

A refresher of **CARES Act** funding and effect on **Single Audits**

May 26 at noon CT

Continuing education credits available

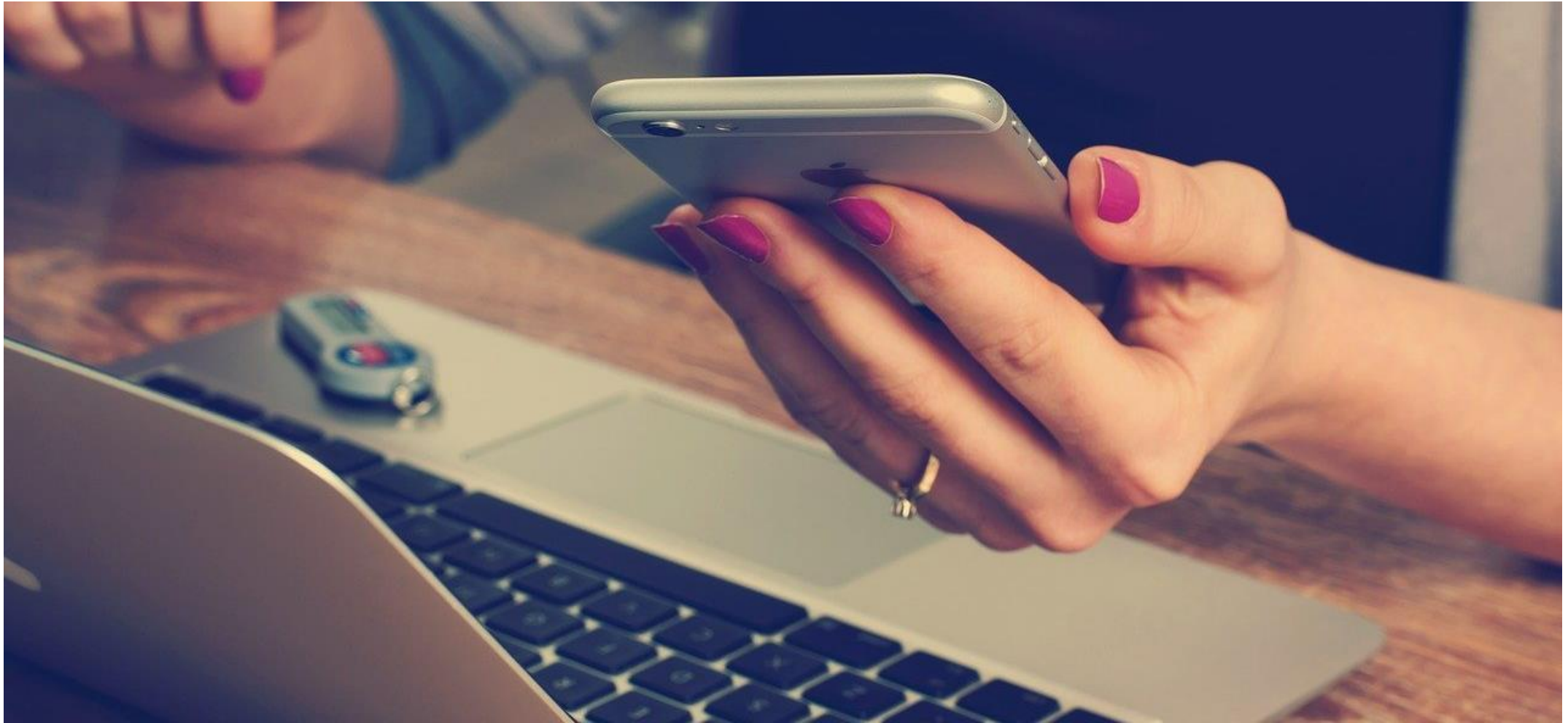
Please answer at least **three** polling questions.



Recording & slides will be available



For best audio quality, call in by phone



Questions? Ask away!



Don't forget our survey





Mike Lowry, CGFM

Mike specializes in governmental and not-for-profit clients.

Mike is a CPA and a Certified Government Financial Manager.



Learning objectives

1 **Review**

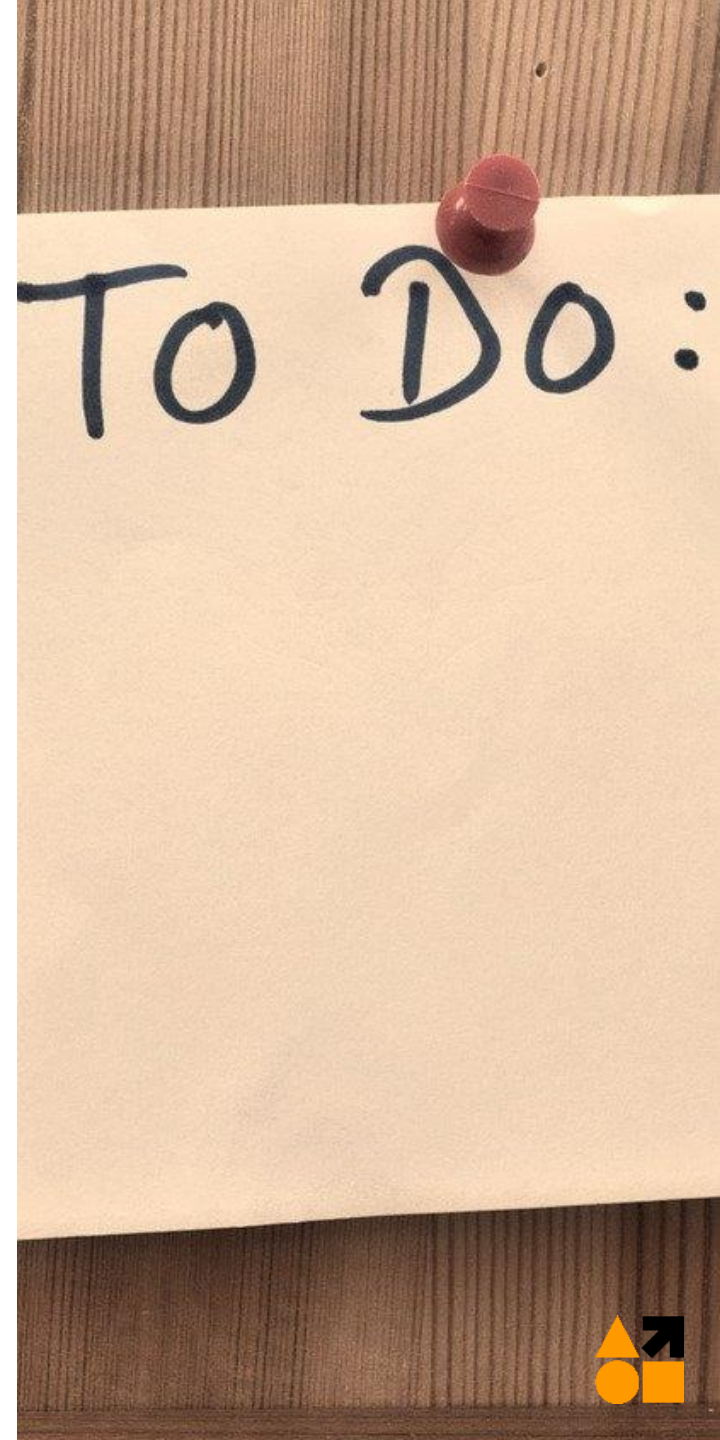
Obtain an overview and refresher of the CARES Act funding

2 **Prepare**

Learn how to best prepare for upcoming audits based on lessons learned

3 **Discuss**

Review recent developments, GASB accounting guidance and what to expect in the future



When is a single audit required?

When a non-federal entity **expends \$750,000 or more** of federal awards in their fiscal year.

Note that the trigger is what was spent, not what was received.



Six-month extensions

Snapshot of extensions provided by OMB Memo 21-20 for audits not submitted at 3/19/2021

| Fiscal year end | Normal due date | Extended due date |
|--------------------|--------------------|--------------------|
| June 30, 2020 | March 31, 2021 | September 30, 2021 |
| July 31, 2020 | April 30, 2021 | October 31, 2021 |
| August 31, 2020 | May 31, 2021 | November 30, 2021 |
| September 30, 2020 | June 30, 2021 | December 31, 2021 |
| October 31, 2020 | July 31, 2021 | January 31, 2022 |
| November 30, 2020 | August 31, 2021 | February 28, 2022 |
| December 31, 2020 | September 30, 2021 | March 31, 2022 |
| January 31, 2021 | October 31, 2021 | April 30, 2022 |
| February 28, 2021 | November 30, 2021 | April 30, 2022 |
| March 31, 2021 | December 31, 2021 | June 30, 2022 |
| April 30, 2021 | January 31, 2022 | July 31, 2022 |
| May 31, 2021 | February 28, 2022 | August 31, 2022 |
| June 30, 2021 | March 31, 2022 | September 30, 2022 |



The large programs

1 **Paycheck Protection Program (PPP)**

Federal agency: SBA

For-profits, NFPs

Is not subject to single audit

CFDA: 59.073

2 **Provider Relief Fund**

Federal agency: HHS

For-profits, NFPs, Governmental entities

Is subject to single audit

CFDA: 93.498

3 **Coronavirus Relief Fund**

Federal agency: Treasury

Governmental entities and Tribes

Is subject to single audit

CFDA: 21.019

4 **Educational Stabilization Fund**

Federal Agency: Education

States, schools, IHE

Is subject to single audit

CFDA: 84.425



The timeline

CARES Act passed
3/27/2020 with eligible
expense/expenditures
through 12/31/2020

Extended through
12/31/2021 via
Consolidated
Appropriations Act 2021

New funding issued
through the American
Rescue Plan Act (ARPA)



How to account for funding

The CARES Act provides that payment from the Fund may only be used to cover costs that:

Are **necessary** expenditures incurred due to the public health emergency with respect to COVID-19

Were **not accounted for** in the budget most recently approved as of 3/27/2020

Were **incurred during the period** that begins 3/1/2020 and ends 12/31/2021



Necessary expenditures incurred due to the public health emergency

Expenditures **must** be used for actions taken to **respond** to the public health emergency

Addressing medical or public health needs

Providing economic support from employment or business interruptions due to COVID-19

Expenditure reasonably necessary for its intended use in the **reasonable judgment** of the officials responsible for spending fund payments

Revenue replacement is not allowed!



Costs not accounted for in the budget most recently approved

A cost **meets** the requirement if **either**:

1. The cost **cannot lawfully be funded** using a line item, allotment or allocation with that budget
2. The cost is for a **substantially different use** from any expected use of fund in such a line item, allotment, or allocation



Cost incurred during the period between 3/1/2020 and 12/31/2021

Payments from the Fund may **only be used**
to cover costs that were **incurred during** the period
that begins on 3/1/2020 and ends on 12/31/2021



In summary

A state, local or Tribal government may use payments from the Fund only to:

Cover previously **unbudgeted** costs

Of **necessary** expenditures “incurred”

Due to the COVID-19 public health emergency

During the covered period



Polling question #1

When is an eligible cost “incurred”?

A cost is considered to have been incurred when:

Performance or delivery has occurred during the covered period

In all cases it must be necessary that performance or delivery take place during the covered period

Payment of funds **need not be made** during that time

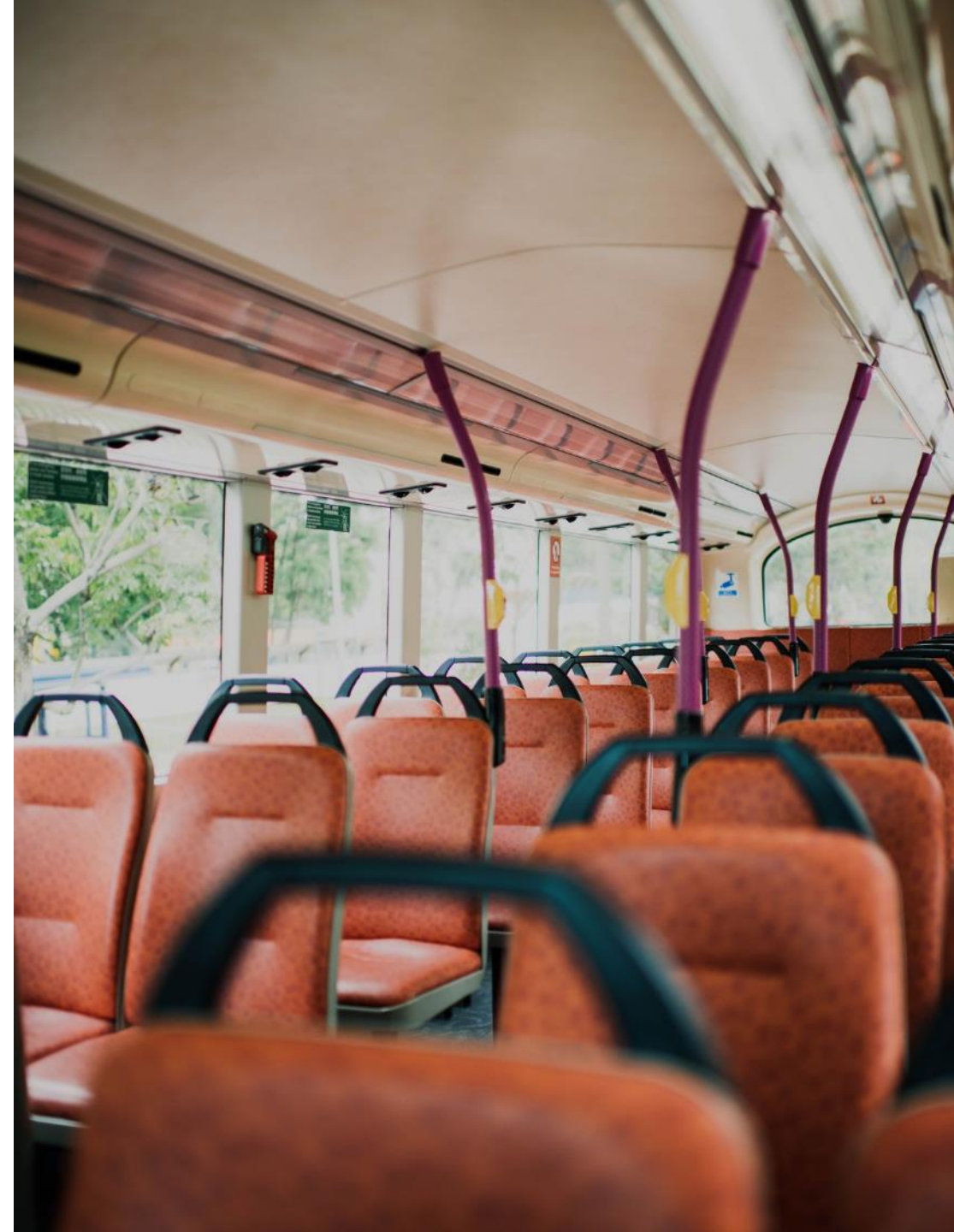
Generally within 90 days



Incurred cost example

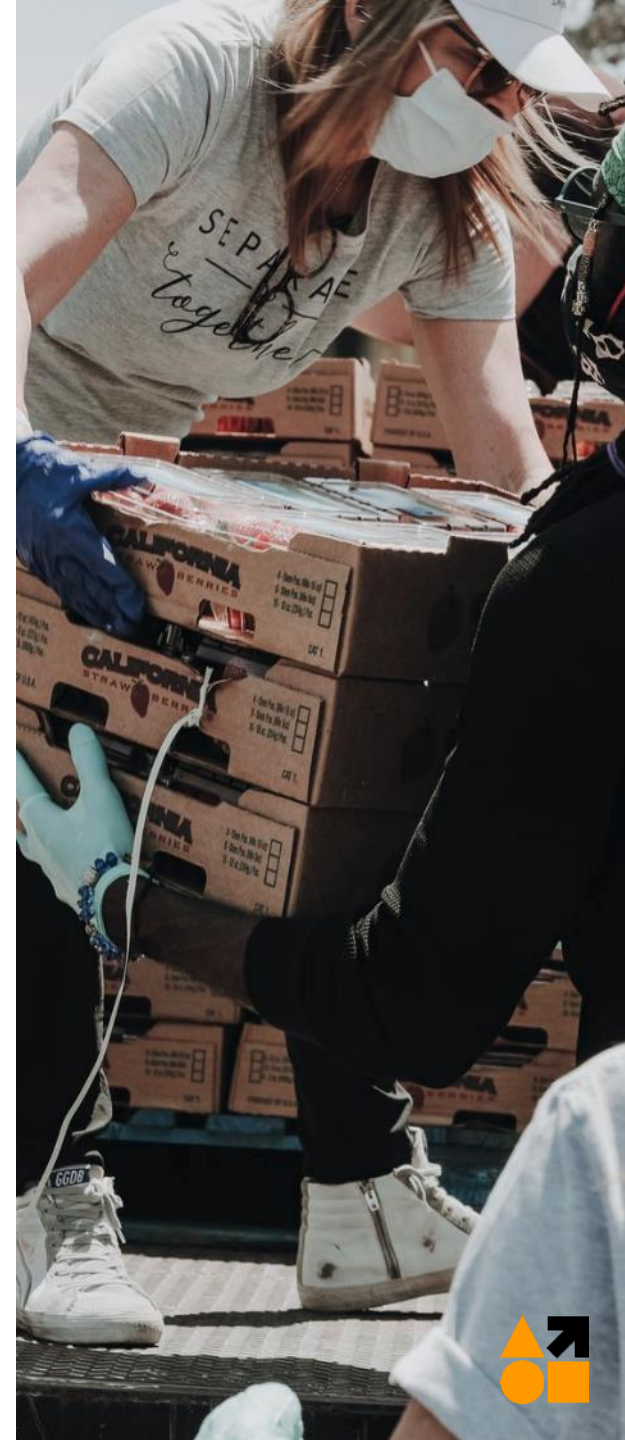
Leased equipment or other property

Irrespective of when payment occurs, the cost of a lease payment shall be considered to have been incurred for the **period of the lease** that is within the covered period.



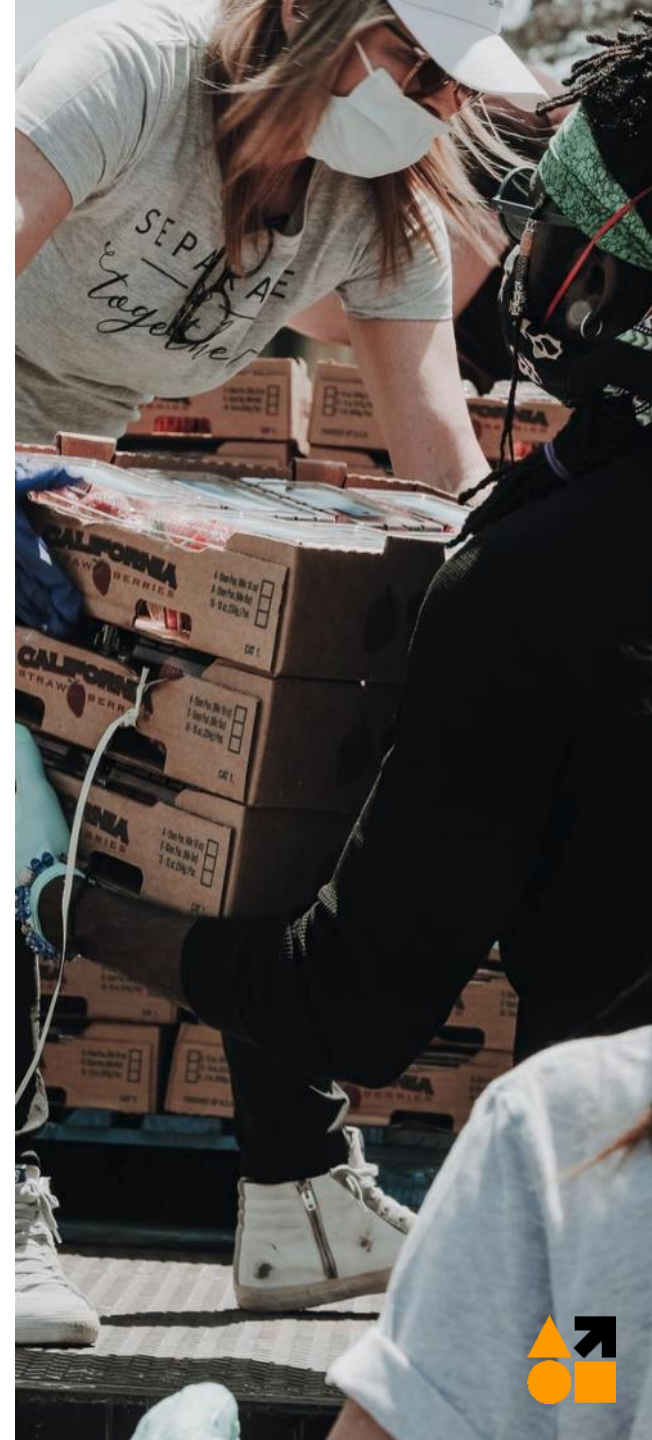
When is an eligible cost “incurred”?

- Goods delivered in the covered period **need not be used** during the covered period
- Cost of good purchased in bulk
- Durable goods
- Timing



When is an eligible cost “incurred”?

- Same rules apply for sub-recipients



Examples of eligible expenditures

Six main categories



Medical expenses



Expenses to facilitate compliance with COVID-19



Public health expenses



Economic support in connection with COVID-19



Payroll expenses for public safety



Any other COVID-19 related expenses

Examples of ineligible expenditures



State share of
Medicaid



Expenses reimbursed
under other federal
programs



Severance pay



Damages covered by
insurance



Reimbursement to
donors



Legal settlements



Payroll/benefits of
employees not substantially
dedicated to managing
COVID-19



Bonuses other than
hazard pay or
overtime

What about indirect costs?

In general, **not allowed**.

May **charge a portion** of payroll/benefits of time spent on administrative work necessary due to COVID.



Polling question #2

What if I do not spend all of my funding?

Must be returned to the Treasury in one of three ways:

Fedwire

ACH

Check

(least preferred)



What about costs related to single audit?

A **proportionate share** of the costs of the Single Audit are allowed.



What about payroll?

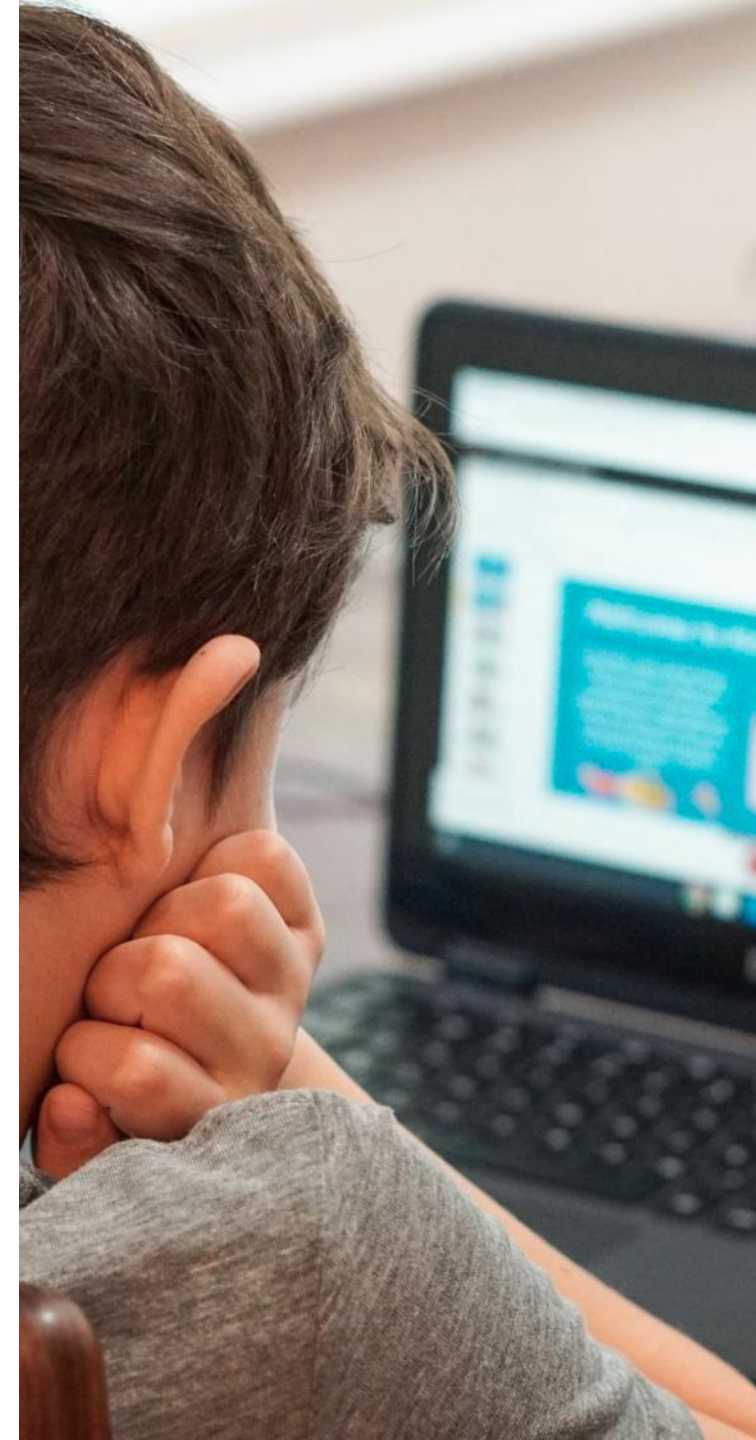
- 1 Substantially different use
- 2 Substantially dedicated
- 3 Public health & public safety
- 4 Not substantially dedicated
- 5 Covered benefits



Substantially different use example

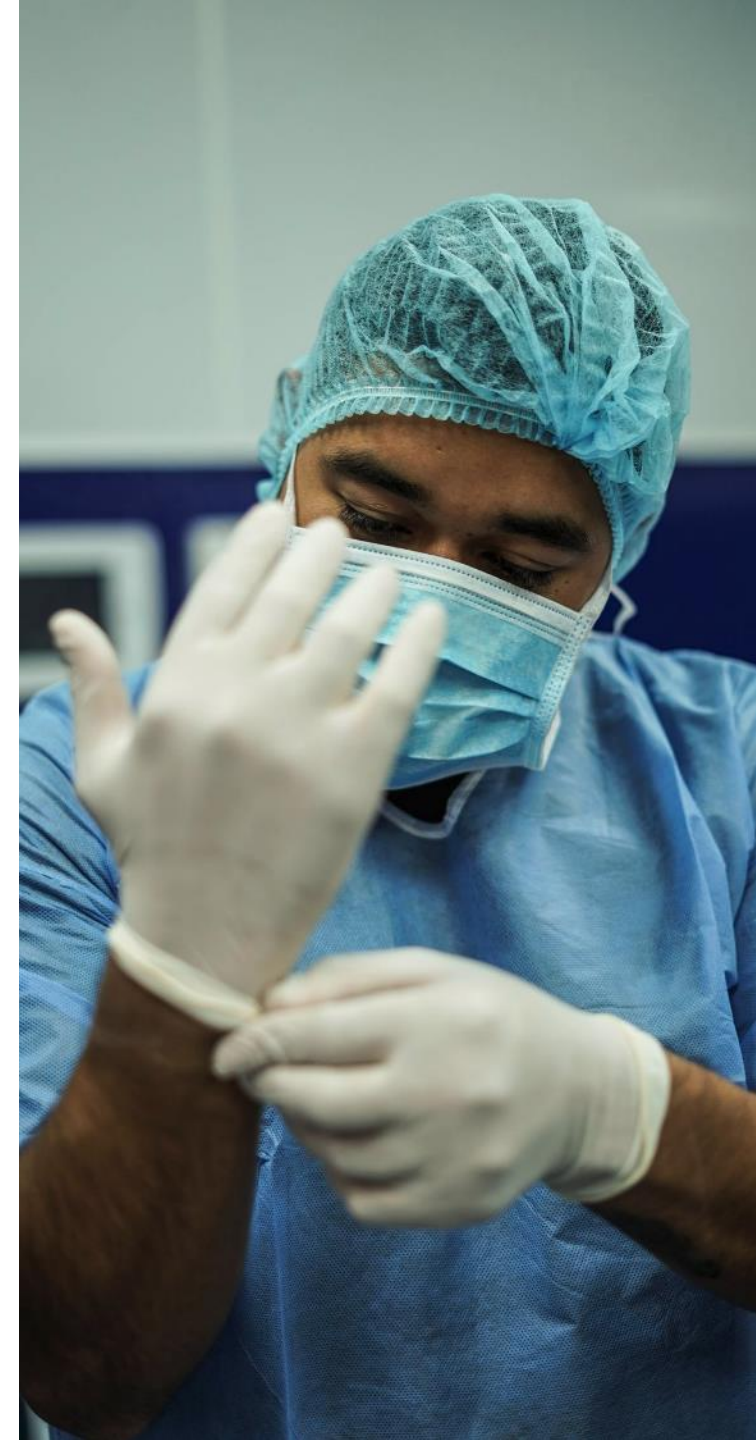
Not accounted for in the budget most recently approved as of 3/27/2020.

- The cost cannot lawfully be funded using a line item, allotment or allocation within the budget.
- The cost is for a substantially different use from any expected use of funds.



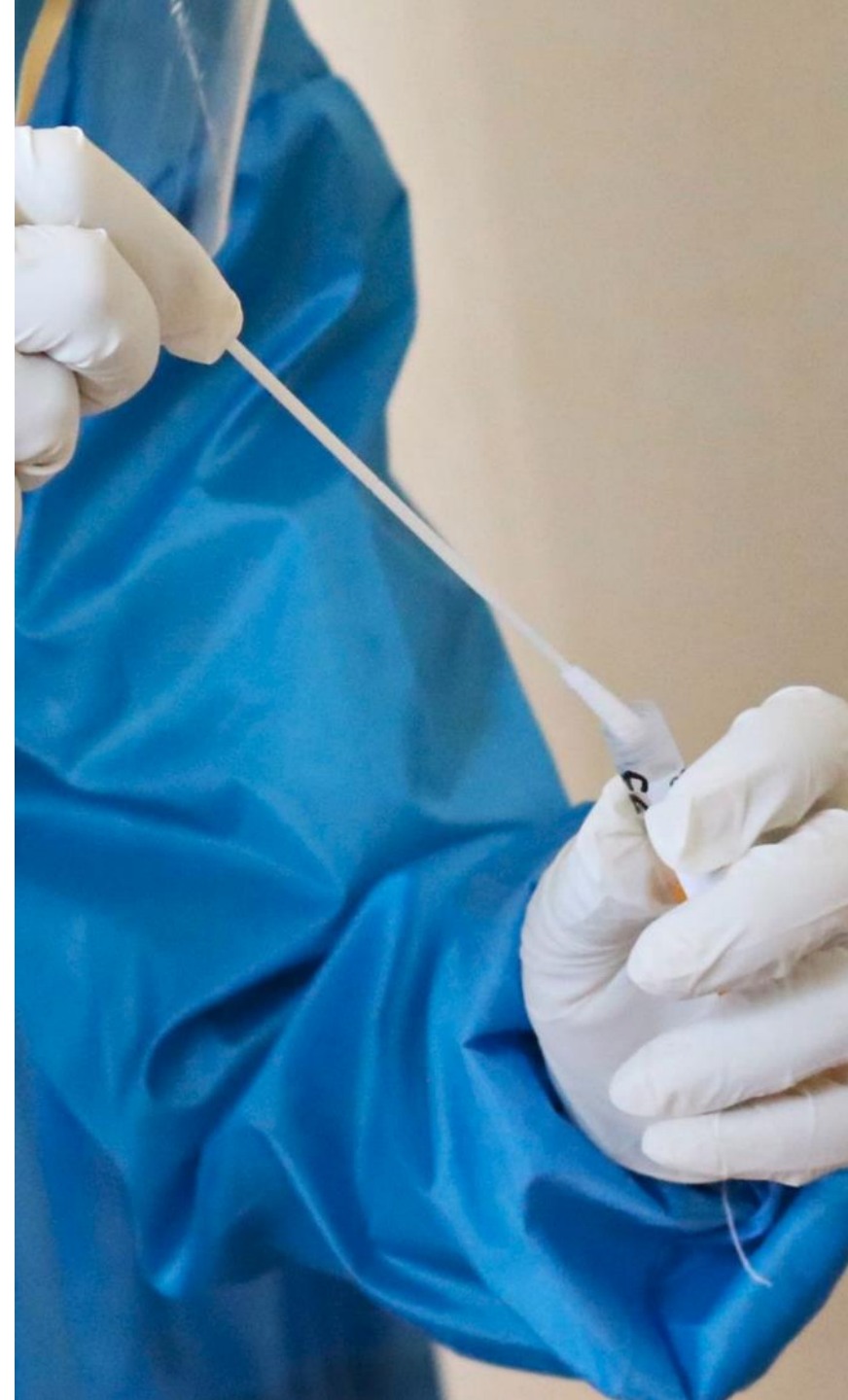
Substantially dedicated

Treasury **has included** payroll/benefits expenses for public safety, public health, health care, human services and similar employees whose services are **substantially dedicated to mitigating or responding** to the COVID-19 public health emergency.



Public health & public safety

Per the Treasury, **may presume** that public health and public safety meet the substantially dedicated test, unless the CEO (or equivalent) of the government determines that specific circumstances indicate otherwise.



Not substantially dedicated

- Can apply fund payments to those who have a **minority or part of their time** dedicated to the COVID-19 public health emergency.
- **Must track and document time!**



Covered benefits

Include but are not limited to:



Costs of all types of leave



Retirement



Employee insurance



Unemployment benefit plans



FICA (Social Security & Medicare taxes)



Workers compensation insurance

Polling question #3

Schedule of Expenditures of Federal Awards or “SEFA”



When should expenditures go
on the SEFA?



How should expenditures be
displayed on the SEFA?

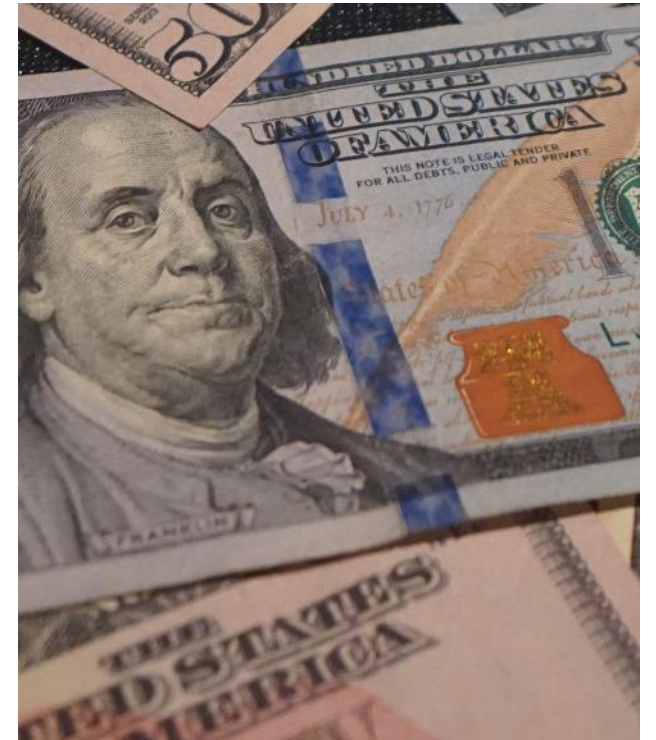


“Out of period”
amounts

Federal agencies are **required** to specifically identify COVID-19 awards

Both funded to new programs or to existing Assistance Listing numbers

When COVID-19 funds are subawarded from an existing program, the information furnished to subrecipients should distinguish the subawards of incremental COVID-19 funds from non-COVID-19 subawards under the existing program.



Nonfederal entities **should separately identify** COVID-19 expenditures on SEFA & DCF

This includes both new and existing programs

SEFA presentation: On a separate line by CFDA number with COVID-19 as a prefix to the program name or on a separate row.

SEFA Example:

| | | |
|--|--------|-------------------|
| COVID-19 temporary assistance for needy families | 93.558 | \$1,000,000 |
| Temporary assistance for needy families | 93.558 | \$3,000,000 |
| TOTAL: Temporary assistance for needy families | | <hr/> \$4,000,000 |



When should expenditures go on the SEFA?

General rule of thumb for SEFA inclusion

- Underlying activity occurs
- There is an award/terms of conditions
- Not necessarily tied to GAAP recognition of revenue

SOURCE: AICPA 2020 SUPPLEMENT AND COVID-19 SINGLE AUDIT IMPLICATIONS



Grants management

- Recognition
- Regulation
- Pass-through entities
- Subrecipient v. contractor
- Subrecipient v. beneficiary
- Subrecipient monitoring
- Documentation
- Internal controls
- Reporting



When is there an award (or terms & conditions)?

Very challenging to determine in some cases, especially when funds received in advance:

- Typical awarding process not followed due to pandemic crisis
- May not be a “signed” document

SOURCE: AICPA 2020 SUPPLEMENT AND COVID-19 SINGLE AUDIT IMPLICATIONS



When is there an award (or terms & conditions)?

Suggestions for determining award date when it is unclear:

- Discussions with management and results of management discussions with PTEs, when applicable
- Review of client records including Board minutes and email correspondence

SOURCE: AICPA 2020 SUPPLEMENT AND COVID-19 SINGLE AUDIT IMPLICATIONS

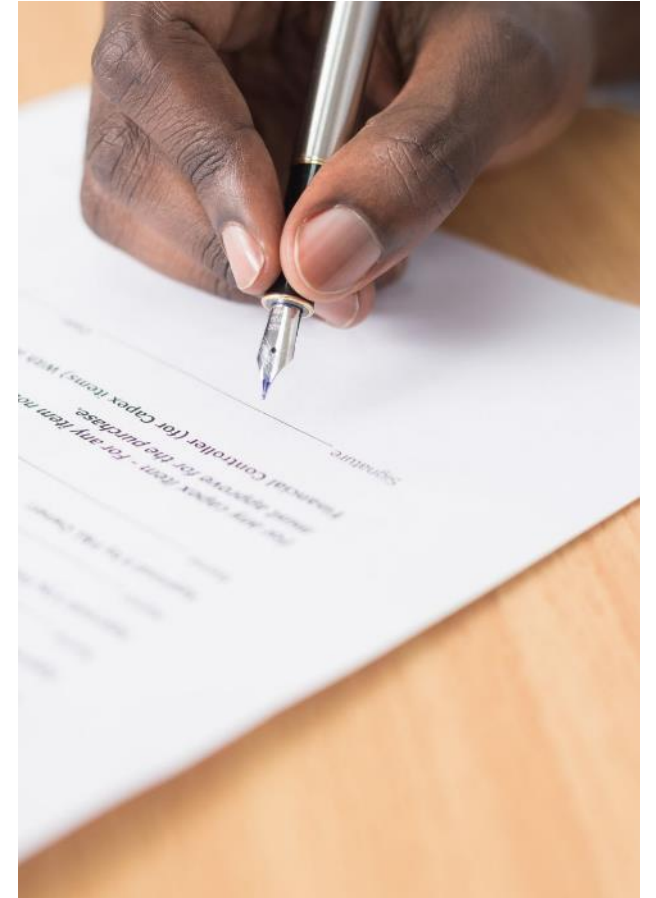


Responsibilities for informing subrecipients

PTEs agree to separately identify to each subrecipient, and **document at the time of subaward and at the time of disbursement of funds:**

- Federal award number
- Assistance listing number
- Amount of COVID-19 funds

When COVID-19 funds are subawarded for an existing program, the information furnished to subrecipients should distinguish the subawards of incremental COVID-19 funds from regular subawards.



Contractor v. Subrecipient

Contractor

Defined as an entity that receives a contract.

Subrecipient

Defined as a non-federal entity that receives a subaward from a pass-through entity to carry out a part of a federal program, but does not include an individual that is a beneficiary of such a program.



Contractor v. Subrecipient

Contractor

- Obtains goods/services which generally creates a procurement relationship
- Usually provides these goods/services within normal business operations
- Provides these goods/services to many purchasers
- Generally operates in a competitive environment
- Goods/services provided are ancillary to the federal program
- Contractor does not generally participate in the design of the project
- Little to no independent decision-making involved
- Commitment to deliver a good/service on a specific date or cost
- Technology or products developed will not be owned by the contractor

Subrecipient

- Creates a federal assistance relationship
- Determines who is eligible to receive what federal assistance
- Performance measured in relation to whether objectives of federal program were met
- Has programmatic decision-making responsibilities
- Must comply with program requirements
- Uses the funds to carry out program for public purposes specific to the award
- Substantive, programmatic work or an important or significant portion of the program is being undertaken
- Receiving entity retains some element of programmatic control
- May have to provide cost sharing or matching funds



Subrecipient v. Beneficiary

Subrecipients would **not include** individuals and organizations (e.g., businesses, non-profits, or educational institutions) that are **beneficiaries** of an assistance program established using payments from the Fund.

- ¹ An **organization using** CARES funding for payroll costs v. the **employee receiving** the payroll payment
- ² A **city using** CARES funding to establish a small business forgivable loan program v. the **small business receiving** the money



Polling question #4

Documentation of expenditures

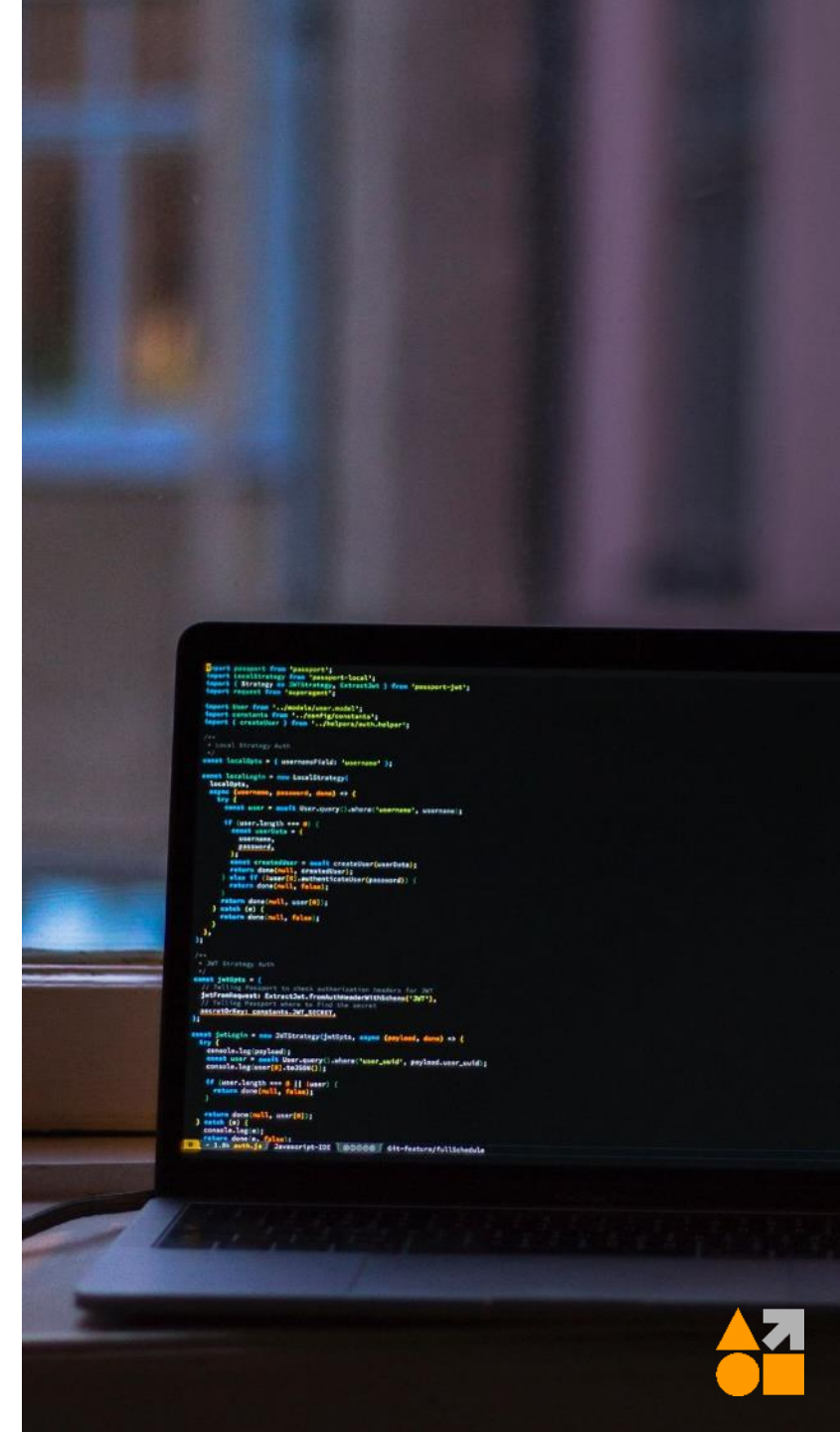
In general, **a government should keep records sufficient to demonstrate that the amount of Fund payments to the government has been used in accordance with section 601(d) of the Social Security Act.**

- Receipts & contracts
- Time reporting
- Documents requesting and authorizing benefits paid
- Substantially dedicated employees



Internal controls: Best practices

- Set internal guidelines on allowable expenditures
- Identify and track expenditures
- Documentation of expenditures
- Maintain and monitor internal controls
- Consider any changes to internal controls over financial reporting due to a remote work environment
 - Especially if a paper-based organization
 - Information systems and paper trail – need for more automation and the impact on the control environment



Reporting

So, what does Section 15011 of the CARES Act require to be reported?

Total amount

The total amount of large covered funds received from the Department.

Amount per activity

The amount of large covered funds received that were expended or obligated for each project or activity.

List of all projects

A detailed list of all projects or activities for which large covered funds were expended or obligated, including name of project, description, and estimated number of jobs created/retained.

Detailed info on subs

Detailed information on any level of subcontracts or subgrants awarded by the covered recipient or its subcontractors or subgrantees to include the data elements required to comply with the Federal Funding Accountability and Transparency Act allowing aggregate reporting on < \$50k awards.



The American Rescue Plan

- The American Rescue Plan Act (H.R. 1319) passed 3/10/2021
- \$350B in emergency funding for state, local, territorial, and Tribal governments to respond to COVID-19
 - \$195B for states
 - \$130B for local governments
 - \$20B for Tribal governments
 - \$4.5B for territories
- Guidance is under development



The American Rescue Plan

- Generally, if cost was eligible under CRF, it is eligible under this plan
 - Allows for some capital projects, infrastructure (including broadband) and revenue loss replacement
- Premium pay for essential workers
- Cover costs incurred beginning on March 3, 2021



GASB standards tracker

Fiscal years ending **12/31/2020**

1. GASB 84, Fiduciary Activities, and related Implementation Guide (IG) 2019-2
2. GASB 90, Majority Equity Interests

Fiscal years ending **6/30/2021**

1. GASB IG 2019-1
2. GASB 93, except paragraphs 11b and 13-14, Replacement of Interbank Offered Rates

Fiscal years ending **12/31/2021**

1. GASB 89, Accounting for Interest Cost Incurred before the end of a Construction Period
2. GASB IS 2019-2, Questions 4.3 and 4.5 (per GASB 95)



GASB standards tracker

Fiscal years ending **6/30/2022**

1. GASB 87, Leases, and related IG 2019-3
2. GASB 92, Omnibus 2020, paragraphs 6-10 and 12
3. GASB 93, paragraphs 13 and 14
4. GASB 97, except 4 and 5, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Compensation Plans

Reporting periods ending **1/31/2022**

1. GASB 93, paragraph 11b



GASB standards tracker

Fiscal years ending **6/30/2023**

1. GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
2. GASB 96, Subscription-Based Information Technology Arrangement

Questions have various effective dates

1. GASB IG 2020-1



Helpful guidance

Treasury Coronavirus Relief Fund

<https://aghlc.info/3odnbrb>



State & Local Fiscal Recover Funds

<https://aghlc.info/3elcB8C>

AICPA – Preparing for your first single audit

<https://aghlc.info/3hIEfdb>



Thank you!

Mike Lowry

**Senior Vice President, Assurance Services
Allen, Gibbs & Houlik, L.C.**

Mike.Lowry@aghlc.com

/in/mike-lowry-8822945

316.267.7231

Visit AGHUniversity.com for upcoming
and on-demand webinars.

Questions not related to the content?

Email Mike.Ditch@aghlc.com.

