



DOCUMENT NUMBER: 2013-01

# POLICY INFORMATION NOTICE

**DATE: UPDATED** March 18, 2014

**DOCUMENT NAME:** Health Center  
Budgeting and Accounting Requirements

**TO:** Health Center Program Grantees  
Look-Alikes  
Primary Care Associations  
Primary Care Offices  
National Cooperative Agreements

The Health Center Program, authorized under section 330 of the Public Health Service Act, as amended, provides grants to support primary health care services to medically underserved communities and vulnerable populations. A requirement of the Health Center Program is for a health center to establish a budget that reflects the cost of operations, expenses, and revenues necessary to accomplish the service delivery plan (hereafter referred to as the “total budget”). This Policy Information Notice (PIN) provides additional clarification regarding budgeting and accounting requirements for health center scope of project funds and their applicability to section 330 federal grant funds versus non-grant funds.

After review and careful consideration of all comments received, HRSA has amended the draft section and other sections of the PIN. As a result, the entire section V. (Budgeting and Accounting Requirements) is retitled and revised.

If you have any questions or require further assistance, please contact the Bureau of Primary Health Care, Office of Policy and Program Development, at [BPHCPolicy@hrsa.gov](mailto:BPHCPolicy@hrsa.gov).

/s/

James Macrae  
Associate Administrator

Attachment

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## I. Purpose

The purpose of this Policy Information Notice (PIN) is to provide clarification regarding how budget and accounting requirements, as described in 45 CFR Part 74, shall be applied to health centers funded under section 330 of the Public Health Service Act (PHS), as amended. Specifically, this PIN clarifies the requirements that apply to section 330 grant funds versus other non-grant funds and the need for budgeting and accounting for each within the approved health center scope of project.

For the purposes of this document, the following terms are used:

- “total budget” which includes section 330 grant funds and all other sources of revenue in support of the approved health center scope of project; and
- “non-grant funds” which refers to the sources of revenue other than section 330 grant funds, including program income, that are budgeted and accounted for under the approved health center scope of project.

## II. Applicability

This PIN applies to all health centers funded under the Health Center Program authorized under section 330 of the Public Health Service (PHS) Act (42 U.S.C. 254b) (“section 330”), as amended, including subrecipients. In a subrecipient<sup>1</sup> relationship, each organization (grantee and subrecipient) must be in compliance with all applicable section 330 requirements.

This PIN also applies to Federally Qualified Health Center Look-Alikes (LALs), as they are subject to Health Center Program requirements. However, because LALs do not receive federal grant funding under section 330 of the PHS Act,<sup>2</sup> the specific sections of this PIN that apply to only section 330 grant funding are not applicable; all other sections of this PIN apply to the extent they describe the appropriate uses of non-grant funds. The basis for this applicability is that LAL designation and benefits are dependent upon LALs meeting the statutory, regulatory and policy requirements for grant funded health centers.<sup>3</sup> For the purpose of this document, the term “health center” refers to health centers that receive funding under the Health Center Program, as well as LALs.

This PIN is the primary Health Resources and Services Administration (HRSA) policy resource on the Health Center Program requirements related to a health center’s total budget. As such, it supersedes PIN 94-34, “Guidance Regarding Implementation of 1992 Amendments to Sections 329 and 330 of the Public Health Service Act,” PIN 95-15, “Application of the Federal Cost Principles Only to Federal Grant Funds for Community and Migrant Health Centers,” and any

<sup>1</sup> A subrecipient is an organization that “(ii)(I) is receiving funding from such a grant under a contract with the recipient of such a grant, and (II) meets the requirements to receive a grant under section 330 of such Act . . .” (§1861(aa)(4) and §1905(l)(2)(B) of the Social Security Act). The subrecipient arrangement must be documented through a formal written contract or agreement (Section 330(a)(1) of the PHS Act).

<sup>2</sup> 42 U.S.C. 1395x and 42 U.S.C. 1396d.

<sup>3</sup> Health Center Program Look-Alikes follow the designation guidance requirements which can be found at: <http://bphc.hrsa.gov/about/lookalike>.

other previous program guidance provided on this subject that is inconsistent with the policy contained in this document.

### III. Background

Health centers must maintain accounting and internal control systems appropriate to the size and complexity of the organization reflecting Generally Accepted Accounting Principles (GAAP) and separate functions appropriate to organizational size to safeguard assets and maintain financial stability.<sup>4</sup> In order to comply with these requirements, the health center's accounting and internal control systems must support appropriate stewardship of the federal funds and oversight over the health center project, including all aspects of its clinical and fiscal operations.

In addition, the Health Center Program statute 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 service delivery plan.<sup>5</sup> As such, the total budget must include projections for all revenue sources to support the scope of project, 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 proposed amount of federal section 330 grant funding to support the scope of project may not exceed the amount by which the projected cost of operations exceeds the projected non-grant revenue sources.<sup>6</sup>

Prior to 1992, consistent with the language contained in 42 CFR 51c.107(a),<sup>7</sup> the same standards were applied to health center expenditures regardless of whether the funds were section 330 grant or non-grant funds. Documentation of the source and application of funds, as required in 45 CFR 74.21(b)(2), was interpreted to apply to all health center scope of project funds. However, certain exceptions to this broad applicability of federal rules (i.e., cost principles and other grants requirements spelled out in 45 CFR 74) were enacted in section 330 statutory amendments in 1992.<sup>8</sup> Then, in 1996, Congress enacted section 330(e)(5)(D) of the PHS Act, which states, "Nongrant funds . . . including any such funds in excess of those originally expected, shall be used as permitted under this section, and may be used for such other

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<sup>4</sup> Section 330(k)(3)(D), Section 330(q) of the PHS Act and 45 CFR Parts 74.14, 74.21 and 74.26.

<sup>5</sup> Section 330(k)(3)(D) and Section 330(k)(3)(l)(i) and 45 CFR Part 74.25.

<sup>6</sup> Section 330(e)(5)(A) and 42 CFR 51c.106.

<sup>7</sup> 42 CFR 51c.107 states "any funds granted pursuant to this part, as well as other funds to be used in performance of the approved project, may be expended solely for carrying out the approved project in accordance with section 330 of the Act, the applicable regulations of this part, the terms and conditions of the award, and the applicable cost principles."

<sup>8</sup> In 1992, the Congress amended section 329 and 330 of the PHS Act. The amendments of Sections 329 and 330(d)(4)(C) (with regards to non-grant funds, as described in this PIN) states "-- (C) With respect to amounts described in clauses (i) and (ii) of subparagraph (A) the Secretary may not restrict expenditures of such amounts by any grantee under paragraph (1) for -- (i.) repair or minor renovations of the physical plant; (ii.) establishment of a financial reserve as required for the furnishing of services on a prepaid basis or as needed to cover unanticipated expenses; (iii.) interest payments on short-term loans to cover cash shortfalls; or (iv.) necessary salary requirements to remain competitive in hiring health care practitioners."

purposes as are not specifically prohibited under this section if such use furthers the objectives of the project.”

As stated earlier, HRSA is issuing this PIN to further clarify the requirements for section 330 federal grant and non-grant funds and in turn the requirement for budgeting and accounting for each within the health center scope of project. In addition, this PIN provides general guidance for health centers to ensure that use of non-grant funds meets the statutory standard.<sup>9</sup>

#### **IV. Scope of Project**

HRSA recognizes that both section 330 grant and non-grant funding sources support the health center scope of project and this PIN does not alter the existing Health Center Program policy which defines the health center’s scope of project as the activities supported by the total budget approved for the health center. Specifically, the scope of project includes the approved service sites, services, providers, service area(s) and target population which are supported (wholly or in part) under the total budget. Health centers may also operate or conduct activities that are not part of the health center’s approved scope of project (i.e., other lines of business), and thus, are not subject to Health Center Program requirements and related benefits.<sup>10</sup>

The total budget represents projected operational costs for the approved health center scope of project where all proposed expenditures directly relate to and support in-scope activities. As stated earlier, the total budget is inclusive of section 330 grant funds and non-grant funds, which includes all anticipated program income sources (e.g., fees, premiums, third party reimbursements, and payments) that are generated from the delivery of services, and from “other revenue sources” such as state, local, or other federal grants or contracts (e.g., Ryan White, HUD, Head Start), private support or income generated from fundraising or contributions.<sup>11</sup>

#### **V. Budgeting and Accounting Requirements**

Health centers are required to prepare and submit applications for HRSA approval that contain a total budget for the health center scope of project for 12 months, unless specified otherwise by HRSA. Beginning with applications for Fiscal Year 2014 funding, HRSA is requiring health center grantees and applicants to submit a total budget for the scope of project funding that includes a separate budget breakdown for the section 330 funding proposed for the application

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<sup>9</sup> Section 330(e)(5)(D) of the PHS Act.

<sup>10</sup> Refer to PIN 2008-01, Defining Scope of Project and Policy for Requesting Changes, available on the HRSA web site at <http://bphc.hrsa.gov/policiesregulations/policies/index.html>.

<sup>11</sup> In cases where the total budget includes funds from other sources of funding, health centers are responsible for implementing their applicable requirements, restrictions or other specifications for the expenditure of such funds. Health centers with questions on the applicability of these other funding sources should consult with the appropriate payor source, private legal counsel and/or auditor.

period.<sup>12</sup> That is, the budget must show which projected costs are supported by the section 330 grant and which projected costs are supported by other sources of non-grant funds.

Health centers have discretion regarding how they propose to allocate the total budget between section 330 grant funds and non-grant funds, provided that the projected budgeting complies with all applicable HHS policies and other federal requirements.<sup>13</sup> In addition, health center grantees must track their section 330 spending to ensure that all such grant expenditures are consistent with their HRSA approved budget and that any applicable HRSA approvals have been requested and received. 45 CFR 74.25 defines the rules governing when rebudgeting among the federal object budget class categories requires prior HRSA approval. Specifically, when proposing to shift between the federal object class budget categories for their section 330 grant funds above the specified threshold, grantees must seek prior approval from HRSA.

Grant regulations also require health centers to maintain accurate, current and complete accounting records to ensure that all section 330 grant fund expenditures adhere to the Federal cost principles, which establish standards for allowable and unallowable costs related to the use of grant funds.<sup>14</sup> Therefore, expenditures of section 330 federal grant funds must follow all applicable requirements described in 45 CFR 74 and 45 CFR 92 (including Federal cost principles incorporated by reference) and, as such, must be accounted for separately. Accounting systems and records must also adequately ensure that assets purchased with federal funds are appropriately recorded and used for their approved purpose.<sup>15</sup> In addition to producing accounting records for the purpose of supporting section 330 grant fund expenditures, the Health Center Program statute requires that health centers have systems in place to accurately collect and organize health center project cost and program data for the purposes of reporting to HRSA and supporting management and governing board decision making.<sup>16</sup>

Section 330(e)(5)(D) of the PHS Act provides health centers with discretion to use their non-grant funds, as stated earlier, either “as permitted” under section 330 or “for such other purposes ...not specifically prohibited” under section 330 “if such use furthers the objectives of the project.” Health centers can meet the standard of “furthering the objectives of the project”

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<sup>12</sup> Specific instructions regarding budget presentation requirements will be provided in each Funding Opportunity Announcement (FOA).

<sup>13</sup> Health centers may use non-grant funds to support salary levels above statutorily (or otherwise) imposed salary limitations on federal grants for the purpose of allowing the health center to remain competitive in hiring qualified personnel as key health center managers and/or providers. All relevant IRS rules and regulations that pertain to determining the reasonableness of salaries and the reporting of compensation apply. Refer to the IRS’s website for reporting at <http://www.irs.gov/>.

<sup>14</sup> The cost principles are set forth in the following documents and are incorporated by reference in 45 CFR Parts 74.27 and 92.22. Organizations must adhere to the applicable cost principles identifiable to your organization. (Office of Management and Budget (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, or OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments), as codified in 2 CFR 230 and 2 CFR 225.

<sup>15</sup> Section 330(k)(3)(D) of the PHS Act and 45 CFR Parts 74.20 and 74.21.

<sup>16</sup> Section 330(k)(3)(I) of the PHS Act.

by ensuring that the uses of non-grant funds benefit the individual health center's patient/target population. Consistent with Health Center Program requirements, and the governing board's responsibilities, health center governing boards must approve, among other things, the health center's annual budget, its Health Center Program application as well as provide oversight and monitoring of health center expenditures to ensure consistency with the health center's mission, goals and objectives and the board-approved budget and project.<sup>17</sup> The governing board's responsibilities extend to assuring that application budgets and actual expenditures reflect appropriate uses of both section 330 grant funds and non-grant funds.

## **VI. Effective Date**

Health centers are expected to comply with the clarifying policies described in the PIN. As such, the federal budgeting requirements of this PIN are being incorporated into all health center grant applications. Existing health centers must review their current budgeting and financial management policies and procedures, and take necessary actions to ensure they are in compliance with this PIN. In addition, health centers must implement accounting policies and procedures that comply with this policy.

## **VII. Contacts**

If you have any questions or require further assistance regarding the policies detailed in this PIN, please contact the Bureau of Primary Health Care, Office of Policy and Program Development at [BPHCPolicy@hrsa.gov](mailto:BPHCPolicy@hrsa.gov). If health centers have any questions or require further guidance on the budgeting process, please contact your Grants Management Specialist.

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<sup>17</sup> Sections 330(k)(3)(D), (k)(3)(H), and (k)(3)(I) of the PHS Act, and 42 CFR 51c.304(d).