Finance Office Hours for Health Centers

Questions and Answers from the May 29, 2020 Session

Presented and answered by: Jeff Allen, Scott Gold, David Fields, Jansen Otterness, Justin Kensinger, BKD.

This document summarizes questions received via the chat during the finance office hours for health centers. The session was attended by 237 participants from health centers, primary care associations, health center controlled networks, and national cooperative agreement entities funded by the Health Resources and Services Administration. Experts participating in the session have shared their responses to these questions. This document is organized into the two categories of questions received:

I. Coronavirus Aid, Relief, and Economic Security (CARES) Act
II. Paycheck Protection Program (PPP)

Disclaimers
BKD is providing guidance based on a current understanding of the rules. The guidance from COVID stimulus and relief funding is changing almost daily and you should always consult the rule making authorities before making final decisions. We are not attorneys nor are we qualified to provide legal advice.

Information from this document was accurate as of May 29, 2020. Please check appropriate sources for more current and up to date information.

I. CARES Act

Question: Do you recommend treating the CARES Act provider relief funds as deferred revenue?

Our recommendation is to treat the funds received as a conditional contribution until the condition (i.e. demonstration of lost/forgone revenues and/or COVID-19 response expenses) is met. Until the condition is met, the balance would be carried as a liability - either deferred revenue, refundable advance, or another comparable account.

Question: Have you seen any guidance on the time frame associated with the spend down or recognition of the Provider Relief Funds?
To my knowledge, this has not yet been defined.

**Question:** Any ideas on preparing and presenting an annual budget?

In my opinion, the biggest wild card is the service revenue component. Knowing that, it can be beneficial to have a budget that carries your best estimate for the next twelve months along with a best case and worst case projection. From there, you are able to better understand what your Provider Relief Fund and supplemental grant burn rate would be and set markers for additional decision points i.e. staffing, etc.

**Question:** Why is provider relief considered conditional? To be conditional, it has to have a barrier and right to return, what is the barrier?

We consider the COVID-19 response expenses and/or lost/forgone revenue to be that barrier.

**Question:** I know that changes larger than 25% require rebudgeting. If we are moving costs within the same line item do we have to follow the 25% rule. For example, we have supplies on the budget but also have a detailed schedule showing the supplies to be purchased.

If you are changing costs within the same line item on an approved budget, you do not have to obtain prior approval.

**Question:** What if we have not received our second round of funding prior to the June 3 deadline for attestation. I have called the help number and they have something pending, however no funds received.

You’re not alone here. Make sure, even if you have not received payment, that you’re providing the requested documentation and attesting by June 3rd and follow-up if that does not correct the funding awarded when compared to management’s estimate. See the following link. [https://www.hhs.gov/about/news/2020/05/20/providers-must-act-june-3-2020-receive-additional-relief-fund-general-distribution-payment.html](https://www.hhs.gov/about/news/2020/05/20/providers-must-act-june-3-2020-receive-additional-relief-fund-general-distribution-payment.html)

II. PPP

**Question:** Is a conservative approach to consider the PPP loan as a liability until forgiveness is confirmed?

We consider this to be the GAAP requirement. A borrower should record the amount as a liability until the amount is legally discharged (notified that debt has been forgiven by the bank) or paid.

**Question:** We received the PPP loan on the last day of payweek, can we calculate our 8 weeks from next pay period.
If your organization qualifies to apply the alternative payroll covered period, you can do this. That is limited to those borrowers that are processing payroll bi-weekly or more frequently.

**Question:** Does the incurred payroll process apply to both the original 8 week Covered Period and the Alternate Period?

Yes. Previous payroll that rolls into the 8 week period.

Yes, the recent interim final rule applies this same methodology when discussing the APCP.

**Question:** Can you address the definition of "transportation" as a forgivable expense? Would patient taxi vouchers and similar be eligible?

We struggle with this one and think the practical advice is to avoid this unless you just need to use it for this purpose. It is always possible that additional guidance may be released through. The PPP program is not a health care specific program so not all costs are definitively covered by the guidance. Although a case can be made where this would be a needed cost, it is unclear if regulators would feel the same way based on the limited guidance that is given.

**Question:** When you talk about utilities, what constitutes "transportation" cost? Available guidance is currently silent on this.

See response immediately above.

**Question:** The legislation extends the time to use the loan from eight weeks to 24 weeks and gives businesses more time to pay back loans beyond the initial two-year term. The bill eliminates the cumbersome 75/25 restrictions that said nonprofits must spend 75 percent of their loans on payroll and only 25 percent on other operating expenses like rent and utilities. The formula changes to 60/40 percent. Will this affect FTE calculation, can we still use 8 weeks?

Please note this is proposed legislation, with different terms in the House (described above) and Senate proposals. In response to the question, if the covered period is extended, I would expect the default to be that the safe harbor measurement will also be extended. Something for borrowers to watch will be if there is flexibility around defining an extended covered period. If they truly extend this to 24 weeks, that is still only 5.5 months but would the forgiveness be delayed until the end of the covered period? That is going to keep the liability on the books longer than expected. Also, there is a real chance the safe harbor ending measurement date is extended. As is, we are comparing the beginning and end of a 4.5 month spread. If we suddenly add 8 or 16 weeks to the program, are we now looking at a safe harbor commitment to FTEs of 12.5 to 20.5 weeks? That may be a hidden stumbling block – 2.9 – 4.7 months may be a tough commitment to maintaining FTEs for some.
**Question:** If we can use both a cash and accrual basis for payroll costs, are we still limited to the $15,385 per employee?

Yes, the cap remains at $15,385 despite the payroll costs paid and payroll costs incurred language. Borrowers are encouraged to monitor the proposed legislation regarding this amount. The current House bill does not include language addressing the cap.

**Question:** Can we include contracted services in the payroll costs?

I do not think we can capture independent contractors as payroll costs. An earlier Interim Final Rule said that independent contractors do not count as employees for the purposes of PPP loan calculations since they have the ability (or their employer in the case of a locum that is a health center contract employee) to participate in the PPP on their own.

**Question:** Should their FTE be adjusted if they maintained 1.0, but took leave time for FFCRA (Families First) and we paid them through that pay code? For FTE count for Jan-Jun 2019, do we need to calculate the average hour to calculate FTE or just use Jun 30 payroll?

The work you’ll do on the FTE count is outlined in the Worksheet to Schedule A on the forgiveness application. You can either calculate the FTE count (40 hours or more = 1.0 FTE, anything less is calculated to the nearest tenth) or apply the simplified method (40 hours or more = 1.0 FTE, anything less is 0.5 FTE). The Safe Harbor allows a borrower to compare the total FTE count in the pay period inclusive of 2/15/2020 to the total FTE count as of 6/30/2020. If the 6/30/2020 number is greater than or equal to the number from the pay period inclusive of 2/15/2020, there is not an FTE reduction factor.

Otherwise, the borrower has to calculate (or use the simplified method of FTE determination) for the covered period and accumulate those to show total FTEs. That FTE number from the covered period (or APCP) will be compared to your FTE reference period to demonstrate your change in FTEs.

The FTE reference period must be either: i) 2/15/2019 – 6/30/2019 ii) 1/1/2020 – 2/29/2020 or iii) (seasonal employers only) either the preceding periods or a consecutive 12-week period between 5/1/2019 and 9/15/2019. I expect the third option for seasonal employees to generally be unavailable to health centers.

One final thought – if the program is extended beyond 6/30/2020, then the safe harbor measurement likely will too. It is possible the other measurement dates will change as well – stay tuned!

**Question:** Does the coverage period actually start on the "disbursement" date or the loan closing date in situations where disbursement occurred later?

Everything I have seen points to the disbursement date, when the funds were received by the borrower.
**Question:** We wanted to work with a local hospital on testing facilities, but couldn’t through our FQHC funding due to scope barriers. If we wanted to use our provider relief funds to partner with the hospital, would those funds fall outside of scope and could be used?

I’m not sure I follow what would outright prevent this. It seems like this would be a prime example of collaborative relationships. I don’t see anything in the Provider Relief Fund terms and conditions that would prevent this arrangement and if this is truly something that cannot be brought in-scope, then your risks to consider would be 1) FTCA coverage and 2) billing compliance.

**Question:** Would semi-monthly payroll from 6/16 - 6/30 have to be paid by 6/30 instead of 7/7/2020, when we normally pay the period?

As a semi-monthly payroll processor, you would have to apply the covered period methodology. If your 6/16 – 6/30 payroll falls within the covered period, then you could still pay it 7/7 since that is your next regularly scheduled payroll date. If your covered period ends during this time frame, you would need to determine the amount incurred from 6/16 through the end of the covered period and you can claim under the same “incurred and paid on or before the next regular payroll processing date” line of thinking.

**Question:** What type of expenses are allowable under the provider relief funds?

The terms and conditions for the Provider Relief fund are twofold: 1) the payment will only be used to prevent, prepare for, and respond to coronavirus and 2) the payment shall reimburse the recipient for health care related expenses or lost revenues that are attributable to coronavirus. While not explicitly required under the terms and conditions, health centers should consider if tying these funds back to specific expenses will provide a full accounting of the federal funds received and provide a clearer picture as to how they did not “double dip”

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*All recordings and materials from each session of this series are posted at: [http://www.nachc.org/trainings-and-conferences/financialoperations-management/finance-office-hours-for-health-centers/](http://www.nachc.org/trainings-and-conferences/financialoperations-management/finance-office-hours-for-health-centers/)*

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