

U.S. DEPARTMENT OF EDUCATION
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES
REHABILITATION SERVICES ADMINISTRATION
WASHINGTON, D.C. 20202

TECHNICAL ASSISTANCE CIRCULAR
RSA-TAC-94-01
RSM-4001¹
DATE: 12/16/93

TO: STATE VOCATIONAL REHABILITATION AGENCIES (GENERAL)
STATE VOCATIONAL REHABILITATION AGENCIES (BLIND)
RSA DISCRETIONARY GRANTEES
REGIONAL REHABILITATION CONTINUING EDUCATION
PROGRAMS (RRCEPS)
RSA SENIOR MANAGEMENT TEAM

SUBJECT: The Use and Reporting of Program Income By Rehabilitation Services
Administration's (RSA) Discretionary Program Grantees

CITATIONS IN
REGULATION: Education Department General Administrative Regulations 34 CFR 74.40
through 74.47, 34 CFR 74.61, 34 CFR 80.20, and 34 CFR 80.25.

DISCUSSION: The purpose of this Technical Assistance Circular is to outline the
procedures for the use and reporting of program income by RSA's
discretionary program grantees, not for the use by RSA's formula program
grantees. The four areas to be covered are: (1) definition of program
income, (2) authorized uses of program income, (3) accounting for program
income, and (4) reporting program income.

I. DEFINITION OF PROGRAM INCOME

Program income is defined in the Education Department's General
Administrative Regulations (EDGAR). The specific reference is
dependent on the type of organization that receives the grant. For
institutions of higher education, hospitals, and other non-profit
organizations, the regulatory citations are 34 CFR 74.40 through 34
CFR 74.46. For State and local governments and Indian tribal
organizations, the citation is 34 CFR 80.25. The referenced
citations are similar and basically state that program income is the
gross income earned or received

¹ Under Development

by a grantee or subgrantee as a result of activities supported in whole or in part by the grant.

Program income does not include interest on grant funds. There are separate requirements that apply to interest on grant funds. The treatment of interest earned on advances of grant funds, as discussed at 34 CFR 74.47, requires that Federal funds must be maintained in interest-bearing accounts. Under 34 CFR 74.47(a) and 34 CFR 80.21(i) interest earned must be remitted to the Department of Education. Under 34 CFR 74.61(e) and 34 CFR 80.21(b), grantees must minimize the time between advances/drawdowns and disbursements.

II. AUTHORIZED USES OF PROGRAM INCOME

EDGAR requires that program income be used in at least one of three ways. An explanation of the authorization for the use of each methodology is provided below.

A. BASIC DEDUCTION ALTERNATIVE

Ordinarily program income is deducted from total allowable costs to determine the net allowable costs. Unless written authorization to use program income in any other manner has been approved by the authorized official, grantees must use the deduction alternative in reporting the use of any program income earned by the project. With the deduction alternative, program income funds are used for allowable costs of the project and are deducted from Total Outlays (lines 10(a) minus 10(c)), on the Financial Status Report (SF-269), Attachment A, eventually resulting in an unobligated balance of Federal funds (line 10p.). Under the deduction alternative, program income shall be used for current allowable costs of the project.

Regulations covering the deduction alternative are outlined at 34 CFR 74.42(c) for Institutions of Higher Education, Hospitals and Nonprofit Organizations. For State and Local Governments and Tribal Organizations, the regulations are found at 34 CFR 80.25(g)(1).

B. OPTIONAL ADDITIONAL COST ALTERNATIVE

The additional cost alternative allows State and local government grantees to retain and utilize program income for allowable obligations in line with the grant's authorized work plan (34 CFR 80.25(g)(2)). Grantees other than State and local governments are not required to use funds for only allowable costs (34 CFR 74.42(e)). For these grantees, the program income can be used for costs which are in addition to the allowable costs of the project and need not be for costs that would be permissible as charges to Federal funds. Nevertheless, the funds must further the broad objectives of the Federal statute under which the grant was made.

By using the addition alternative, a grantee uses program income funds in addition to any Federal and non-Federal funds to support the project. These funds are used for such activities as expansion of the project.

In order to use the additional cost alternative, the grantee must request and receive prior approval from the Department of Education Grants Staff. If approved, the grant award will be amended with Attachment F of the grant document.

For any grant in which program income is earned or is anticipated, RSA recommends that the grantee request written permission, as soon as possible, to use the additional cost alternative, if the proposed use of those funds furthers the objectives of the project under which the Federal grant was made. All such requests should be submitted to the Education Grants Staff person with a copy of the request to the Education Program Staff person. The names of both of these persons and their phone numbers are indicated on the Grant Award Notification in Box #3 (Attachment B).

The above request should outline the nature of the program income, the anticipated amount to be earned, and the proposed uses for the program income. Requests should clearly identify how those activities will further the objectives of the project, not just substitute for activities for which funds would have been used anyway.

Regulations covering the additional cost alternative are outlined in 34 Part 74.42(e) for Institutions of Higher Education, Hospitals, and Nonprofit Organizations and at 34 CFR 80.25(g)(2) for State and Local Governments and Indian Tribal Organizations.

C. OPTIONAL COST SHARING OR MATCHING ALTERNATIVE

Program income expenditures may be credited toward meeting the cost sharing or matching required for the grant, when expressly authorized by the Grants Staff. The procedure for approval of this alternative is the same as for the additional cost alternative. If approval were to be granted, the grant award would be amended with Attachment F. It should be noted, however, that the grantee, having received approval for either the additional cost alternative or cost sharing or match alternative, can still use the deduction alternative at any time.

Regulations concerning the use of program income for matching or cost sharing are addressed in 34 CFR 74.42(d) for Institutional of Higher Education, Hospitals, and Nonprofit Organizations and at 34 CFR 80.25(g)(3) for State and Local Governments and Indian Tribal Organizations.

III. ACCOUNTING FOR PROGRAM INCOME

Program income must be reflected in the grantee's accounting system in sufficient detail to identify source; trace obligation purpose and objective; and track resulting outlays with appropriate supporting documentation for each action. For guidance on accounting refer to 34 CFR 74.61 or 34 CFR 80.20, as appropriate.

All grantees should be prepared to deal with the receipt and disposition of program income, whether or not its receipt is expected. The allowability and applicability requirements for any obligation of program income funds should be the same as for Federal funds. This is regardless of which utilization methodology is approved for the grant. EDGAR contains specific requirements for the use and disposition of program income from royalties, and the proceeds from the sale of real property and equipment. These

requirements are addressed at 34 CFR 74.43 through 74.45 and 34 CFR 80.25(e) and (f). Disposition of general program income earned after the end of the award period is addressed at 34 CFR 80.25(h) and 34 CFR 74.46. RSA grantees are governed by the referenced citations, as applicable. Program income funds received after the grant period are not subject to any disposition requirements, unless the funds received are from the disposition or royalties, real property, or equipment, or the terms of the grant specify otherwise, as provided for in 34 CFR 74.46(b) and 34 CFR 80.25(h). If, however, the program income funds are received during the grant period, those funds must be obligated within the time period of the grant. Non-public agencies acting according to 34 CFR 74.42(e)(2) are an exception. These grantees may obligate program income to continue the project or program after grant or subgrant support ends. In that case the program income funds can be obligated after the end of the grant period. For any grantee that has received approval for an extension to the grant period, that newly revised grant period also applies to the period for obligation of program income funds. Grantees can refer to the appropriate EDGAR part, referenced OMB Circular, and program regulations for guidance on any specific obligation.

IV. REPORTING PROGRAM INCOME

Grantees must report program income on the SF-269 according to the methodology used. The receipt and expenditure of program income under any grant will require submittal of an SF-269 whether or not the form is required for any other requirement per EDGAR. The grant award notification attachment will specify the frequency, due date, the number of copies, and the name and address of the individual to whom the financial report must be sent. The instructions for the SF-269 (attached) describe the appropriate reporting of program income.

Program income used under the deduction alternative should be reported on lines 10(c) and (q); program income used in accordance with the matching or cost-sharing alternative should be reported on lines 10(g) and (q); and program income used under the additional cost alternative should be reported on line 10(r). All grantees must complete line 10(s), Undisbursed Program Income, and line 10(t), Total Program Income Realized.

It should be noted that before final closeout of a grant and submittal of a final SF-269, all program income authorized for use under the additional cost alternative must be expended and reflected as disbursed. Non-public agencies acting in line with 34 CFR 74.42(e)(2) are an exception. These grantees may obligate program income to continue the project or program after grant or subgrant support ends. For grantees using Part 80 (State and Local Governments), Line 10(s) of the SF-269 would be zero. All disbursed program income is reported on either lines 10(c), 10(g), 10(q), or 10(r) on the SF-269. If it is disbursed program income using the deduction alternative, it is shown on line 10(c), or, if it is the matching or cost sharing alternative, it is shown on line 10(g). These amounts are added on line 10(q), with disbursed program income using the addition cost alternative reported on line 10(r). The remaining program income (all undisbursed) is reported on line 10(s). RSA defines disbursed program income as funds that have been obligated and liquidated and undisbursed program income as funds either obligated and unliquidated or unobligated.

This guidance has been written to specifically address program income in RSA discretionary grants. Grantees of the Independent Living Services for Individuals Who Are Blind Program are advised to follow this guidance until such time as their programs become formula grants. Grantees of the Protection and Advocacy of Individual Rights (PAIR) Program should follow this guidance for grant funds awarded prior to FY 1994. In FY 1994, the PAIR Program became a formula grant program.

INQUIRIES:

All requests for approval of one of the optional program income methodologies (either the additional cost alternative or cost sharing and matching alternative) and questions concerning the use and reporting of program income by discretionary grantees should be addressed to the Education Grants Staff identified in Block 3 of the Grant Award Notification.

William L. Smith
Acting Commissioner, RSA