Workforce Connections Fiscal Policies Program Income

Supersedes policy No. 2.11 dated 07-11-2003
Policy Approved By: WC Executive Director
Policy Adopted on: June 2016

FIS-020-09

Revision No. 1 – Effective 04-06-18

Purpose:
To provide guidance and set forth standards for the use of program income on programs funded under Title I of the Workforce Innovation and Opportunity Act (WIOA).

Background:
The Office of Management and Budget (OMB) together with Federal awarding agencies has issued a joint final rule. This final guidance is located in Title 2 of the Code of Federal Regulations (CFR). This final guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, and A-122 (which have been placed in OMB guidance); Circulars A-89, A-102, and A-133; and the guidance in Circular A-50 on Single Audit Act follow-up. The final guidance consolidates the guidance previously contained in the aforementioned citations into a streamlined format that aims to improve both clarity and accessibility. This guidance provides a government-wide framework for grants management which will be complemented by additional efforts to strengthen program outcomes through innovative and effective use of grant-making models, performance metrics, and evaluation. This reform of OMB guidance will reduce administrative burden for non-Federal entities receiving Federal awards while reducing the risk of waste, fraud and abuse.

Policy:
It is the policy of Workforce Connections (WC) that program income earned that is attributable to any WIOA Title I awarded funds shall be used in accordance to applicable Federal, State and local regulations. Program income must only be expended on allowable sub-award activities and must be in compliance with the provisions established by the applicable uniform administrative requirements, cost principles and general fiscal administrative requirements as appropriate.

Reference:

WC must ensure that sub-recipients are aware that all program income must be accounted for and reported in compliance with Federal statutes, State and local laws and regulations. Sub-recipients must establish and maintain an effective internal system of control that provides reasonable assurance that the sub-recipient is managing awarded WIOA Title I funds in compliance with Federal, State, local laws and regulations and the terms and conditions of the sub-award agreements.
I. **Program Income – General Provisions**

Program income means gross income earned by the recipient or sub-recipient directly generated by a WIOA Title I grant-supported activity, or earned only as a result of the grant award during the period of performance.

Sub-recipients are allowed to retain program income only if it is added to the funds committed to the particular WC award/grant and if such income is used toward the award/grant purposes. Any income received by a sub-recipient, in excess of costs, should be used to defray the Federal share of the program cost.

If an organization earns or receives revenue in excess of its costs under a WIOA Title I program/project (adult, dislocated workers, youth), that revenue is to be treated as program income. This provision does not apply to commercial for-profit entities. The sub-award period is defined as the time between the effective date of the sub-award and the ending date of the sub-award reflected in the financial report.

**Program Income; Methods of Treatment**

1. **Deduction.** Program income is deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project.

2. **Addition.** Program income is added to the funds committed to the grant agreement by the Federal agency and the grantee. The program income shall be used for the purposes and under the conditions of the grant agreement. This method is required by WC.

**A. Program Income Inclusions**, (below list is not all inclusive):

1. **Fee for Services:**
   
   Income from fees charged for services (shall not be from participants services);

2. **Use or Rental Fees:**
   
   Income from the use or rental of personal property acquired with grant funds or borrowed;

3. **Sale of Products:**
   
   Income from the sale of goods constructed under a grant agreement;

4. **Interest Income:**
   
   a) Income earned from the interest paid on grant funds is treated differently for WIOA Title I programs than for most other Federal grant programs and ETA-funded required partner programs such as Wagner-Peyser. Both the Act and the regulations specify that interest earnings are to be treated as program income and are subject to the rules applying to program income referenced in 2 CFR Part 200;

   These rules apply to all programs funded under Title I of the WIOA, including adult, dislocated worker and youth. If an organization receives funds under both Title I programs and non-Title I programs, the recipient/sub-recipient is responsible for identifying the proportionate share of any interest earnings attributable to each type of program.

   b) Sub-recipients shall maintain any income earned in an interest bearing account, unless the following applies:

   1) Sub-recipient receives less than $120,000 in Federal awards per year; or

   2) The best reasonably available interest bearing account would not be expected to earn interest in excess of $250 per year on Federal cash balances; or
3) The depository would require an average or minimum balance so high that would not be feasible with the expected cash resources.

B. Program Income Exclusions, (below list is not all inclusive):
   1. Applicable Credits:
      Reductions to grant costs as a result of refunds, rebates, credits, discounts, or the interest earned on them;
   2. Sale of property:
      Proceeds from the sale of real or personal property.
   3. Royalties:
      Income from royalties and license fees for copyrighted material, patents, and inventions developed by a sub-recipient. This income is considered program income only if specifically identified as such in the grant agreement or Federal agency regulations.
   4. Income earned after the grant period has ended:
      The recipient/sub-recipient is not accountable for income earned after the end of the grant award period.
   5. Donations and Fundraising:
      Donations and contributions are voluntarily given to the recipient/sub-recipients. As they are not generated by the use of grant funds, such revenues do not constitute program income; Although costs of organized fundraising are unallowable, in the event that award funds were used to support in any way a fundraising activity, all funds raised as a result of the activity would be considered as program income.
   6. Profits of commercial organizations:
      Profits earned by commercial organizations are not considered program income.
   7. Matching funds:
      Funds provided to satisfy the matching requirements of the grants are not considered program income. Conversely, program income generated through grants may not be used to satisfy any match requirements.

II. Accounting for Revenue and Cost of Generating Program Income.
Two alternative approaches may be used for accounting for revenue and cost of generating income.

A. Net Income Method:
With the net income method approach, the costs incidental to the generation of program income are netted against or deducted from gross program income to determine the amount of net program income. The expenditures and revenues associated with performing the activity that generate program income are tracked separately in the accounting records. Periodically, revenues and expenses are netted to determine the amount of net program income.

B. Gross Income Method:
With the gross income method, all gross revenues derived from program income activities are accounted for as program income. In turn, the recipient/sub-recipient’s share of the allocable costs associated with generating that revenue are charged to the appropriate program activities and/or budget cost categories.
In the accounting records, the entire amount of gross revenues would be recorded in the program income account for the funding period. The funding period to which the program income is assigned is the same funding period to which the corresponding expenditures are charged. Expenditures incurred in generating the program income are charged to the appropriate cost categories and/or program activity.

III. Accounting for the Expenditure of Program Income.
Once the amount of program income has been determined and the funding period identified, two alternative approaches may be used to account for the expenditure of the program income.
A. Separate Accounting
When using separate accounting, program income is treated as additional funds committed to the grant agreement, for which separately identifiable services are performed, and the expenditure of program income is accounted for separately from the original agreement. For accounting purposes, the program income is treated as if it was a separate sub-grant or cost objective.

B. Transfer of Expenditures
When using transfer of expenditures accounting, expenditures are initially recorded in the accounts of the original grant agreement and are subsequently transferred to the program income account to offset as fully expended, while expenditures charged under the grant agreement are reduced by the amount of expenditures that have now been applied to program income.

IV. Use of Program Income
Only when authorized by WC and the terms and conditions of the sub-award, costs incident to the generation of program income may be deducted from gross income to determine program income, provided these costs have not been charged to the award.
A. The requirements for using program income are the same as those applied to the grant funds with the exception of the administrative cost limitation. These requirements include:
  1. Allowable cost guidelines;
  2. Cost classification guidelines;
  3. Inclusion of program income earnings and expenditure in the audit;
  4. Rules on procurement and selection of sub-recipients;
  5. Established record-keeping requirements; and

B. WC Requirement: Sub-recipients must account for program income using the “Addition Method”. The Addition Method means that program income is added to the WIOA Title I sub-award and is used to provide the same services as provided under the scope of the original sub-award agreement. The program income available to the sub-recipient for program services or activities is not officially added to the sub-award total amount.

C. Consistent with 2 CFR Part 200.307 program income is to be expended in conformance with the terms and conditions of the sub-ward, including provisions related to the period of performance or fund availability.
D. Allowable expenditures for program income are the same as those for the grant award. In instances where a grant award contains a cost limitation, the limitation does not apply to the expenditure of program income.

E. All program income, both earned and expended, must be reported on a quarterly basis on the quarterly financial status report.

F. Sub-recipients shall maintain records sufficient to determine the amount of such income earned and the purposes for which such income was expended. Program income shall be traceable through the sub-recipient’s fiscal system.

G. Program income expenditures will be tracked on a first-in first-out basis. Therefore, the first dollar of net program income earned is to be counted against the first dollar of program expenditure incurred by sub-recipient.

H. In the event earned program income cannot be used by the sub-recipient for the purposes of the grant award, the funds must be returned to Workforce Connections.

I. Program income earned by sub-recipients shall not be used to pay for disallowed costs.

J. Workforce Connections may negotiate agreements with sub-recipients regarding appropriate uses of income earned after the period of performance as part of the grant closeout process.

V. One-Stop Program Income
Program income earned at the One-Stop center as a result of shared activities or shared costs is attributable to all partners participating in the cost or activity. If program income is earned at the One-Stop as a result of shared costs or activities, then that income must be distributed to all partner organizations that participated in the activity or cost. The program income should be allocated in the same proportion as the shared costs. Program income must be expended on allowable grant activities and is subject to the requirements related to earnings and expenditures. The earning, allocation, and use of program income should be addressed in the Resource Sharing Agreement (RSA). Partners may agree to use program income to reduce their share of costs or resources needed to fund the costs if that is allowable under the partners’ authorizing statutes and regulations.