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INFORMATION MEMORANDUM

TO: Head Start and Early Head Start Grantees and Delegate Agencies

SUBJECT: 2013 Head Start Audit Supplement

INFORMATION:

Office of Management and Budget (OMB) Circular A-133 requires annual audits of states, local governments, and nonprofit organizations that expend \$500,000 or more from federal awards in a fiscal year.ⁱ Head Start and Early Head Start grantees and delegate agencies are audited using the OMB A-133 Compliance Supplement, which includes both general compliance requirements and requirements specific to Head Start. The current Compliance Supplement was issued in March 2013, and is applicable to fiscal years beginning after June 30, 2013. A link to the current Compliance Supplement follows. Head Start-specific requirements are found at pages 4-93.600-1 through 4-93.600-11:

http://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a133_compliance/2013/hhs.pdf

The Head Start Audit Supplement includes three major areas of audit inquiry: I. Program Objectives; II. Program Procedures; and III. Compliance Requirements. The Program Objectives and Program Procedures sections provide a detailed overview of Head Start and Early Head Start program goals, objectives, administration, services, and program options. The Compliance Requirements section addresses the following required areas of compliance:

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- D. Davis-Bacon Act
- E. Eligibility
- F. Equipment and Real Property Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Availability of Federal Funds
- I. Not Applicable
- J. Program Income
- K. Not Applicable
- L. Reporting
- M. Sub-recipient Monitoring
- N. Not Applicable

The Head Start Act designates the governing body as the responsible entity for selection of the financial auditorⁱⁱ and requires that all critical accounting policies be reported to the governing body.ⁱⁱⁱ The governing body must be allowed to review and approve the annual financial audit.^{iv} Additional governing body audit responsibilities include monitoring the agency's actions to correct any audit

findings and any other actions necessary to comply with applicable laws (including regulations) governing financial statement and accounting practices.^v

The Head Start Act requires that grantees provide accurate and regular information to the governing body about the financial audit^{vi} and appropriate training and technical assistance to ensure that the members of the governing body understand the information they receive and can effectively oversee and participate in the programs of the Head Start agency.^{vii}

Grantees must effectively educate their governing bodies and fully involve them in the audit selection and the audit process as required by the Head Start Act. A number of resources exist to support grantees in meeting this requirement. Please see IM 12-01: Choosing an External Auditor, the A-133 Audit Training Webcast recently posted on Early Childhood Learning and Knowledge Center (ECLKC), and the webinar entitled "Auditing the Head Start Program as Part of Your Single Audit" and related parties available on the American Institute of CPAs (AICPA) website: AICPA - Auditing the Head Start Program as Part of Your Single Audit.

The Office of Head Start (OHS) encourages grantees to understand Head Start audit requirements and engage in an audit process by fully involving the governing body to obtain high quality audit reports that support effective fiscal operations.

Please direct any questions on this Information Memorandum to your OHS Regional Office.

/ Ann Linehan /

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ⁱ Grantees that are commercial organizations (including for-profit hospitals) should review audit requirements found at 45 CFR §74.26(c)-(d). States, local governments, and nonprofit organizations that expend less than \$500,000 from Federal awards in a fiscal year are exempt from federal audit requirements for that year, except as noted in OMB Circular A-133 §__.215(a), but records must be available for review or audit by appropriate officials of the federal agency, pass-through entity, and the General Accounting Office (GAO). See OMB Circular A-133 §__.200(d).

ⁱⁱ Head Start Act §642(c)(1)(E)(iv)(VII)(cc) applies except when a financial auditor is assigned by the state under state law or is assigned under local law.

ⁱⁱⁱ Head Start Act §642(c)(1)(E)(iv)(VII)(cc)

^{iv} Head Start Act §642(c)(1)(E)(iv)(V)(aa)

^v Head Start Act §642(c)(1)(E)(iv)(VII)(dd)

^{vi} Head Start Act §642(d)(2)(E)

^{vii} Head Start Act §642(d)(3)