

THE PPC

GOVERNMENTAL UPDATE

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COVID-19 Related Single Audit Updates



In an effort to keep you informed about how the COVID-19 pandemic is affecting your single audits, we have summarized a few topics that will help you navigate the ever-changing landscape.

2020 Supplement Status

The 2020 Compliance Supplement is expected to be issued at any time. It will be issued in two parts this year. The initial release will mainly include information that was developed before the COVID-19 pandemic, with limited COVID-19 pandemic information, such as a summary of new COVID-19 programs. The Office of Management and Budget (OMB) will follow up with an addendum that will include new COVID-19 federal award programs and content related to the recently passed CARES Act, including changes to existing federal programs relating to the pandemic. The addendum is expected to be issued this fall.

OMB Memorandums

The OMB has issued four memos as part of its effort to respond to the COVID-19

pandemic. On June 18, 2020, the OMB issued Memorandum M-20-26, *Extension of Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations*. The following is a summary of some of the information covered in the memo:

Changes to Single Audit Submission

Extensions. Previously, Memorandum M-20-17 (issued on March 19, 2020) provided a blanket six-month audit submission extension for recipients and subrecipients with fiscal year ends through June 30, 2020. On June 18, 2020, the OMB issued Memorandum M-20-26. Under M-20-26, the blanket six-month audit submission extension is still in place for audits not yet submitted as of March 19, 2020, that have normal due dates from March 30, 2020, through June 30, 2020. However, Memorandum M-20-26 reduced from six months to three months the blanket audit submission extension for audits with normal due

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dates from July 31, 2020, through September 30, 2020. Also, the previous six-month audit submission extension for year ends after December 31, 2019, and through June 30, 2020, year ends was eliminated. The reason for the delayed submission ought to be documented and a reference to OMB M-20-26 must be included in the reporting package. Additionally, the delayed submission would not preclude the grantee from being a low-risk auditee. Memorandum M-20-26 rescinds Memorandum M-20-17 and Memorandum M-20-20 and expires on September 30, 2020.

Allowability of Salaries and Other Project Activities.

Memorandum M-20-26 did not change the instructions in Memorandum M-20-17, which allows recipients to charge salaries and benefits to active federal awards consistent with the recipient's policy of paying salaries (under unexpected or extraordinary circumstances) from all funding sources, federal and nonfederal. But awarding agencies must require recipients to maintain appropriate records and cost documentation to substantiate the charging of any salaries and other project activities costs related to interruption of operations or services. However, two new sections were added:

1. *No "double-dipping"*. Payroll cost paid with Paycheck Protection Program loans or any other federal CARES Act programs must not also be charged to current federal awards as it would result in the federal government paying for the same expenditures twice.
2. *Exhaust other available funding sources*. Due to limited funding resources under each federal award, the memo states that awarding agencies must direct recipients to exhaust other available funding sources to sustain its workforce and implement necessary steps to save overall operational costs (such as rent renegotiations) during this pandemic period in order to preserve federal funds for the ramp-up effort.

Specific Identification of COVID-19 Pandemic Funds in the SEFA

To provide proper oversight of the COVID-19 Emergency Acts funding and programs, Memorandum M-20-26 requires that COVID-19 Emergency Acts expenditures on the Schedules of Expenditures of Federal Awards and audit report findings be separately identified.

Applicability of the Uniform Guidance to New Federal Programs That Have Been Established Due to the COVID-19 Pandemic

To assist members with new COVID-19 federal programs that will be subject to audit, AICPA's Government Audit Quality Center has released a nonauthoritative summary of information about federal programs that have been established due to the COVID-19 pandemic. Below is a list of the four largest COVID-19 programs:

- *Coronavirus Relief Funds (21.019)*: Subject to single audit.
- *Paycheck Protection Program Loan Program (59.073)*: **Not** subject to single audit.
- *Education Stabilization Fund (84.425)*: Subject to single audit.
- *Provider Relief Funds (93.498)*: Subject to single audit.

Practical Consideration:

Due to the evolving nature of the COVID-19 pandemic, find the latest information on the new federal programs at <https://beta.sam.gov/>. Also, see a more comprehensive list of new COVID-19 federal award programs at www.aicpa.org/interestareas/governmentalauditquality.html.



COVID-19: Does It Affect CPE Requirements?

The global COVID-19 pandemic has reshaped how we do business and how we live. With most states having implemented both stay-at-home and social distancing directives, previously planned CPE classes and conferences were cancelled for safety reasons. Accounting standards-setting bodies took note of these changes, providing CPE exceptions in response to the pandemic.

GAGAS Exceptions

GAGAS issued the *COVID-19: GAGAS CPE Alert*, highlighting three CPE requirement exceptions related to the COVID-19 pandemic:

1. For the two-year CPE periods ending February 29, 2020, through December 31, 2020, auditors have a six-month grace period after the two-year CPE period has ended to complete the CPE requirements.
2. For the one-year CPE periods ending February 29, 2020, through December 31, 2020, auditors are not required to meet the annual minimum of 20 hours of CPE.
3. For the audit organization's two-year period in effect on February 29, 2020, auditors can carry over a maximum of 40 CPE hours, above the 80-CPE-hour requirement, to the next CPE measurement period. Additionally, for two-year CPE measurement periods ending after December 31, 2020, only CPE hours earned through December 31, 2020, may be carried over.

All exceptions are effective February 29, 2020.

GAGAS also clarified that auditors are *not* to use the existing CPE exemptions in paragraphs 4.29 (an extended absence due to ill health, maternity/paternity leave, extended family leave, sabbaticals, leave without pay absences, foreign residency, military service, or disasters) if the auditor is actually working, which includes teleworking, on a GAGAS audit.

It is important for CPAs to note that while these exceptions and clarifications have been made, the 80-CPE-hour requirement for auditors and the two-year CPE period requirement for audit organizations still remain in place.

State CPA Societies

Several state CPA societies are also offering concessions to auditors affected by COVID-19, including extending both CPA license expiration dates and CPE requirement due dates. Check your state CPA society webpage for more details.

Practical Consideration:

The *COVID-19: GAGAS CPE Alert* can be found at www.gao.gov/assets/710/706637.pdf.



GASB Issues Implementation Guide 2020-1

The GASB recently issued Implementation Guide No. 2020-1, *Implementation Guidance Update—2020* (the Guide), which provides new Q&A items addressing issues such as postemployment benefits, investments, fiduciary activities, and leases, as well as implementation guidance on a number of GASB statements. The Guide also amends a number of existing Q&A items.

GASB Implementation Guides are Category B guidance as designated in GASBS No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and thus are cleared by the GASB to assist users in clarifying, explaining, and elaborating on the requirements in GASB statements.

New Q&A Items

The Guide provides new Category B guidance on the following topics:

- *Financial Reporting Entity*. The Guide added two new Q&A items on defined benefit pension plans and whether they are fiscally dependent on the primary government depending on the primary government's authority, or lack thereof, to change the required contribution amount set by the defined benefit plan. Effective for reporting periods beginning after June 15, 2021.
- *Investments and External Investment Pools*. The Guide added a Q&A item on how states report the internal portion of the investment pool. Effective for reporting periods beginning after June 15, 2021.
- *Fiduciary Activities*. The Guide added two new Q&As on fiduciary activities. The first Q&A discusses whether seized cash and other financial assets from an individual suspected of committing a crime should be reported as a fiduciary activity until a judgment is rendered. The other new Q&A discusses whether school districts have administrative involvement when holding resources raised by certain groups (clubs, senior class, etc.), as discussed in paragraph 11c(2) of GASBS No. 84, *Fiduciary Activities*. Effective for reporting periods beginning after June 15, 2021.
- *Leases*. The Guide added 12 new Q&As on leases. Several of the Q&A items discuss various situations and how they should be handled according to GASBS No. 87, *Leases*. One new Q&A item discusses

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whether a contract between an electric utility and a telecommunications company to install an antenna meets the definition of a lease when the utility determines the location of the antenna and retains the right to move the antenna to another location. Another Q&A that was added discusses whether a 12-month lease that does not contain an option to renew but is continuously renewed for several years is still considered a short-term lease. Effective for fiscal years beginning after December 15, 2021, and all reporting periods thereafter.

- *Other Implementation Guidance.* The Guide adds implementation guidance Q&A items on the following:
 - GASBS No. 83, *Certain Asset Retirement Obligations*. Effective for reporting periods beginning after June 15, 2020.
 - GASBS No. 91, *Conduit Debt Obligations*. Effective for reporting periods beginning after December 15, 2021.

Amendments

The Guide also amends the following:

- Accounting and reporting for pensions by plans and employers in Q&A item 5.61.1 in Implementation Guide 2015-1, as amended by Q&A item 5.7 in Implementation Guide 2017-1 and Q&A item 5.117.1 in Implementation Guide 2017-1, as amended by Q&A item 5.20 in Implementation Guide 2017-1. Effective for fiscal years beginning after June 15, 2020.
- Accounting and financial reporting for the external portion of a state's external investment pool in Q&A item 6.43.1 in Implementation Guide 2015-1. Effective for reporting periods beginning after June 15, 2020.
- Plan and employer accounting and reporting for postemployment benefits other than pensions

Q&A item 4.9 in Implementation Guide 2017-2 and item 4.8 in Implementation Guide 2017-3. Effective for fiscal years beginning after June 15, 2020.

Deferral of Effective Dates of Certain Q&As in Implementation Guide 2019-2

Questions 4.3, 4.5, and 4.6 in Implementation Guide 2019-2, which address issues related to the application of GASBS No. 14 or GASBS No. 84 in specific circumstances involving pension plans or OPEB plans, have been deferred indefinitely.

Effective Dates and Transition

The Q&As have varying effective dates as noted above, but earlier application is encouraged if the pronouncements addressed by the Q&As have been implemented. Changes should be applied via retroactive restatement of the financial statements when practicable. If, however, that approach is not feasible, a cumulative adjustment for any effects of implementation should be made to beginning net position for the earliest period restated, with disclosure, in the notes to the financial statements, of the nature of the adjustment as well as the reason for not retroactively restating.

Practical Consideration:

The Guide is available on Checkpoint at **checkpoint.riag.com** for users that subscribe to GASB content or on the GASB website at **www.gasb.org**.

