



### AICPA Questions Submitted on Provider Relief Fund

The following questions on the Provider Relief Fund (PRF) were developed by members of the AICPA Health Care Expert Panel, the AICPA Governmental Audit Quality Center, and other interested parties. They were submitted to representatives of Health and Human Services (HHS) Health Resources Services Administration (HRSA) in advance of a meeting held between AICPA and HRSA on February 9, 2021. The HRSA team committed to working on answers to these questions and will be circling back to AICPA after having more time to consider them.

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#### Portal

- 1) When the portal will open for reporting and how much time will providers have to submit the information in the portal?
- 2) Will Phase 3 funding (and/or any other PRF monies) received and attested to in 2021 that are justified based on 2020 expenses and lost revenues be considered a 2020 or 2021 payment for the portal's purposes?
- 3) Will the portal use the data elements to calculate the reporting entity's eligible uses of PRF payments or will the reporting entity indicate its quantification of a total use of PRF payments?
  - a. That is, should reporting entities be prepared to identify and report all expenses attributable to Coronavirus on a gross basis in the portal (which would then be netted down automatically based on the amount of "other assistance received")?
  - b. Or do reporting entities need to identify and report only unreimbursed allowable expenses on a net basis (and thus ignore and omit any such expenses that have been reimbursed by other sources)?
- 4) Will the portal allow reporting entities to indicate the amount it transferred to the parent organization or will the portal assume all payments were transferred to the parent for any subsidiary listed in the reporting entity?
- 5) Will the portal require the reporting entity to indicate the amount of PRF payments used in the report? (i.e., the amount it received directly plus or minus the amount it transferred to a parent organization or sister subsidiary)?

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#### Reporting Entity / Transfers

- 6) Is there a definition of "subsidiary" that reporting entities should be using when interpreting the Post-Payments Notice for Reporting Requirements and FAQs? If related entities are included in a

consolidated or combined presentation in accordance with GAAP, would that be sufficient to determine there is a parent/subsidiary relationship? What about unconsolidated joint ventures and similar equity interests that do not result in consolidation?

- a. Different types of reporting entities have different rules under GAAP for consolidation which many times is not based on equity ownership or a direct financial interest. For example:
    - i. Non-profits often consolidate other non-profits based on corporate membership, board appointment, etc., even though there is no ownership interest.
    - ii. For-profit entities often consolidate *variable interest entities* due to control by contract or similar arrangements where there is zero ownership interest.
    - iii. Governmental entities often consolidate separate legal entities (referred to as component units) over which they have *financial accountability*, but often have zero equity ownership or direct financial interest.
    - iv. All types of entities may participate in joint ventures, in which there is generally equal ownership and control between venturers/participants. None of the venturers consolidates the joint venture reporting entity.
    - v. GAAP allows for separate reporting entities under common control that do not meet the criteria for consolidation (because none of the entities in the combined group have ownership or other *controlling financial interests* in the other affiliated entities) to present a single set of combined financial statements.
- 7) Does the 1/28/21 FAQ below suggest that reporting entities can only allocate Targeted Distributions to a “subsidiary” if there is an equity ownership / financial interest, up to the reporting entity’s pro rata ownership share of that “subsidiary” entity? (See also question #10 about definition of “subsidiary”)
- a. In other words, if a downstream affiliate is consolidated into a financial reporting entity under GAAP but there is no equity ownership, can the targeted distribution be allocated and transferred by the “parent” reporting entity?
  - b. If not, does this limitation also apply to allocations and transfers of General Distributions?

***Can a parent organization with a direct ownership relationship with a subsidiary that received a Provider Relief Fund Targeted Distribution payment control and allocate that Targeted Distribution payment among other subsidiaries that were not themselves eligible and did not receive a Targeted Distribution (i.e., Skilled Nursing Facility, Safety Net Hospital, Rural, Tribal, High Impact Area) payment? (Modified 1/28/2021)***

*Yes, in accordance with the Coronavirus Response and Relief Supplemental Appropriations Act. The parent organization may allocate the Targeted Distribution up to its pro rata ownership share of the subsidiary to any of its other subsidiaries that are eligible health care providers. To determine whether an entity is the parent organization, the entity must follow the methodology used to determine a subsidiary in their financial statements. If none, the entity with a majority ownership (greater than 50 percent) will be considered the parent organization.*

- 8) How should a reporting entity that is not a wholly-owned subsidiary and received a Targeted Distribution report revenue and expenses to demonstrate uses of PRF payments that were not transferred to the parent?
  - 9) Does a recipient actually have to transfer the funds to the related entities or is it sufficient to book accounting entries?
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### **Healthcare Related Expenses Attributable to Coronavirus**

- 10) There is an FAQ (modified 12/11/2020) that addresses the question "... how do I calculate the 'expenses attributable to coronavirus not reimbursed by other sources?'" The response indicates that the PRF "...permits reimbursement of marginal increased expenses related to coronavirus" and provides the below illustration based on pre-pandemic and post-pandemic average expense/cost to provide an office visit.
  - a. In accounting and finance, marginal cost is impacted by the quantity/volume of goods or services being measured, such that as volumes decrease, marginal costs generally increase due in part to the nature of fixed costs that do not decrease ratably with volume (hence, when patient volumes decrease, the cost per patient encounter increases). Is it therefore acceptable to report incremental increases in marginal expenses arising from decreases in patient volumes attributable to coronavirus?
  - b. Are there any requirements or guidelines with respect to the method(s) used to estimate incremental increases in marginal costs? How will these cost estimates be identified and reported based on the delineated sub-categories of expenses?

A \$5 increase in expense or cost to provide an office visit is calculated by pre-pandemic cost vs. post-pandemic cost, regardless of reimbursement source:

- Pre-pandemic average expense or cost to provide an office visit = \$80
- Post-pandemic average expense or cost to provide an office visit = \$85

Examples of reimbursed amounts may include, but not be limited to:

- Example 1  
Medicaid reimbursement: \$70 (Report  $\$85 - \$80 = \$5$  as expense attributable to coronavirus but unreimbursed by other sources)
- Example 2  
Medicare reimbursement: \$80 (Report  $\$85 - \$80 = \$5$  as expense attributable to coronavirus but unreimbursed by other sources)
- Example 3  
Commercial Insurance reimbursement: \$85 (Report \$5, commercial insurer did not reimburse for \$5 increased cost of post-pandemic office visit)
- Example 4  
Commercial Insurance reimbursement: \$85 + \$5 insurer supplemental coronavirus-related reimbursement (Report zero since insurer reimbursed for \$5 increased cost of post-pandemic office visit)
- Example 5  
COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured: \$80 (Report \$5 as expense attributable to coronavirus but unreimbursed by other sources)

- 11) For providers seeking FEMA reimbursement for FEMA eligible expenses, should providers include the FEMA eligible expense in its calculation of Healthcare Related Expenses Attributable to Coronavirus?
- a. Should providers indicate only the amount of FEMA proceeds received during calendar year 2020, or should they include the amount they expect to receive from FEMA (e.g., amounts submitted to FEMA but not approved, or amounts approved but not yet obligated)
- 12) Below are 4 FAQs on capital items. The 12/11/20 FAQ would generally be seen as the most recent guidance but appear to contradict what was said in the 11/18/20 FAQs. Additional clarity is needed on what can be allocated to PRF regardless of how it is reported for GAAP.

**Do providers report total purchase price of capital equipment or only the depreciated value? (Added 10/28/2020)**

*Providers who use accrual or cash basis accounting may report the relevant depreciation amount based on the equipment useful life, purchase price and depreciation methodology otherwise applied.*

*Providers may report an expense for items purchased with a useful life of 12 months or less if in accordance with their existing accounting policies.*

**Will the Provider Relief Fund limit qualifying expenses for capital equipment purchases to 1.5 years of depreciation, or can providers fully expense capital equipment purchases? (Added 11/18/2020)**

*Expenses for capital equipment and inventory may be fully expensed only in cases where the purchase was directly related to prevent, prepare for and respond to the coronavirus. Examples of these types of equipment and inventory expenses include:*

- Ventilators, computerized tomography scanners, and other intensive care unit- (ICU) related equipment put into immediate use or held in inventory
- Masks, face shields, gloves, gowns
- Biohazard suits
- General personal protective equipment
- Disinfectant supplies

**Can providers include the entire cost of capital facilities projects as eligible expenses, or will eligible expenses be limited to the depreciation expense for the period? (Added 11/18/2020)**

*Expenses for capital facilities may be fully expensed only in cases where the purchase was directly related to preventing, preparing for and responding to the coronavirus. Examples of these types of facilities projects include:*

- Upgrading a heating, ventilation, and air conditioning (HVAC) system to support negative pressure units
- Retrofitting a COVID-19 unit
- Enhancing or reconfiguring ICU capabilities
- Leasing or purchasing a temporary structure to screen and/or treat patients
- Leasing a permanent facility to increase hospital or nursing home capacity

**Do providers report total purchase price of capital equipment or only the depreciated value? (Modified 12/11/2020)**

- *Providers who use accrual or cash basis accounting may report the relevant depreciation amount based on the equipment useful life, purchase price and depreciation methodology otherwise applied.*

- *For additional information on capital depreciation, please refer to the other Frequently Asked Questions related to capital equipment and capital facility projects.*

- 13) How will HHS consider forgiven PPP loan amounts received by the provider in its calculation of expenses for PRF?
- a. What about reporting entities that intend to pursue PPP2, Employee Retention Tax Credit, or other government relief in 2021 which may cover some of the same expenses, but which have not yet been applied for or approved?
- 14) How should providers account for patient care revenue that is incremental and meant to combat the pandemic (i.e., 20% increase in MCR IPPS reimbursement and removed 2% sequestration)?
- a. Should reporting entities include this incremental revenue in their Step 1 qualified expenses calculation (which would reduce the net expenses reported) and omit it from the Step 2 lost revenue calculation (i.e., back it out of 2020 net patient service revenue), **or** should such amounts be excluded from the Step 1 allowable expense calculation and included in the Step 2 lost revenue calculation (which would reduce the amount of lost revenue reported)?

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### **Lost Revenues**

- 15) Are state or federal lump-sum supplemental / quality payments required to be included as part of patient care revenue in determining lost revenues?
- 16) Do providers need to use the same methodology for determining lost revenues across all entities / subsidiaries?
- 17) Many provider organizations have a fiscal year end (e.g. 6/30 or 9/30) and there generally will not be a budget that was established and approved prior to March 27, 2020 that covers all of calendar year 2020. Thus, many organizations are exploring the idea of a “hybrid method” for determining lost revenues (e.g. using the budget for the first 6 months of calendar 2020 and year over year comparison to 2019 for the second half of 2020 (i.e., first six months of FY21)).
- a. Would these organizations be forced to claim the “any reasonable method” for lost revenues, and thus have a higher likelihood of a HRSA audit, even though it is essentially a combination of the first two options?
  - b. Can/should there be a 4<sup>th</sup> option for these fiscal year-ends?

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### **Auditing / Other**

- 18) The Compliance Supplement Addendum indicates that auditors performing single audits of December 31, 2020, year-ends are expected to test special reporting (which encompasses the HHS portal reporting). OMB states that it would provide key line items and other information from the reporting that was subject to audit separate from the Supplement posting. The HHS portal reporting delay is now impacting December 31, 2020, single audits and thousands of single audits are now on hold until the portal is open and OMB provides testing information.

This delay will affect not only HHS but other federal agencies in situations where the recipient is getting federal funding from more than one federal agency. This same delay dilemma exists for the for-profit entities selecting the financial-related option.

- 19) For expenditures to be reported on the schedule of expenditures of federal awards in a particular period, an award needs to exist. In December, HHS announced that Phase 3 would provide up to 88% of reported losses. At what point does an award exist in this circumstance? If left to recipients to decide, there will be diversity in practice.
- 20) For commercial for-profit entities – is the \$750k audit threshold based on when funds were expended or received?
- 21) For commercial for-profit entities, does the guidance in 2020 *Compliance Supplement Addendum* also apply to for-profit entities selecting the financial-related audit option? In other words, is the first period that PRF will be subject to audit be for these for-profits the period ended 12/31/20 to align with portal reporting?
- 22) For commercial for-profit entities, what is the audit due date for the financial-related audit option? Also, is a COVID-19 extension available similar to the single audit option?
- 23) For commercial for-profit entities selecting the financial-related audit option, how does the basis of accounting for financial statement of HHS award purposes (e.g., accrual, cash, etc.) relate to the portal reporting basis?
- 24) For commercial enterprises, what is the basis and format of the PRF statement/schedule, and what is the scope of the GAGAS “financial-related audit?” The AICPA has submitted illustrations of both and would like HHS feedback.
- 25) Are there any explicit requirements or expectations regarding the “level” of the audit (i.e., aggregated/consolidated vs. standalone/“series”), and/or whether it has to conform with the manner reported in the portal?
  - a. The single audit rules allow for a series of audits approach to meet the single audit requirement. This approach would seem to mean that separate TINs that each received/expended < \$750k in PRF would not be subject to the audit requirement. Does HHS agree with this? Even if the portal ends up requiring reporting on a consolidated/aggregated basis?
  - b. How does the single audit “series of audits” approach relate to for-profit entities that select the financial audit option?
- 26) If not performing a consolidated single audit, are transfers of distributions within a controlled group considered a pass-through of a federal award for the original recipient TIN, that would be included in their SEFA as a passed-through expenditure? We believe the answer to this question is “no” based on current single audit rules but would like HHS confirmation.