IDEA Part C **Funding Preparedness Tool**

Introduction

IDEA Part C systems rely on a variety of funding sources to provide supports and services for infants and toddlers with disabilities and their families. Changes in funding availability, reimbursement processes, staffing, policy requirements, or fiscal oversight can create challenges for maintaining services and meeting fiscal responsibilities. **Proactive planning can help states identify vulnerabilities, understand potential impacts, and strengthen their ability to respond to changing circumstances.**

This Funding Preparedness Tool helps state lead agency staff assess key aspects of fiscal readiness within their IDEA Part C systems. It focuses on two foundational areas:

- **Funding Landscape:** Understand the funding sources, dependencies, and potential risks and gaps that could affect service delivery.
- **Fiscal Compliance and Appropriate Use of Funds:** Review key fiscal requirements and documentation practices that help ensure funds are managed appropriately and in accordance with applicable requirements.

Connection to Other CIFR Resources

This tool complements other CIFR resources offering more focused guidance on specific Part C fiscal requirements and processes.

Explore CIFR resources on Part C MOE, use of funds, and subgranting to support next steps.

Visit our resource library or contact CIFR for more information.

Each section includes:

- a list of key related federal requirements to support discussions on fiscal readiness and compliance;
- a checklist to help teams identify and document important funding, fiscal, and compliance information;
- reflection questions to encourage discussion about potential risks, vulnerabilities, and implications for the Part C system; and
- a practical exercise to help teams apply the information, assess preparedness, and identify actions that may strengthen fiscal readiness.

States may use this tool as an individual self-assessment; as part of a cross-functional planning process; or in support of discussions among fiscal, program, and leadership staff. The activities and reflection questions are intended to help teams move beyond documenting current practices and toward identifying opportunities to strengthen preparedness, continuity, and informed decision-making.

Section 1. Funding Landscape

Key Related Requirements:

- 34 CFR 303.120 Lead agency role in supervision, monitoring, funding, interagency coordination, and other responsibilities.
- 34 CFR 303.510 Payor of last resort.
- 34 CFR 303.520 Policies related to use of public benefits or insurance or private insurance to pay for Part C services.
- 34 CFR 303.521 System of payments and fees.

Purpose

This section helps state lead agency staff establish a clear picture of the funding sources that support the IDEA Part C system.

The goal is to help states understand both **where funding comes from** and **how current fiscal data can be used to anticipate potential disruptions or gaps in service delivery**.

Key Question: Do we have a clear understanding of our funding mix, level of dependency, and potential funding risks and gaps?

Subsection A. Funding Source Inventory

Use this subsection to document all sources that currently support the Part C system.

Identify and document:

- ☐ Other federal funds (e.g., Temporary Assistance for Needy Families, or TANF)
- ☐ State early intervention appropriation(s)
- ☐ Other state-level funding streams (e.g., state TANF match)
- ☐ Medicaid contributions
- ☐ Private insurance revenue sources if applicable
- ☐ Interagency or local funding contributions
- ☐ Private one-time or temporary funding sources (e.g., foundation grant, fundraisers)
- ☐ Current federal IDEA Part C award amount(s)
- ☐ The location of fiscal information by funding source

Suggested documentation:

- current budget summary
- grant award notices
- state appropriation documents
- Medicaid reimbursement reports
- interagency agreements
- copies of locally approved budgets
- fiscal procedures manual

Reflection prompts:

- Can staff readily locate current fiscal information and supporting documentation for each funding source?
- How would a new fiscal or program team member be able to understand how the Part C system is funded using the information currently available?
- What additional information would help new staff understand the full fiscal picture of the Part C system?
- Does the inventory provide a complete picture of how the Part C system is funded, or are additional partners or funding sources missing from the discussion?
- What funding sources have increased, decreased, or remained relatively stable over time?
- How diversified is the state's funding portfolio? To what extent is the system reliant on a small number of funding sources?

Taking action: Based on this review, what additional information, clarification, or follow-up actions would help the state better understand its funding landscape?

Subsection B. Funding Dependency and Risk Review

This subsection helps state teams move beyond funding inventory to assess vulnerability and identify areas of fiscal exposure within the IDEA Part C system.

Identify and document:

- ☐ High-dependency funding sources (for example, sources representing more than 25 percent of total system support)
- ☐ Funding sources with recertification requirement, appropriation, or legislative risk
- ☐ Funding sources vulnerable to Medicaid, insurance, or other payor policy changes
- ☐ Known timing risks, such as delayed reimbursements, late allocations, or reimbursement lags
- ☐ Funding sources that are difficult to replace if reduced or eliminated
- ☐ Funding sources that are time limited, temporary, or dependent on short-term policy decisions
- ☐ Funding sources whose purchasing power has declined due to inflation or rising service costs
- ☐ Funding sources with significant restrictions that limit flexibility during fiscal disruption
- ☐ Areas in which provider payment delays may create operational risk
- ☐ Areas in which service costs, provider rates, or other expenditures have increased faster than available funding

Reflection prompts:

- Which funding source creates the greatest risk if reduced?
- Which funding source would be most difficult to replace?
- What funding sources are particularly vulnerable to policy or legislative change?
- Where are timing delays most likely to create service disruption?
- What funding sources is the state most reliant on to maintain core services?
- Which funding sources have/have not kept pace with increases in service delivery costs, provider rates, and other program expenses?

Taking action: What steps could the state take to better understand, address, or reduce its most significant funding vulnerabilities?

Subsection C. Funding Gap and Sustainability Review

This subsection helps state teams assess how funding disruptions could affect service delivery and what strategies are available to maintain continuity.

Identify and document:

- ☐ Potential funding gaps within the next 12–24 months
- ☐ One-time or temporary funding sources that may create future funding cliffs
- ☐ Services or provider payments that are most at risk if funding decreases
- ☐ Flexible funding sources or backup options available to address short-term gaps
- ☐ Contingency plans for maintaining core services during funding disruptions
- ☐ Strategies for addressing reimbursement interruptions, recertification delays, or payor denials
- ☐ The potential impact of recertification denials or delays, eligibility changes, reduction in optional services, and provider shortages that increase service costs
- ☐ Whether service prioritization decisions have been identified in advance if funding is reduced

Reflection prompts:

- If a major funding source were reduced tomorrow, what services would be affected first?
- What short-term strategies are available to prevent service interruptions?
- Are temporary funding solutions masking a longer term sustainability issue?
- What decisions would need to be made within the first 30 days of a funding disruption?
- Who would need to be involved in those decisions?

Taking action: What actions could the state take now to prepare for potential funding gaps and sustain services if funding were to be reduced, delayed, or disrupted?

Recommended Activity

Funding Readiness Mapping Exercise

Estimated time: 30–45 minutes

Expected output: Completed funding source table and risk notes

Instructions: Ask your state team to identify each funding source that supports the IDEA Part C system, and then complete Table 1:

- **Source and Location of Fiscal Data:** Identify the data source and the location where funding data are maintained (e.g., lead agency fiscal office, state Medicaid agency, local program, grants management system, accounting system).
- **Total Amount:** Record the most recent annual funding amount available.
- **Percentage of Total Budget:** Estimate the percentage of the total Part C budget represented by the funding source.
- **Risk Level:** Indicate the likelihood that the funding source could be reduced, delayed, restricted, or otherwise disrupted within the next 12–24 months (Low, Medium, or High).
- **Key Restrictions:** Note any significant requirements, limitations, or conditions associated with the funding source.
- **Services Most Reliant on Funding Source:** Identify the services, activities, personnel, or system functions that depend most heavily on the funding source.
- **Backup Option:** Document any alternative funding source, reserve funds, contingency plans, or other strategies that could help address a disruption in funding.

Then ask your team: "If one of these sources were reduced by 15 percent tomorrow, what services would be affected first?"

Funding sources to consider:

- State Part C appropriation
- Federal Medicaid contribution
- State Medicaid match
- Other managed care contributions
- Private insurance contribution
- Local Part C funds

Example:

State Part C appropriation

- Data source and location: State (DHHS) [Identify where the fiscal data are stored and, when applicable, include direct links to relevant files or folders in SharePoint or other shared storage locations.]
- Total amount: $7,000,000
- Percent of total budget: 25%
- Risk level: Medium
- Key restrictions: State law
- Services most reliant on funding source: Administration
- Backup option: None

Table 1. Funding Readiness Mapping Exercise

Source of Part C funds	Data source and location	Total amount	Percent of total budget	Risk level (Low, Medium, High)	Key restrictions	Services most reliant on funding source	Backup option

Section 2. Fiscal Compliance and Appropriate Use of Funds

Key Related Requirements:

- 34 CFR 303.225 Prohibition against supplanting; indirect costs.
- 34 CFR 303.501 Permissive use of funds by the lead agency.
- 2 CFR Part 200 Subpart E–Cost Principles.
- 2 CFR 200.303 Internal controls.
- 2 CFR 200.318(b) Oversight of contractors.
- 2 CFR 200.329 Monitoring and reporting program performance. *(For state LAs that contract)*
- 2 CFR 200.332 Requirements for pass-through entities. *(For state LAs that subgrant)*

Purpose

This section helps state lead agency staff assess whether fiscal systems, procedures, and decision-making processes support compliance with IDEA Part C fiscal requirements.

The goal is to help states **identify areas of fiscal vulnerability before funding instability creates compliance risks**, **audit findings**, **or disruptions to services**.

Key Question: Do we have the fiscal systems, procedures, documentation, and oversight necessary to maintain compliance and support appropriate use of IDEA Part C funds?

Subsection A. Maintenance of Effort Readiness

This subsection helps state teams assess whether the state has the information, procedures, and monitoring processes necessary to maintain compliance with IDEA Part C maintenance of effort (MOE) requirements.

Identify and document:

- ☐ Procedures for calculating MOE
- ☐ Location of MOE policies and procedures
- ☐ Staff responsible for MOE calculation, review, and approval
- ☐ Communication processes between fiscal, program, and budget staff regarding MOE implications of funding decisions
- ☐ All fund sources included in the Part C MOE calculation
- ☐ Methodology used to determine the Medicaid state share amounts attributable to the Part C program
- ☐ Total amount of state and local public funds expended in the most recent fiscal year for which final audited expenditures are available
- ☐ Total amount of state and local public funds budgeted in the current fiscal year
- ☐ Documentation supporting prior year MOE calculations, including allowances if applicable
- ☐ Processes for monitoring state and local public expenditures for Part C activities at least quarterly
- ☐ Training provided to staff, providers, contractors, or subgrantees on MOE requirements

Reflection prompts:

- Do we have a clear and consistent process for calculating MOE?
- Which offices/positions at the state LA are responsible for maintaining MOE calculations and documentation?
- What funding reductions or shifts could unintentionally affect MOE compliance?
- How early would we know if the state may be at risk of failing MOE?
- How are state LA staff (e.g., fiscal, program, legislative liaisons, agency leadership) made aware of funding and spending decisions affecting MOE?
- If state funds were reduced unexpectedly, what actions could be taken to address MOE risk?

Taking action: What steps could the state take to strengthen its MOE procedures, documentation, and ongoing monitoring to support continued compliance?

Subsection B. Appropriate Use of Funds

This subsection helps state teams evaluate whether IDEA Part C funds are being used consistently with federal requirements and whether state and local staff have sufficient guidance and decision-making processes in place to manage funding shifts, reductions, or disruptions while maintaining compliance and continuity of services.

Identify and document:

- ☐ Procedures for determining allowability of costs under IDEA Part C
- ☐ Guidance available to state and local staff regarding appropriate use of federal, state, and other funding sources
- ☐ Procedures for distinguishing between direct services, administration, and indirect costs
- ☐ Processes for reviewing unusual, high-risk, or complex expenditures before approval
- ☐ Processes for coordinating funding sources such as Medicaid, private insurance, and other payors regarding allowable claims
- ☐ Common areas of confusion or recurring fiscal questions within the system
- ☐ Training provided to staff, providers, subgrantees, or contractors on appropriate use of funds
- ☐ Approval processes for contracts, subgrants, provider payments, or reimbursement claims
- ☐ Tracking mechanisms for contract deliverables and related payments

Reflection prompts:

- How well do state and local staff understand use of funds requirements such as supplement, not supplant and payor of last resort?
- Are staff applying fiscal rules consistently across programs and funding sources?
- Where do questions about allowability arise most often?

» What areas require staff to rely heavily on institutional knowledge and long-standing practices rather than written procedures?

» Are current review processes sufficient to identify inappropriate use of funds before issues occur?

» How might fiscal decision-making change during a period of funding instability?

Taking action: What steps could the state take to clarify expectations, strengthen review processes, or provide staff support to promote the appropriate use of Part C funds?

Subsection C. Fiscal Internal Controls

This subsection helps state teams assess whether fiscal infrastructure and internal controls can support accurate tracking, oversight, and accountability during both routine operations and fiscal disruption.

Identify and document:

- ☐ Written fiscal procedures for budgeting, payment approval, reimbursement, and reporting
- ☐ Separation of duties for fiscal approvals, payment processing, and reconciliation activities
- ☐ Procedures for tracking expenditures by funding source and comparing expenditures against budgets
- ☐ Internal controls for provider billing, claims review, and reimbursement
- ☐ Processes for identifying and correcting fiscal administrative errors or inconsistencies
- ☐ Procedures for retaining fiscal records and supporting documentation
- ☐ Procedures and processes for responding to audit requests or findings
- ☐ Areas in which outdated systems, staffing shortages, training needs or manual processes might create fiscal risk

Reflection prompts:

» Which fiscal procedures are most vulnerable to being bypassed during funding disruptions or staffing shortages?

» Are current internal controls flexible enough to support rapid fiscal decision-making during sudden funding changes?

» Could the state continue accurate expenditure tracking and oversight if fund sources changed quickly?

» What fiscal processes rely heavily on manual workarounds or individual staff knowledge?

» What breakdowns in internal controls are most likely to occur during periods of fiscal stress or disruption?

Taking action: What changes to fiscal procedures, safeguards, or staff responsibilities could help the state prevent errors, improve accountability, and maintain effective controls?

Subsection D. Monitoring and Corrective Action

This subsection helps state teams evaluate whether monitoring and corrective action systems can identify, respond to, and resolve fiscal issues, particularly during periods of funding instability that may increase compliance risk and threaten continuity of services.

Identify and document:

- ☐ Fiscal monitoring procedures for local programs, providers, contractors, and/or subgrantees
- ☐ Processes for identifying high-risk fiscal activities, or, if subgranting, high-risk subrecipients
- ☐ Frequency, method and scope of fiscal monitoring activities
- ☐ Procedures for documenting noncompliance
- ☐ Processes for issuing, tracking, and verifying corrective actions
- ☐ Procedures for escalating significant fiscal concerns or repeat findings
- ☐ Trends in recent audit findings
- ☐ Technical assistance available to support correction and prevention of fiscal issues
- ☐ Processes for assessing whether corrective actions successfully resolved the issue

Reflection prompts:

- » What monitoring processes would become more difficult to sustain during staffing shortages or fiscal disruptions?
- » How quickly could the state identify emerging fiscal risks during a period of rapid funding change?
- » What early warning indicators could help detect fiscal compliance risks before service delivery is disrupted?

Taking action: What actions could the state take to address identified fiscal issues, strengthen follow-through on corrective actions, and reduce the likelihood of recurring findings?

Recommended Activity

Fiscal Risk and Compliance Scenario Exercise

Estimated time: 30–45 minutes

Expected output: Completed fiscal risk analysis and safeguards discussion

Instructions: Ask your state team to use the scenarios below to assess and discuss potential fiscal and compliance vulnerabilities within the IDEA Part C system and identify actions needed to strengthen preparedness and continuity.

For each scenario, identify and document:

- **Potential risk:** What fiscal, compliance, operational, or service delivery risks could result from this scenario?
- **Existing safeguards:** What procedures, controls, or supports are currently in place to reduce risk or maintain continuity?
- **Additional action needed:** What additional steps could strengthen preparedness or reduce disruption?
- **Responsible staff:** Who is responsible for implementing or overseeing the additional action?
- **Urgency level:** How urgently are additional safeguards or actions needed to reduce risk or maintain continuity? (Low/Medium/High)

Suggested scenarios:

- Medicaid reimbursement delays create provider payment backlog
- Midyear state budget reduction affects planned expenditures
- Staff is uncertain regarding allowability of a proposed expenditure
- Supporting documentation for provider reimbursement is incomplete
- Monitoring identifies repeated local fiscal findings
- Vacancies of key fiscal staff occur during grant reporting period
- Provider billing errors increase significantly
- Audit identifies questioned costs
- Corrective actions for prior findings are delayed or incomplete
- Staff member reports suspected misuse of Part C funds

Ask your state team to review the scenarios above and discuss:

1. What fiscal compliance risks are present?
2. What documentation or procedures would help address the issue?
3. What immediate actions should occur?
4. What long-term system improvements may be needed?

Example:

Scenario: Medicaid reimbursement delays create provider payment backlog

- Potential compliance risk: Provider payment delays may disrupt service continuity or create cash flow challenges.
- Existing safeguards: Temporary reserve funds are available to support short-term payments.
- Additional action needed: Develop a contingency payment process and escalation timeline for delayed reimbursements.
- Responsible staff: Fiscal director
- Urgency level: Medium

Conclusion

The information gathered through this tool can help states identify areas of strength, prioritize actions to address potential vulnerabilities, and support ongoing fiscal planning and preparedness efforts. Please contact CIFR for additional support.

For related data systems and program implementation considerations, states may also seek technical assistance from:

Center for IDEA Early Childhood Data Systems (DaSy)

Early Childhood Technical Assistance Center (ECTA)

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