



April 10, 2020

Mr. Timothy Soltis, Deputy Controller
Ms. Rhea Hubbard, Senior Policy Analyst, Grants Team Lead
Mr. Gilbert Tran, Senior Policy Analyst
U.S. Office of Management and Budget
Office of Federal Financial Management
725 17th Street, NW
Washington, DC 20500

Dear Tim, Rhea, and Gil:

I am writing on behalf of the AICPA Governmental Audit Quality Center (GAQC) regarding the future impact on single audits of the Novel Coronavirus (COVID-19) outbreak and the subsequent passage of the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (2020 Supplemental Appropriations Act) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. We recognize the unprecedented challenges that are being faced by OMB and the federal agencies at this time and appreciate the efforts made to share information with the grants community. We are writing today to offer our help on behalf of the CPA profession.

Single audits can play a role in the government's oversight efforts of COVID-19 funds being passed down to states, local governments, and not-for-profit organizations. However, for single audits to be most useful, OMB and the various federal agencies need to issue clear, timely, and easily accessible guidance to auditees and auditors. To assist OMB and the agencies in identifying areas that need to be addressed, we have provided in attachments to this letter questions and issues that have been identified by members of the GAQC Executive Committee and other questions received from the AICPA membership at large.

Some entities and their auditors would like to soon begin interim work on June 30, 2020, year-end single audits. We believe the issuance of OMB and agency guidance and the timely development of answers to commonly asked questions will be critical to the compliance and audit process. We also believe that having key stakeholders involved in the discussions and deliberations on questions and issues will help ensure that all aspects of proposed solutions are considered, including any potential audit implications.

Again, we stand ready to assist OMB and the agencies and sincerely hope you will call on us. Please feel free to contact me at mary.foelster@aicpa-cima.com or 202-434-9259 to discuss future steps and how we can further assist.

Sincerely,

A handwritten signature in black ink that reads "Mary M. Foelster".

Mary M. Foelster
Senior Director
Governmental Accounting and Auditing

cc: GAQC Executive Committee

**Summary of AICPA Questions Submitted to OMB on COVID-19 Matters
As of April 10, 2020**

Subject to Single Audit?

SBA PPP Loans and Other CARES Act Funds Subject to Single Audit? The most common question we have received to date is whether the Small Business Administration (SBA) Payment Protection Program (PPP) loans will be considered federal financial assistance and included on the schedule of expenditures of federal awards (SEFA) for entities subject to single audit rules. However, there is also confusion around what aspects of other CARES Act funding would be part of the single audit scope. The following are among the types of funding members have asked about:

- SBA PPP Loans;
- SBA Economic Injury Disaster Loans;
- Treasury Middle Market or Economic Stabilization Fund loans for eligible not-for-profit organizations (NFPs);
- Education Emergency Stabilization Fund Assistance;
- Employee Retention Credits for NFPs;
- Reimbursements to state and local governments and NFPs for unemployment work-sharing programs;
- Accelerated/advance payment program for Medicare providers; and
- Provider relief funding from the Public Health and Social Services Emergency Fund.

The answer to whether these and other aspects of CARES Act and other funding are within the single audit scope is important for auditees and auditors to understand early on as it will have the potential to significantly impact the selection of major programs for audit; a process that is happening now for many June 30, 2020, single audits. This is an area where communication from OMB in the near term would be very helpful. We suggest OMB develop a table that includes all the various types of COVID-19 funding, including those mentioned above. The table could include the type of entity that will be receiving the funds, whether the funding is subject to the Uniform Guidance, how the funding will be distributed (e.g., include relevant CFDA numbers or cluster names), and provide Web links for any detailed information issued by the agency.

Applicability to For-Profit Entities? We have also received similar questions from auditors of for-profit entities regarding whether the SBA PPP Loans and other aspects of CARES Act funding will be subject to audit as part of other federal compliance audit or attestation requirements such as audits under the Department of Housing and Urban Development (HUD) *Consolidated Audit Guide* (covering multifamily housing and lenders), the Department of Education (ED) Audit Guide for Proprietary Schools and Servicers, etc. OMB should work with the various agencies with for-profit audit requirements to ensure a consistent approach is taken government wide regarding the audit applicability questions.

SEFA/CFDA Questions

Effect of Funding on Programs and Clusters. There seems to be a general lack of information surrounding how COVID-19 funding will be flowing down from the federal government. We have received many of the following types of questions as it relates to the funding: (1) To what extent will CARES Act funding fall into existing CFDA numbers? (2) Will any existing clusters be affected by the addition of new CFDA numbers? (3) Will there be any new clusters? (4) Will COVID-19 awards have to be identified separately on the SEFA?

(5) If there will be separate SEFA requirements, how are the agencies communicating that information to recipients and subrecipients? Answering these types of questions is extremely important for OMB and the agencies to release early on because of its impact on the selection of major programs for audit.

Award Terms and Conditions

Importance of Information in Award Terms and Conditions. Award terms and conditions should play an integral role in communicating the impact of new funding on existing programs and clusters. However, several that we have seen issued just this week appear to be silent. For example, the [terms and conditions released by the Department of Health and Human Services \(HHS\) for provider relief funding from the Public Health and Social Services Emergency Fund](#) makes no mention of whether the funds will be subject to the Uniform Guidance and there is no mention of CFDA numbers or clusters. Separately, the [Recipient's Funding and Certification Agreement](#) released by ED for school allocations set by formula from the Higher Education Emergency Relief Fund does indicate that the funding will be subject to the Uniform Guidance, but does not mention whether the funding should be included in the Student Financial Assistance Cluster or a separate program. This information is important as noted in our previous comments above and we recommend OMB emphasize to the agencies the need for this information to be included in award documents.

Extension of Single Audit Submission Date

Reconsideration of Single Audit Extension Deadline? OMB staff stated in a recent Webcast that OMB may consider reducing the audit submission extension provided in OMB Memo M-20-17 from 6 months to something shorter. We certainly understand the desire for timely audit results. We also believe most entities and their auditors do not want their 2020 single audits to extend out late into 2021. However, the key for how quickly 2020 single audits can begin is dependent in large part on actions needed by OMB and the agencies such as (1) updating the 2020 *Compliance Supplement* for COVID-19 matters; (2) communicating in detail how the funds will flow down; (3) stating what the timing of the funding will be; and (4) enhancing the understanding of exactly which CFDA numbers and clusters will be impacted. Without this information, auditors will not be able to appropriately select programs for audit, nor will they have easy access to the requirements that have been revised or added due to COVID-19 disruptions.

Interaction of 12-Month Extension and 6-Month Extension Needs Clarification. OMB Memo M-20-11 suggests "awarding agencies" allow a 12-month extension for awards under the 2020 Supplemental Appropriations Act. At least one federal entity (the National Institutes of Health) has codified the 12-month extension into its rules. There is much confusion on how an awarding agency can extend the deadline for its awards when the single audit is performed at an entity-wide level. Further, there is overall confusion about how the extensions in M-20-11 and M-20-17 interplay with each other. This area also needs clarification from OMB.

Documentation Supporting COVID-19 Impact. Item 13 of OMB Memo M-20-17 indicates that recipients must maintain documentation supporting the reason for their delay in filing a single audit. We have heard questions from recipients about what this documentation should include and recommend OMB consider issuing guidance that provides examples of the documentation that might be prepared by recipients to meet OMB's intent.

Compliance Supplement

Current Status of Supplement. We understand that OMB is holding the release of the 2020 *Compliance Supplement* so that COVID-19 updates can be made by 4 key agencies who have expressed a desire to do so (i.e., HHS, HUD, ED, and SBA). It is also our understanding that those agencies will be revising their

programmatic sections in Part 4 of the Supplement. We appreciate these efforts and stand ready to assist in any way we can, including reviewing vett drafts of changes to program requirements and suggested audit procedures.

Consistency in Supplement Update Approach is Essential. Each agency should be required to take a similar approach for emphasizing COVID-19 nuances in their OMB *Compliance Supplement* program sections. We believe the best way to accomplish this is for agencies to insert text boxes in Part 4 program sections describing the revised requirements in a location near where the related requirement is discussed. For example, if an agency waived the matching requirement for March and April 2020, the matching section of that program section could include a box explaining the waiver. For R&D, the information for HHS, the National Science Foundation, and the Department of Defense could be placed together. In addition to these text boxes, links to agency Web sites containing additional guidance could also be provided within the Part 4 sections. If this approach is not feasible in a timely manner, another option would be for the agencies to include a separate page at the beginning or end of each program section with COVID-19 considerations. The format of such a page should be the same for all agencies. Finally, if OMB determines the COVID-19 revisions cannot be made in the near term, another less desirable option would be for the 2020 Supplement to be issued without the COVID-19 information, and then a follow-up COVID-19 addendum could be issued later.

Agency Implementation and Related Communication

Agency Implementation. Since both OMB Memos M-20-11 and M-20-17 rely on federal agency implementation of specific provisions recommended in the memos, it is imperative that agencies act on a timely basis. However, to date, some agencies have not yet issued guidance. Additionally, in many cases, instead of an agency-wide response (e.g., HUD), each program/office within an agency is issuing its own guidance. This approach adds even more complexity when a recipient receives funds from multiple sources. Anything OMB can do to expedite agency-wide implementation of the memos in a streamlined manner would be helpful.

Agency Communication of Implementation Details. Communication of agency implementation details is also critical to ensure recipients understand federal expectations and auditors understand what they will be auditing compliance against. In addition to OMB modifying the 2020 *Compliance Supplement* to reflect programmatic changes as described above, we recommend that a central web-based repository be established to include access to all the exceptions/revisions being allowed by agencies based on OMB Memos M-20-11 and M-20-17 and any future memos. While we appreciate that each agency might have information posted on their own Web sites, having a central location will be much more efficient and effective for both recipients and auditors.

Major Program Determination

Understanding of CFDA/Cluster Impact Essential. As noted earlier, auditors will not be able to begin single audits in earnest until there is clear guidance provided on how COVID-19 funding might impact a recipient's array of federal financial assistance. Therefore, OMB and the agencies should work to provide that information as soon as possible.

Risk Assessment Impact. OMB and the agencies should be aware that the current COVID-19 situation could result in more high-risk type A programs for 2020 single audits. Further, type B risk assessments may also be impacted. OMB and the agencies may need to consider the impact of this year's events on future years' major program determination as there could be an "echo effect" 3 years from now when applying the two-year lookback rule.

Internal Control

Uniform Guidance Internal Control Requirements and Impact of COVID-19. The COVID-19 situation may lead to changes in a recipient's internal control during the period subject to single audit. For example, there could be three separate sets of key controls for auditors to understand and test in some cases: 1) before COVID-19; 2) during the shutdown; and 3) a ramp up after stay-in-place restrictions are relaxed. Section 200.514 of the Uniform Guidance requires the auditor to perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs. When internal control is likely to be ineffective, the planning and performing of testing described in paragraph 200.514(c)(3) are not required for those compliance requirements but the auditor must report a significant deficiency or material weakness. We raise this matter here to alert OMB and the agencies that there may be an uptick in internal control findings due to COVID-19 based on the Uniform Guidance internal control requirements described above. There may also be a need for increased sample sizes for internal control and/or compliance testing. Further these matters will likely have an impact on future years' single audits due to the various Uniform Guidance risk assessment rules at both the program level and the entity level.

Findings

Findings Reporting? OMB and the agencies may want to consider whether there will be situations where audit findings related to COVID-19 would be of little value to the auditee and/or federal agency. If so, guidance should be developed instructing auditors about what those areas are. For example, an approach like that taken in the current OMB *Compliance Supplement*, Appendix VII, instructing auditors not to report certain procurement findings could be used.

Low-Risk Auditee Status

Revisions Needed in Compliance Supplement to Address Audit Submission Extensions. OMB should revise Appendix VII, Section III, of the 2020 OMB *Compliance Supplement* to address situations where entities take advantage of the audit submission extension (i.e., they would not be considered late and there would be no impact on low-risk auditee status).

Compliance Requirements

Our members work with many recipients and have received numerous questions about compliance requirement changes, flexibilities, and interpretations. The more general questions appear below. Attachment 2 includes several other agency-specific requirement questions that we are providing for OMB's information. We are also providing those questions to the specific agencies.

Allowable Costs, Payroll. Our members are hearing that there may be some inconsistency in what agencies are telling auditees on the allowability of salary costs. For example, one agency informed a recipient that if an employee was not working, even though being retained and paid as an employee, payroll was not allowed to be charged to a grant. Another agency indicated that the recipient needed to require people to work remotely. There have also been several questions about what appropriate documentation would be for timecards if employees are not physically in the office and other similar time and effort type questions. Clarity needs to be provided in this area to ensure consistency.

Effect of PPP Loans When There is Other Funding. Some NFPs are asking if they have other grants that cover payroll and also get a SBA PPP loan which is ultimately forgiven, whether they then need to deduct from their

other grant reimbursements the amount of the loan forgiven and used for payroll. If so, when should that occur? Also, as it relates to SBA PPP loans, NFPs are asking what type of documentation should be maintained for the interplay of grant funded and forgivable loan funded costs, and the numbers of employees, etc.

Allowable Costs, Employee Retention Credit. Questions have come in regarding the impact on allowability of the portion of the employee payroll costs claimed for the retention credit which was previously charged to federal awards.

Payroll Deferral for Employer Payroll Taxes. Questions have come in regarding the impact on cost reimbursement grants if payment of allowable costs is to be deferred to future periods beyond the typical reimbursement request window.

Allowable Costs Relating to Families First Coronavirus Response Act. We have received questions regarding the allowability and allocability of leave mandated by this Act. Additional questions are being raised about the treatment of the payroll tax credit associated with the leave.

Indirect Costs. Questions are arising about which federal funding agency will have the authority to extend federal indirect cost rates. Is it the cognizant agency for indirect costs or is the decision on a federal award-by-award basis? Additionally, to the extent additional costs are being charged to awards as per items 6 and 7 of OMB Memo M-20-17, questions are being asked about whether recipients apply and seek reimbursement for indirect costs on those additional direct costs.

Procurement. We have also received questions on whether the pandemic declaration is sufficient to justify the sole source exemption in Uniform Guidance section 200.320(f)(2) about public exigency or an emergency not permitting a delay that would result from competitive solicitation. Also, several new programs under the CARES Act allow a recipient to charge costs that were incurred going back several weeks. However, if those costs were initially planned to be paid from other non-federal sources, they may not have followed the correct procurement activities. Questions are being asked about how this situation is to be addressed.

Cash Management. We have seen at least one Notice of Funding Opportunity that indicates that a state hospital association will receive funding and that it should distribute the funding within 30 days of receipt to subrecipients/subcontractors and provides a budget period of 60 months. However, there was no exemption provided for the cash management requirements. How will this inconsistency be addressed?

Matching. We have had several inquiries about whether OMB will encourage agencies to waive or reduce matching requirements on certain grants as a form of additional relief.

Reporting. We have had some questions about what the reporting requirements will be for these funds and if a reporting mechanism like that which was required for the Recovery Act will be instituted. If so, we would caution OMB that any information on jobs created should be left out of the scope of single audits based on our previous experiences with similar Recovery Act reporting.

Requirements for Subrecipients? If there are significant differences between the requirements for direct recipients and subrecipients, we have been asked if OMB will consider providing additional guidance to clarify what a subrecipient must do (e.g., SRF has different reporting requirements at the subrecipient level).

Special Tests. We have been asked whether there will be any new special tests and provisions needed for existing CFDA's or clusters as a result of agency implementation of the OMB memos. If so, consistent with our earlier comments, it will be important that they be worked into the 2020 OMB *Compliance Supplement*.

**Summary of AICPA Questions Submitted on COVID-19 Matters for Specific Agencies
As of April 10, 2020**

HUD

Our members have heard from several auditees that they are unable to recertify tenants which will create potential noncompliance issues for 2020. The question being asked is whether HUD will grant an exception to the timeliness of recertification during the pandemic/shelter in place period.

Many HUD mortgage loan and mortgage loan guarantee programs include provisions prohibiting additional indebtedness. If a health care provider's facility is financed using a HUD program and the provider obtains a COVID-19 stimulus loan to be able to continue operating through the COVID-19 pandemic, will HUD allow some flexibility in its prohibitions on additional indebtedness? Has HUD issued, or will HUD issue guidance to borrowers and auditors providing details on when additional indebtedness results in an audit finding that must be reported and, if so, how HUD would like to see it reported?

HUD has only extended audit submission requirements for December 31, 2019, audits of for-profit multifamily housing and lenders through April 30, 2020. Will any additional extensions be provided?

DOT

Given that the CARES Act allows transit agencies to pay for a broad range of operating expenses, how should a transit agency address contracts with vendors that may not include federal clauses because they had not previously been claimed as part of a federal grant?

ED – Emergency Stabilization Fund for Higher Education.

We are receiving numerous questions from higher education entities about what allowable activities are for these emergency funds (i.e., can they be used to reimburse schools for the room and board refund they have made to students?). Guidance on allowable activities is needed.

Several significant modifications and flexibilities have been provided for the Student Financial Assistance Cluster. How will these be addressed in 2020 *Compliance Supplement* such that auditors have clear, auditable criteria from which to evaluate compliance when rules have changed mid-year? A couple of the more obvious examples follow:

Distance Education. Before COVID-19, institutions were required to have any distance education programs accredited and approved by ED. Temporarily, this requirement has now been waived by ED. Many schools did not have distance education programs previously; therefore, testing has not historically been considered direct and material for those schools by auditors. The Distance Education section of Part 5 of the Supplement currently includes the following suggested audit procedures:

“Suggested Audit Procedures

- a. *Review the institution's accreditation document(s) to determine that its accrediting agency is approved to accredit distance education programs and that the distance education programs at the institution are accredited.*

b. *From a sample of students in distance education programs, determine whether the institution was in compliance with the distance education attendance requirements.*

If Distance Education programs are not properly accredited, all Title IV funds disbursed to students attending these programs must be reported as questioned costs."

Additional guidance specific for COVID-19 situations is needed for this requirement to properly direct auditors. In light of the audit procedure excerpt above, guidance should be provided on whether an auditor should report findings/questioned costs if distance education was not accredited. Also, as it relates to the procedure above, some schools are struggling with adapting their attendance determination as many schools don't have formal Distance Education attendance policies.

Return of Title IV funds. When a student withdraws, the calculation of Title IV funds depends on the length of the term and the calculation of an amount to be returned depends on scheduled breaks that are more than 5 days in length. Many schools will have had returns based on withdrawals that took place before the outbreak/closure of the school where it was assumed the break would occur as scheduled. We have heard from many institutions that Spring breaks have been extended a week (primarily to allow faculty to get set up online). Therefore, students that withdraw after the break will be calculated using different percentage of completion methodologies. While we understand that this is acceptable, it would be helpful for ED to provide guidance and/or reminders for this scenario in the Student Financial Assistance Cluster section of the 2020 OMB *Compliance Supplement*.

K-12 Programs

The following are questions we are regularly hearing on ED's K-12 programs:

If schools elect not to participate in the Unanticipated School Closure Summer Food Service Program but still pay their food service employees, will those charges be allowable costs of the food service fund? Will districts receive any other funding to assist with paying food service employees?

Districts are expected to continue to pay employees for the duration of the school year, regardless of closures, to comply with the maintenance of effort provisions in the CARES Act. Item 6 in OMB Memo M-20-17 indicates that agencies can allow recipients to continue to charge salaries and benefits to currently active federal awards "consistent with the recipient's policy of paying salaries (under unexpected or extraordinary circumstances) from all funding sources, Federal and non-Federal." Will all employee compensation costs that would otherwise be "normally" charged to federal grants be considered allowable and reimbursable under the districts' existing ED federal grant program awards, regardless of whether the employees continue to provide services during school shutdowns? If so, how should districts determine what to charge? Would it be based on budgets, history, a combination of both, etc.?

Will there be any distinction between hourly and salaried employees? For example:

- If there were hourly paraprofessionals being charged to Title I while schools were open; and
- Those same paraprofessionals are no longer able to provide services to students (because of closures):
 - Are districts required to compensate these employees for the duration of the school year?
 - If the district does compensate these employees, regardless of whether it is required, are these considered allowable charges to existing grants (such as Title I, IDEA, Title II, etc.).

Further, will guidance on the above differ by program? (i.e. will the guidance for IDEA differ from the guidance for Title I, II, etc.?)

If the district compensates hourly and/or salaried employee during school shutdowns, regardless of whether it is required, what documentation, if any, is needed to comply with the requirements of section 200.430 of the Uniform Guidance (i.e., Compensation – personal services)?

Most grantees do not have compensation policies that address “unexpected/extraordinary circumstances.” How should this be handled?

If districts continue to pay both “essential” and “non-essential” employees, with “essential” employees still working but “non-essential” employees not working, can increased rates paid to “essential” employees be charged to grants?

With regard to contractors (purchased services), many schools utilize contracted vendors to provide services to students. Given the maintenance of effort requirements and desire to continue paying these contractors so that they are able to, in turn, pay their employees, will these costs that would have normally been funded with federal grants be allowable and reimbursable (even if services are not being provided, due to shut downs)? If so, to what extent and what documentation will be required? Some examples of commonly contracted services where employees of the contractors will likely have no income if the school districts do not continue to pay are social workers, school nurses, psychologists, substitute teachers, etc.