

TO: Business Managers and Research Administrators

FROM: Joseph M. Gindhart, Director - Sponsored Projects Accounting
Cindy White, Director - Research Office
Terry Thurston, Director - Grants and Contracts

DATE: January 31, 2002

SUBJECT: Program Income - Policies and Procedures

During the course of performing a sponsored project, income from the project's activities may be generated from internal or external sources. This type of income is generally called *Program Income*. The NIH Grants Policy Statement provides further guidance by stating that, "Program income is gross income earned by a grantee, a consortium participant, or a contractor under a grant that was directly generated by the grant-supported activity or earned as a result of the award." Generally, the funding agencies allow the Principal Investigator to utilize the program income for additional project related expenses and/or they will apply it as an offset to future award amounts. Since the income is project related, the University is also required to separately monitor, account and report these dollars.

The Policies and Procedures noted below have been developed to provide the University's research community with specific guidance about identifying and managing program income.

General

The University is required to treat program income generated via the performance of a sponsored project in a clear and consistent manner. The information noted below is based upon the applicable Federal guidelines, the University's general ledger structure/system (FIS) and the current practices associated with this issue. The Principal Investigator (PI), his/her co-investigators and project staff, departmental administrative support staff and the central administrative offices should utilize this data to manage, collect, allocate, expend and report program income.

Policies

Program income includes, per OMB Circular A-110 and the NIH Grants Policy Statement, income resulting from fees for services performed or the sale of commodities or items produced as part of project activities; income earned from the use or rental of property acquired under a grant; and license fees and royalties on patents and copyrights. The regulations further stipulate four different alternatives that may be utilized to manage program income:

- Additive Alternative: Program income is added to the funds committed to the project/program and is used to further eligible project/program objectives.
- Deductive Alternative: Program income is deducted from total allowable project/program costs to determine the net allowable costs on which the Federal

Program Income – Policies and Procedures, cont.
Page 2

share of costs is based. This is similar to an applicable credit being applied to reduce the amount of the Federal award.

- **Combination Alternative:** The first \$25,000 of program income is added to the funds committed to the project/program (additive alternative) and any amounts exceeding \$25,000 are deducted from total allowable project/program costs to determine the net allowable costs on which the Federal share is based (deductive alternative).
- **Cost Sharing or Matching Alternative:** Program income is used to finance some or all of the non-Federal share of the project/program.

See Attachments A & B for example calculations and NIH specific information.

The sponsored agreement (grant, contract or cooperative agreement) should specify which program income alternative is applicable to the project. In the event that the agreement does not specify the alternative to apply, the following steps should be followed:

- ◆ **NIH and Other Federal Awards:** In the event that the Federal awarding agency does not specify a program income method, the default provision for research grants is the additive alternative and the default provision for non-research grants is the deductive alternative (per OMB A-110 & 45 CFR 74 and 92).
- ◆ **Non-Federal Awards:** Contact the Sponsored Projects Accounting Department (SPA) and they will pursue the matter with the sponsoring agency.

Regardless of the alternative(s) applied, program income may be used only for eligible and allowable project/program costs, in accordance with the applicable sponsoring agency guidelines and conditions of the award. The per unit/item fee invoiced to the internal/external party should be based on the actual direct costs (salaries, fringe benefits and supplies) incurred, per the applicable sponsoring agency cost principles (i.e., OMB Circular A-21). Program income is subject to the annual OMB Circular A-133 audit and/or other sponsoring agency audit requirements. During the audit, the use of program income will be reviewed for compliance with the terms and conditions of the award/agreement, including allowability for costs, financial management and reporting.

Procedures

The Principal Investigator (PI) should identify in the grant application the source(s) and use of program income, as applicable. This information should include details such as: a description of the goods or services to be provided and how they relate to the project, a description of the internal/external parties purchasing the goods or services, the calculation methodology and components of the fee to be charged and the amount of program income generated in each grant year (year #1 = \$2,000, year #2= \$3,000, year #3 = \$2,500...).

Subsequent to the grant being funded, the PI, departmental administrator and/or their designee are responsible for the following issues associated with the generation of program income:

Program Income – Policies and Procedures, cont.

Page 3

- Manage and allocate the resources required to provide services and/or items to the internal/external parties.
- Monitor, invoice and collect fees/payments from internal/external parties.
- Adjust and/or revise fees or billings to the internal/external parties as a result of material changes in volume and/or actual costs during the project period.

The revenue and expenditures related to program income will be managed out of two funds in the general ledger (FIS). An unrestricted 93### account/fund will be established for each grant that generates the program income (revenue). All program income payments/checks should be deposited into the appropriate 93### account/fund. A mandatory cost sharing account/fund (“#####X”) associated with the grant account/fund will also be established and it will utilize the above noted 93### account/fund as the cost sharing debit account/fund. All expenditures related to the program income should be charged directly to the “#####X” account/fund. Revenue and expenditures related to other (non-program income) departmental activities should not be posted to these two accounts/funds. Noted below are the detailed steps involved with this process.

- A) The department administrator should complete the Program Income Identification Form (PIIF) and submit it to Grants and Contracts (Medical School) or the Research Office (Hilltop). See [Attachments C, D & E](#), for address data and an example of the form.
- B) G&C or the RO will review the PIIF ([Attachment D or E](#)) and forward it to the Budget Office (Medical School) or Accounting Services (Hilltop) where an unrestricted departmental account/fund (93###) will be established.
- C) Based upon the 93### account/fund number established in B), G&C or RO will establish an “X” account/fund associated with the actual grant account/fund number, using the 93### account/fund as the cost sharing debit account.

Example:

Grant Account/Fund:	30ZZ-55###
Mandatory Cost Sharing Account/Fund:	30ZZ-55###X
Unrestricted Departmental Account/Fund:	30ZZ-93###

- D) The PI or his/her designee will deposit all program income checks into the Ledger Class (LC) 11 income on the appropriate 93### account/fund and forward a copy of the receipt vouchers to G&C (Medical School) or RO (Hilltop). The PI or his/her designee should then initiate a budget adjustment (BA) to budget the check amounts in the 93### account/fund expense on LC 12 in budget object code (BUOB) 50 and the income on LC 11 BUOB 7299. G&C or the RO will then budget the same amount in the LC 22 as an increase to BUOB 35 and a decrease to BUOB 50 on the “X” account/fund. Note: the negative amount in BUOB 50 is utilized for tracking and report purposes.

Example: Program Income Check for \$1,000

Department – Deposit Check to: 11-30ZZ-93###-7299

Program Income – Policies and Procedures, cont.
Page 4

Department – Increase Budget	11-30ZZ-93###-7299
Department- Increase Budget:	12-30ZZ-93###-50
GG&C/RO- Increase Budget:	22-30ZZ-55###X-35
GG&C/RO-Decrease Budget:	22-30ZZ-55###X-50

In some instances, services/goods may be provided to other departments and/or units within the University. Payment for the services/goods should be processed via an Interdepartmental entry (ID). The department/unit that received the services/goods should debit the appropriate account/fund (ledger class 12 or 22) and expense BUOB. The department/unit that provided the services/goods should post the credit to the appropriate 93### account/fund, ledger class 12 and BUOB 81. The PI or his/her designee should then initiate a BA to budget the corresponding debit in the 93### account/fund expense on LC 12 in BUOB 50 and the expense credit on LC 12 BUOB 81. A copy of the ID should also be forwarded to either G&C or the RO so they can post the corresponding budget adjustments.

Example: Interdepartmental Transaction for \$1,000

Department Receiving Goods – ID Debit:	22-3YZZ-54###-34
Department Providing Goods – ID Credit:	12-30ZZ-93###-81

Department – Increase Budget	12-30ZZ-93###-81
Department- Increase Budget:	12-30ZZ-93###-50

GG&C/RO- Increase Budget:	22-30ZZ-55###X-35
GG&C/RO-Decrease Budget:	22-30ZZ-55###X-50

- E) The PI should post the expenses related to the product or services to the “X” account/fund associated with the grant. The free balance on the LC 22 of the “X” account/fund will be reduced as the expenses are encumbered/incurred. On a monthly basis, an automated journal entry credits the BUOB 50 on the LC 22 “X” account/fund and debits the BUOB 50 on the 93### account/fund, for an amount equal to the actual expenditures posted to the “X” account/fund during the month. This monthly entry matches the program income expenses incurred on the “X” account/fund to the actual program income revenue on the 93### account/fund.
- F) A monthly report is reviewed by G&C or RO that identifies situations in which the 93 and the “X” accounts are out of balance and require reconciliation. G&C or the RO will communicate these issues to the PI’s department, as applicable.

If program income is generated for an award in which the Deductive Alternative is applicable, the cash receipt, ID and budget entries noted in D) should be processed in the same manner. In addition to those entries, G&C or the RO will transfer budget dollars on the sponsored fund from the direct and indirect expenditure BUOB’s to BUOB 86 (Unavailable), in an amount equal to the program income generated. This additional budget entry reduces/restricts the awarded funds available for the project.

For projects in which the Combination Alternative is applicable, the income/receipts in excess of \$25,000 will be budgeted by G&C or the RO in the “Unavailable” budget object code (86) until the issue is resolved with the granting agency. G&C or the RO will coordinate this issue with

Program Income – Policies and Procedures, cont.
Page 5

the PI, department and the agency.

G&C and the RO forward copies of the PIIF's and receipt vouchers to Sponsored Projects Accounting (SPA). The SPA staff will monitor this information and the expenditures on the "X" account/fund for compliance with the sponsoring agency's program income guidelines. SPA will include the expenditure and revenue data contained in the "X" and 93### accounts/funds in the financial reports/invoices submitted, as applicable.

Other Issues

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.

Unless the Federal awarding agency regulations or terms and conditions of the award provide otherwise, recipients shall have no obligation to the Federal Government with respect to program income earned from license fees and royalties for copyrighted material, patents, patent applications, trademarks, and inventions produced under the award belongs to the recipients.

Proceeds from the sale of property (equipment) must be handled in accordance with the sponsoring agency's property guidelines. In some cases, the proceeds from the sale of property must be credited back to original grant/funding sources. See the University's Government Funded Property Policies and Procedures (<http://spa.wustl.edu> – see Administrative Policies) for additional information.

Program income earned after the project period belongs to the recipient. These amounts do not have to be reported or remitted to the sponsoring agency.

Under any of the program income alternatives, funds may be used only for eligible costs as specified in the governing statutes, regulations, cost principles and/or the award/agreement. However, under the additive alternative, the awarding office may allow a grantee to use program income for eligible costs that might not be expressly allowable under the terms and conditions of the award. This is a case-by-case determination based on a grantee's documented request and a review by the awarding office. An approval will indicate if there are conditions associated with the level, timing, or reporting of expenditures.

The policies and procedures noted above should clarify how program income must be treated throughout the life of the project. This information, as well as other policies and procedures related to sponsored projects, will be posted on Sponsored Projects Accounting's web page (<http://spa.wustl.edu/admin.html>) and the Research News' web page (<http://researchnews.wustl.edu>, see Message Library). If there are any issues that have not been addressed in this document, please contact Joe Gindhart at 935-7089 / joe_gindhart@aismail.wustl.edu, Cindy White at 935-5825 / whitec@msnotes.wustl.edu or Terry Thurston at 362-6876 / thurstot@msnotes.wustl.edu . Thank you for your cooperation in this matter.

PROGRAM INCOME USE ALTERNATIVES

EXAMPLES

ADDITIVE ALTERNATIVE

Total Project Costs		\$150,000
Requested Budget	\$150,000	
Estimated Program Income (PI)	<u>15,000</u>	
Award Amount		<u>150,000</u>
Total Available Funding (PI & Award)		<u>\$165,000</u>

DEDUCTIVE ALTERNATIVE

Total Project Costs		\$150,000
Requested Budget	\$150,000	
Estimated Program Income (PI)	<u>15,000</u>	
Award Amount		<u>135,000</u>
Total Available Funding (PI & Award)		<u>\$150,000</u>

COMBINATION ALTERNATIVE

Total Project Costs		\$150,000
Requested Budget	\$150,000	
Estimated Program Income (PI)	<u>35,000</u>	
Award Amount		<u>140,000</u>
Total Available Funding (PI & Award)		<u>\$175,000</u>

COST SHARING OR MATCHING ALTERNATIVE

Total Project Costs		\$150,000
Requested Budget	\$150,000	
Cost Sharing (University)	15,000	
Estimated Program Income (PI)	<u>15,000</u>	
Award Amount		<u>135,000</u>
Total Available Funding (PI & Award)		<u>\$150,000</u>

**NIH AWARDS
REQUIREMENTS FOR PROGRAM INCOME ACCOUNTABILITY**

(Per the NIH Grants Policy Statement, Part II, Subpart A, see <http://grants.nih.gov/grants/policy/nihgps/>)

Program Income Alternative	Use of Program Income	Applicability
Additive Alternative	Added to funds committed to the project or program and used to further eligible project or program objectives.	Applies to NIH awards subject to expanded authorities and to awards under the SBIR/SBTR programs, unless the terms and conditions of the award specify the use of another alternative.
Deductive Alternative	Deducted from total allowable costs of the project or program to determine the net allowable costs on which the Federal share of costs will be based.	Applies to NIH awards issued to non-SBIR/STTR for-profit organizations and to other awards if specified in the terms and conditions of award.
Combination Alternative	Uses all program income up to (and including) \$25,000 as specified under the additive alternative and any amount of program income exceeding \$25,000 under the deductive alternative.	Applies to all other awards, unless the terms and conditions of the award indicate otherwise.
Matching Alternative	Used to satisfy all or part of the non-Federal share of a project or program.	Available for use by NIH programs that require matching.

Attachment C

Program income forms, cash receipt vouchers and other applicable information should be sent to appropriate addresses noted below.

Grants & Contracts

Room 114 Cancer Research Bldg.
Campus Box 8018
660 South Euclid Ave.
St. Louis, MO 63110
Phone: (314) 747-4444
Fax: (314)362-0315
<http://medicine.wustl.edu/~grants/>

Research Office

Prince Hall
Campus Box 1054
One Brookings Drive
St. Louis, MO 63130-4899
Phone: (314)935-5889
Fax: (314)935-5862
<http://research.wustl.edu/ro/>

Sponsored Projects Accounting

West Campus
Campus Box 1034
7425 Forsyth Blvd.
St. Louis, MO 63105-2161
Phone: (314)935-9789
Fax: (314)935-4309
<http://spa.wustl.edu/>

WASHINGTON UNIVERSITY SCHOOL OF MEDICINE
GIFTS, GRANTS & CONTRACTS
PROGRAM INCOME IDENTIFICATION
FORM (PIIF)

Date: _____

Please establish a Program Income Cost Sharing account and Debit account (93xxx)

P.I. Of Project	Department/Division	Fund
Anticipated annual program income	\$	
Description of activity generating income		

Select method per NGA:

<input type="checkbox"/>	Additional Costs	<input type="checkbox"/>	Combination Alternative
<input type="checkbox"/>	Deduction	<input type="checkbox"/>	Matching

Authorized Departmental Signature

Once completed, submit this form to the appropriate Award Assistant for your department:

<input type="checkbox"/>	Michelle Oakley, Manager 362-2010	<input type="checkbox"/>	Stephanie Paton 362-6019
		<input type="checkbox"/>	Linda Mudd 362-6877
		<input type="checkbox"/>	Dyanna Vitale 747-1696

For GG&C Office use only:

93XXX fund established by Budget Office:

Profile(s):

WASHINGTON UNIVERSITY - Hilltop Campus
RESEARCH OFFICE

PROGRAM INCOME IDENTIFICATION
FORM (PIIF)

Date: _____

Please establish a Program Income Cost Sharing account and Debit account (93xxx)

_____ P.I. Of Project _____ Department/Division _____ Fund

Anticipated annual program income \$

Description of activity generating income _____

Select method per NGA:

Additional Costs

Combination Alternative

Deduction

Matching

Authorized Departmental Signature

Authorized School Signature

Once completed, submit this form to:

Cindy White, Director
Research Office
Campus Box 1054
(v) 314-935-5825
(f) 314-935-5862

For Research Office use only:

93XXX fund established by General Accounting:

Profile(s): _____

