business aspects of the worker's job?

Does the worker have unreimbursed expenses? Independent contractors are more likely to have unreimbursed expenses than employees.

Does the worker incur fixed ongoing costs regardless of whether the work is currently being done? Yes to this question indicates the worker is an independent contractor.

Does the worker have a significant investment in the facilities he or she uses in performing services for someone else? If yes, then the worker is normally an independent contractor. However, the lack of a significant investment in facilities does not automatically mean the worker is an employee.

Does the worker make his or her services available to other businesses? This is a clear indication of independent contractor status. Often times an independent contractor will advertise, maintain a viable business location and make themselves available to other businesses.

Is the worker paid a regular wage? An employee is generally guaranteed a regular wage amount for a set period of time - hourly, weekly, monthly, etc. An independent contractor may be paid based on a per job basis, or can also be paid by the hour.

Can the worker incur a profit or loss? An independent contractor can make a profit or loss on the work/job.

Type of Relationship: What is the relationship between the business and the worker?

Is there a written contract between the business and the worker that describes the relationship intended between the two parties?

Does the business provide the worker with employee-type benefits, such as insurance, a pension plan, vacation and/or sick pay? If so, the worker has the characteristic of an employee.

What is the permanency of the relationship? If the worker is given the expectation that the relationship will continue indefinitely, rather than for a specific project or period, then it is more likely that the intent was to establish an employer/employee relationship.

Are the services performed by the worker a key aspect of the regular business of the company? If the services provided by the worker are considered a key aspect of the business' regular activities, it is more likely that the business will have the right to direct and control his or her activities. The ability to direct and control the activity is a characteristic of an employer/employee relationship.

Generally there is an employer/employee relationship when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished but also as to the details and means by which the result is accomplished. In this connection, it is not necessary that the employer actually direct or control the manner in which the services are performed; it is sufficient if the employer has the right to do so. The Internal Revenue Service developed 20 factors to assist the taxpayer in determining if a worker is an employee or Independent Contractor.

A "Yes" answer for the following questions indicates that the worker is an employee:

1. Does the business provide instructions to the worker about when, where and how he or she is to perform the work?
2. Does the business provide training to the worker?
3. Are the services provided by the worker integrated into the business' operations?
4. Must the services be rendered personally by the worker?
5. Does the business hire, supervise and pay assistants to the worker?
6. Is there a continuing relationship between the business and the worker?
7. Does the business set the work hours and schedule?
8. Does the worker devote substantially full time to the work of the business?
9. Is the work performed on the business' premises?
10. Is the worker required to perform the services in an order or sequence set by the business?

11. Is the worker required to submit oral or written reports to the business?
12. Is the worker paid by the hour, week or month?
13. Does the business have the right to discharge the worker at will?
14. Can the worker terminate his or her relationship with the business any time he or she wishes without incurring liability to the business?
15. Does the business pay the traveling expenses of the worker?

A "Yes" answer for the following questions indicates that the worker is an Independent Contractor:

16. Does the worker furnish significant tools, materials and equipment?
17. Does the worker have a significant investment in the facilities?
18. Can the worker realize a profit or loss as a result of his or her services?
19. Does the worker provide services for more than one firm at a time?
20. Does the worker make his or her services available to the general public?

The determination of whether or not the worker is an employee or independent contractor is the responsibility of the business. If the Internal Revenue Service challenges the classification made by the business, the burden of proof is on the taxpayer (business).

If requested, the IRS will make a determination of whether a worker is an employee or independent contractor. This request is done by filing Form SS-8, Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding.

Q – What are consequences of Treating an Employee as an Independent Contractor

A - If you classify an employee as an independent contractor and you have no reasonable basis for doing so, you may be held liable for employment taxes for that worker (the relief provisions, discussed below, will not apply). See Internal Revenue Code section 3509 for more information.

Relief Provisions

If you have a reasonable basis for not treating a worker as an employee, you may be relieved from having to pay employment taxes for that worker. To get this relief, you must file all required federal information returns on a basis consistent with your treatment of the worker. You (or your predecessor) must not have treated any worker holding a substantially similar position as an employee for any periods beginning after 1977. See

[Publication 1976, Section 530 Employment Tax Relief Requirements \(PDF\)](#) for more information.

Misclassified Workers Can File Social Security Tax Form

Workers who believe they have been improperly classified as independent contractors by an employer can use Form 8919, Uncollected Social Security and Medicare Tax on Wages to figure and report the employee's share of uncollected Social Security and Medicare taxes due on their compensation. See the full article [Misclassified Workers to File New Social Security Tax Form](#) for more information.

Q – Our agency had an audit finding for reporting 50% of child care collaboration funds received from DFSS as in-kind expense to DFSS during the voucher process. Why?

A- Cash Match cannot be documented as an In-Kind expense until its expended on costs allocable, reasonable and allowable to the Head Start program.

Q – The church allows our agency to use part of the building for our Head Start program. Since this is the only program that we have, do we have to develop and implement a cost allocation plan?

A – The Head Start program is housed within the church. There are shared cost between the church and the HS program such as utilities, supplies, liability insurance, maintenance, janitorial... The HS program must develop a cost allocation plan for these shared cost. The plan must address the following issues:

- i. Description; describe the services that will be allocated between the Head Start Program and Church.
- ii. Methodology (square footage occupied by each program/hours of use per week, etc.);
- iii. Identify the budgeted costs to be allocated (Supplies (Janitorial); Others(Utilities, including gas, electricity, water, telephone));
- iv. Method for Documenting the Expenditures: (invoices for goods and services shall include accounting codes that allocate costs to each program, etc.); and
- v. Procedures for monitoring and changes; the plan must include monitoring activities to ensure the cost are charged in to the required methodologies. In addition, the plan must address include steps that allow for changes as needed to ensure costs are adequately charged to each benefiting function.

Q – Are internal controls only required for the expenditures of Federal funds?

A – Federal awarding agencies require its recipients' financial management system provides effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

Q – Is it true that equipment purchased with grant funds of one Federal program may not be used in another program?

A – False. The recipient shall use the equipment in the project or program for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds and shall not encumber the property without approval of the Federal awarding agency. When no longer needed for the original project or program, the recipient shall use the equipment in connection with its other federally-sponsored activities, in the following order of priority:

- (1) Activities sponsored by the Federal awarding agency which funded the original project, then
- (2) Activities sponsored by other Federal awarding agencies.

During the time that equipment is used on the project or program for which it was acquired, the recipient shall make it available for use on other projects or programs if such other use will not interfere with the work on the project or program for which the equipment was originally acquired. First preference for such other use shall be given to other projects or programs sponsored by the Federal awarding agency that financed the equipment; second preference shall be given to projects or programs sponsored by other Federal awarding agencies. If the equipment is owned by the Federal Government, use on other activities not sponsored by the Federal Government shall be permissible if authorized by the Federal awarding agency. User charges shall be treated as program income.

Q – When our staff go out-of-town for a conference/training, they are reimbursed for actual cost for travel, meals and lodging. Can we use per diem rates and what are they?

A – Yes, agencies may choose to use per diem rates. The updated rates for the regular per diem method are listed by location in Publication 1542. Please refer to Publication 1542 for additional information and restrictions.

<http://www.irs.gov/pub/irs-pdf/p1542.pdf>

Q – How will the new form 990 affect our organization?

A - The IRS has released the redesigned 2008 Form 990. Organizations will begin using the new Form 990 for the 2008 tax year (returns filed in 2009). 501(c)(3) charities and 501(c)(6) associations that exceed \$25,000 in annual revenue are required to file the form 990 each year.

The new document includes a core form to be completed by all organizations, and schedules to be completed depending on an organization's type and activities.

In order to provide many smaller organizations additional time to adapt to the new form, the IRS is phasing-in the requirement to file the new form. Smaller organizations will be able to file short Form 990-EZ, if it satisfies both the gross receipts and assets tests set as follows:

May file 990-EZ for:	If gross receipts are:	If assets are:
2008 tax year (filed in 2009)	> \$25,000 and < \$1 million	< \$2.5 million
2009 tax year (filed in 2010)	> \$25,000 and < \$500,000	< \$1.25 million
2010 and later tax years	> \$50,000 and < \$200,000	< \$500,000

The 2008 form significantly revises the reporting of executive compensation and transactions with interested persons.

As was the case in prior years, organizations must list their officers, directors, trustees, and key employees, regardless of whether they were compensated, and report compensation paid by the organization and related organizations to such persons.

The 2008 form extends the reporting of compensation paid to the organization's five highest-compensated individuals, and five highest-paid independent contractors, to all filing organizations, not just charities.

The reporting threshold for the top five highest-compensated employees and highest-paid independent contractors was raised from \$50,000 to \$100,000.

Q – Can parent co-pay for child care be counted as non-Federal share?

A- No. The revenue is not program income to the Head Start program and no portion of it may be counted as non-Federal-share. Head Start grantees may not pay the co-pay for parents who have difficulty making payment because the cost is not allowable under the Head Start program. (However, failure to make to co-payment should not result in denial of services. While eligibility for the child care subsidy might end, the child remains eligible for Head Start services as provided for in 45 CFR Part 1305.7)