GAQC Nonauthoritative Guidance on the Reporting of Certain COVID-19 Awards on an Accrual Basis SEFA

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NOTE: This document provides non-authoritative guidance. It has been prepared by the AICPA Governmental Audit Quality Center (GAQC) to assist auditees and auditors as they consider the complexities involved with funding provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the timing of when that funding should be included on the Schedule of Expenditures of Federal Awards for single audit purposes. <u>While this document focuses on CARES Act funding, its guidance may also be considered for funding emerging out of the subsequent Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) and the American Rescue Plan Act (ARPA).</u> Official AICPA positions are determined through certain specific committee procedures, due process, and extensive deliberation. The views expressed in this document are intended to provide member services, but not for the purposes of providing accounting services or practicing public accounting. The AICPA makes no warranties or representations concerning the accuracy of information issued.

<u>Background:</u>

The CARES Act established several new federal programs intended to be responsive to the health and financial crises resulting from the Novel Coronavirus (COVID-19 or pandemic). The most significant of these new programs include: (1) the Coronavirus Relief Fund (CRF); (2) the Provider Relief Fund (PRF); and (3) the Education Stabilization Fund (ESF), which includes, among several sub-programs, the Higher Education Emergency Relief Fund (HEERF) student aid and institutional portions and the Elementary and Secondary School Emergency Relief Fund (ESSER).

Much of the new federal funding is subject to single audit requirements. In many cases the funding was provided to nonfederal entities in a very short timeframe after the passage of the CARES Act, sometimes before official awards or terms and conditions were established between federal agencies (or pass-through entities) and recipients (or subrecipients). Further complicating matters is that many of the new programs provide for a period of performance and allow for application of costs (or lost revenue, as applicable) incurred in periods both before and after the award existed and often spanning more than one fiscal year of the nonfederal entity. This combination of factors has been at a level not encountered before. As a result of these factors, there have been many questions around the timing of when costs incurred (or lost revenue, as applicable) should be reported on the Schedule of Expenditures of Federal Awards (SEFA).

This non-authoritative document provides various illustrative scenarios to assist auditees and auditors in evaluating the facts and circumstances that lead to a determination of which fiscal year to report costs incurred (or lost revenue, as applicable) on an accrual-basis SEFA. Generally, expenditures are reported on the SEFA when costs (or lost revenue, as applicable) are incurred and an award is determined to exist.

IMPORTANT: The nonauthoritative guidance in this document does not apply to single audits of PRF funding because the U.S. Department of Health and Human Services (HHS) has directly addressed the timing of SEFA reporting of PRF expenditures and lost revenue by nonfederal entities in the "Other Information" section of the PRF Part 4 section in the Addendum to the 2020 OMB *Compliance Supplement*. It states that for single audits of fiscal years ending in 2020 on or before December 30, 2020, the entity reports no PRF expenditures on the SEFA (including no lost revenue). For a FYE of December 31, 2020, the entity reports on the SEFA as expenditures (including lost revenue) based upon the PRF report (submitted by the nonfederal entity to HHS) for calendar year ending December 31, 2020, and discloses in the footnotes to the SEFA that the amount included on the SEFA is based upon the December 31, 2020 PRF report. See the Other Information section for further SEFA reporting guidance relating to fiscal years ending in 2021. Additionally, the nonauthoritative guidance in this document does not apply to for-profit healthcare entities that are subject to separate audit requirements for PRF and other HHS funding under rules established by HHS.

Meaning of Terms Used in this Document:

Awarded = The time at which an award is determined to exist. As noted in the "High-Level Assumptions/Guidance" section below (#3), determining when there is an award may involve judgment and be based on facts and circumstances.
Advanced = The time at which funding from the federal government (or pass-through entity) is transferred to a nonfederal entity.
Costs applied to award = The time at which the nonfederal entity makes an internal decision to apply costs incurred to an award and then transfers the costs incurred from nonfederal sources to the award.
Costs incurred = Allowable expenditures made from nonfederal sources.
F/S = Financial statements.
FYE = Fiscal year end (for the purpose of these scenarios it is assumed to be June 30, 2020).
Lost revenue = A concept permitted for purposes of SEFA reporting in several of the new CARES programs (e.g., PRF, select ESF sub-programs); see respective federal agency guidance to determine how it is to be calculated.

Assumptions Used/Other Guidance Relevant to the Remainder of this Document

1. The determination of the reporting of expenditures (or lost revenue, as applicable) on the SEFA is independent of the determination of revenue recognition under generally accepted accounting principles.
2. The scenarios and answers provided below assume the SEFA is presented on the accrual basis of accounting since this is the area the GAQC has been receiving the most questions.

3. For expenditures (or lost revenue, as applicable) to be reported on the SEFA in a particular period, there should be an award. However, as noted above, the awarding process for these new programs has not been typical and, therefore, professional judgment may be needed to determine an exact award date. While an award date may be clear in some cases, in many other cases there may not be a signed and dated award document, particularly when the auditee is a subrecipient. Procedures auditors may consider for determining the appropriateness of the "award date" used by the auditee include: (1) inquiries of management regarding the facts and circumstances surrounding award arrangements; and (2) reviewing client supporting records such as Board minutes, e-mail correspondence, or instructions provided to a subrecipient from a pass-through entity for claiming expenditures. <u>If an existing award is subsequently impacted by a substantial amendment to award terms due to new legislation, the substantial amendment would be the equivalent of a new award for purposes of determining when associated activity is presented on the SEFA. An example of this scenario is the retroactive expansion of allowable uses of unspent HEERF 1 grant funds being impacted by the subsequent allocation of HEERF 2 funding resulting from CRRSAA. But there may also be other similar funding situations that arise.</u>
4. Assuming an award is determined to exist as of fiscal year-end, costs incurred (or lost revenue, as applicable) that a nonfederal entity applies to an award should be reported on the SEFA in the year costs were incurred (or lost revenue, as applicable) even if the nonfederal entity makes the determination to apply those costs incurred (or lost revenue, as applicable) to the award until after fiscal year-end. If the award's period of performance allows a nonfederal entity to apply future year costs incurred (or lost revenue, as applicable) to that award in lieu of current year costs (or lost revenue), and the nonfederal entity decides to do so, future year costs (or lost revenue, as applicable) should be reported on a subsequent year's SEFA when applied by the nonfederal entity.
5. Generally, the timing of cash receipts (whether advances or reimbursements) should have no impact on SEFA recognition.
6. ESF includes two large sub-programs among several sub-programs; the <u>HEERF 1</u> student portion consisting of emergency grants to students and the <u>HEERF 1</u> institutional portion covering certain costs of institutions of higher education (IHEs) associated with significant changes to the delivery of instruction. IHEs must use no less than 50 percent of funds received to provide emergency financial aid grants to students and the <u>HEERF 1</u> institutional portion can only be applied to the award up to the amount of the student portion that has been awarded to students. There is no requirement that IHEs had to make the student distributions before they incurred the institutional costs that would ultimately be applied to the award. However, the IHE must, by the end of the period of performance, expend institutional portion funds equal to or less than the amount of the student portion funds that were used.
7. Certain of the new CARES programs (e.g., PRF and select sub-programs of ESF) allow for the reimbursement of lost revenue. The scenarios below do not address directly the concept of how lost revenue is to be calculated. Auditees and auditors should look to federal agency guidance documents for that information.

Scenario 1: Costs Incurred are Applied to an Award as They are Incurred – Accrual Basis SEFA

Mar-20	Apr-20	Apr-20	May-20	Jun-20	FYE	Jul-20	Aug-20	Dec-20
$1 M	$1 M	$100K	$200K	$400K			$300K	
Awarded	Advanced	Costs incurred Costs applied to award	Costs incurred Costs applied to award	Costs incurred Costs applied to award			Costs incurred Costs applied to award	Release F/S and Single Audit

Scenario 1	
What expenditures should be reported on the SEFA at 6/30/20 FYE?	**$700K** (i.e., sum of costs incurred Apr-Jun 20)).
What impact, if any, would this scenario have on a subrecipient's SEFA if the $1M awarded was in the form of a subaward from a pass-through entity?	**None.** The subrecipient would report $700K in expenditures on its 6/30/20 SEFA when the costs were incurred.
What impact, if any, would there be if this scenario was altered so that the month that the federal funds were advanced to the nonfederal entity changed from Apr-20 (fiscal year 2020) to Jul-20 (fiscal year 2021)?	**None.** As per the guidance in the "Assumptions Used/Other Guidance" section above, if a determination is made that an award exists and there are qualifying costs incurred prior to the 6/30/20 FYE, the timing of cash received would not change the fiscal year for which costs incurred would be reported on the SEFA.

Scenario 2: Decision to Apply Costs to an Award Occurs in a Different Fiscal Year than When Costs Incurred – Accrual Basis SEFA

Mar-20	Apr-20	Apr-20	May-20	Jun-20	FYE	Jul-20	Aug-20	Dec-20
$1 M	$1 M	$100K	$200K	$400K			$300K	
Awarded	Advanced	Costs incurred	Costs incurred	Costs incurred		Costs applied to award from Apr-20, May-20 & Jun-20	Costs incurred	Release F/S and Single Audit

Scenario 2	
What expenditures should be reported on the SEFA at 6/30/20 FYE?	**$700K** (i.e., sum of costs incurred Apr-Jun 20)). The fact that the nonfederal entity did not make the decision to apply costs incurred to the award until after FYE is not relevant to when SEFA reporting occurs in this scenario.
What impact, if any, would this scenario have on a subrecipient's SEFA if the $1M awarded was in the form of a subaward from a pass-through entity?	**None.** The subrecipient would report $700K in expenditures on its 6/30/20 SEFA when the costs were incurred.

Scenario 3: Award is Made in the Subsequent Fiscal Year from When Costs Incurred but the Award Allows Costs Incurred from the Previous Fiscal Year to be Charged to the Award – Accrual Basis SEFA

Apr-20	May-20	Jun-20	FYE	Jul-20	Aug-20	Dec-20
$100K	$200K	$400K		$1M	$300K	
Costs incurred	Costs incurred	Costs incurred		Awarded Costs applied to award from Apr-20, May-20 and Jun-20	Costs incurred	Release F/S and Single Audit

Scenario 3	
What expenditures should be reported on the SEFA at 6/30/20?	**$0** (i.e., because there was no award until Jul-20)
What expenditures should be reported on the SEFA at 6/30/21?	**$1 M** (i.e., sum of costs incurred Apr-Aug 20).

Scenario 4: Award's Period of Performance Allows the Nonfederal Entity to Select Costs Incurred to Apply to the Award and the Nonfederal Entity Chooses Not to Apply Costs Incurred During the Fiscal Year in Which the Award was Made – Accrual Basis SEFA

Mar-20	Apr-20	May-20	Jun-20	FYE	Jul-20	Aug-20	Dec-20
$1 M	$100K	$200K	$400K		$1M		
Awarded	Costs incurred	Costs incurred	Costs incurred		Costs incurred	Costs applied to award from Jul-20	Release F/S and Single Audit

Scenario 4	
What expenditures should be reported on the SEFA at 6/30/20?	**$0**. The award allowed the nonfederal entity to choose which costs to apply and the nonfederal entity elected not to apply costs incurred from Apr-Jun 20, but instead to apply costs from Jul-20.
What expenditures should be reported on the SEFA at 6/30/21?	**$1 M** (i.e., represents the Jul-2020 costs incurred and thus they are reported on the SEFA in the same period (6/30/21))

HEERF – Accrual Basis SEFA (see "Assumptions Used/Other Guidance" section above for more detail on HEERF)

Scenario 5(a):

- **$1,000,000 of the HEERF 1 Institutional Portion and $1,000,000 of the HEERF 1 Student Portion is Awarded in March 2020**
- **Institutional Costs Were Incurred and Applied to the Award Before 6/30/20**
- **Student Portion is Awarded to Students by the IHE before June 30, 2020**

Mar-20	Apr-20	May-20	Jun-20	FYE	Jul-20	Aug-20	Dec-20
$2 M	$100K	$200K	$400K			$300K	
$1M institutional portion awarded $1M student portion awarded	Institutional costs incurred	Institutional costs incurred	Institutional costs incurred Institutional costs applied to award from Apr-20 - Jun-20 $1M student portion awarded to students by IHE			Institutional costs incurred	Release F/S and Single Audit

Scenario 5(b):

- **$1,000,000 of the <u>HEERF 1</u> Institutional Portion and $1,000,000 of the <u>HEERF 1</u> Student Portion is Awarded in March 2020**
- **Decision Reached in July 2020 to Apply Institutional Costs to June 30, 2020, Year-End**
- **Student Portion of $1,000,000 is Awarded to Students by the IHE in July 2020**

Mar-20	Apr-20	May-20	Jun-20	FYE	Jul-20	Aug-20	Dec-20
$2 M	$100K	$200K	$400K			$300K	
$1M institutional portion awarded $1M student portion awarded	Institutional costs incurred	Institutional costs incurred	Institutional costs incurred		Institutional costs applied to award from Apr-20 - Jun-20 $1M student portion awarded to students by IHE	Institutional costs incurred	Release F/S and Single Audit

	Scenario 5(a)	**Scenario 5(b)**
Are the institutional costs that were incurred before the student portion was incurred and applied allowable for June 30, 2020, year-end?	**Yes.**	**Yes.**
What expenditures relevant to the institutional portion should be reported on the SEFA at 6/30/20?	**$700K** (i.e., sum of institutional costs incurred and applied Apr-Jun 20).	**$700K** (i.e., sum of institutional costs incurred Apr-Jun 20). The fact that the student portion was awarded to students by the IHE and applied after FYE does not change the SEFA reporting as there is no requirement that the student portion be awarded to students by the IHE before the institutional costs could be incurred.