

Accounting ad Compliance Issues - Federal COVID-19 Funding

Texas Association of Community Colleges July 29, 2021



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Assistance Listing Number\* (ALN) 84.425 A through P – Most Common to Community Colleges

84.425 E (HEERF Student Aid Portion)

84.425 F (HEERF Institutional Portion)

84.425 J (HEERF HBCUs)

84.425 L (HEERF MSIs)

84.425 M (HEERF SIP)



\* Formerly Known as CFDA

## 2020 Compliance Supplement Addendum

Items subject to audit change each year

А	В	С	E	F	G	Н	Ι	1	L	М	Ν
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Ν	Ν	Ν	Y	Y	Y	Ν	Y	N	Ν

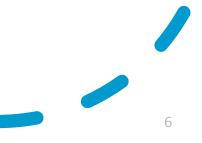
Update from AICPA GAQC

- 2021 Compliance Supplement is almost complete
- Addendum will be needed
- Lost revenue concept will be added to compliance supplement
- Reporting changes
- Period of Performance Changes
- Certain non-ARPA grants are considered "higher risk"
  - 84.425 (HEERF)
  - 21.019 (CRF)



Update from AICPA GAQC

- Higher risk may result in Type A program being audited as major even if it was audited in the past
- Auditors are not precluded from using their judgment
  - However, document rationale (e.g. same use of HEERF as in the prior year)
  - Evaluate the portion of COVID-19 funding in the cluster or in the program



#### Made Directly to Students

#### HEERF (Student Aid Portion)

Auditors should determine (1) the institution documented plan to distribute funds to students (2) the institution did not place any restrictions on the expenditure of those funds and (3) the institutions expended the entirety on emergency financial aid grants to students and the institution did not reimburse itself for any costs or expenses previously issued to students Institutional Aid Portion

#### HEERF (Institutional Aid Portion)

Auditors will test for to determine whether expenditures cover any costs associated with significant changes to the delivery of instruction due to the coronavirus, so long as costs due not include payment to contractors for the provision of pre-enrollment recruitment activities

# Lost Revenue

- Was not initially allowed but on March 19, 2021, the U.S. Department of Education posted an HEERF I, II, and III *Lost Revenue* FAQ <u>https://www2.ed.gov/about/offices/list/ope/heerflostrevenuefaqs.pdf</u>
- Understood that lost revenue will be an estimate that *must be documented*
- Lost revenue calculations cannot be applied to Student Portion
- Footnote 2 page 1 CRRSAA section 314(d)(2) allowed for previously awarded CARES Act funds to be retroactively used for the allowable uses under CRRSAA, including reimbursement of lost revenue.
- The U.S. Department strongly recommends using HEERF funds to provide financial aid grants to students and prioritize costs associated with student safety and support and testing services, including by using some or all of the funds allocated for institution's expenses.
- Lost revenue estimates can span from March 13, 2020 through 1 year after the Grant Notification Award

## Potential Sources of Lost Revenue

- Lost revenue must be associated with the COVID-19 pandemic.
- Lost revenue due to, for example, lost housing revenue due to previously planned dormitory remodeling, previously planned elimination of a degree program, research grant income ending, one-time royalty payments) – Not Allowed
- Be sure to evaluate the cause of lost revenue (review cabinet level meeting minutes, board minutes, etc.)



#### Potential Sources of Lost Revenue

- Academic Sources
  - Tuition and fees and institutional charges
  - Room and board
  - Enrollment declines, including reduced tuition, fees and institutional charges
  - Supported research
  - Summer terms
- Auxiliary Services Sources
  - Cancelled ancillary events
  - Disruption of food service
  - Dormitory services
  - Childcare services
  - Use of facilities or venues
  - Bookstore, parking, and lease revenues
  - Royalties
  - Other operating revenues

# Lost Revenue Not Allowed

- Capital outlays associated with facilities related to athletics (including fees assessed for capital athletic facility construction)
- Acquisition of real property (including bond revenue)
- Contributions or donations to the institution
- Marketing or recruitment activities
- Revenue related to sectarian instruction or religious worship
- Alcohol sales
- Investment income

#### Calculating Lost Revenue

- A year-over-year comparison using the prior year;
- A semester-over-semester comparison using the prior year semester (fall 2019 compared to fall 2020 or summer term 2019 compared to summer term 2020);
- A comparison using a 3- or 5-year combined average revenue as baseline revenue;
- A comparison to previously budgeted revenue or projected revenue for the period; or

# **Calculating Lost Revenue (continued)**

A comparison with a baseline year of a fiscal year prior to the March 13, 2020 national emergency declaration, such as the fiscal year from July 1, 2018 – June 30, 2019 (September 1, 2018 through August 31, 2019).

Generally, except as provided below, an institution does not need to subtract replacement revenue (net revenue) the institution received in calculating its amount of lost revenue (gross revenue).

# **Lost Revenue and Documentation**



Adequate documentation of its estimate of lost revenue such as rationale, calculations, methodology, underlying data, and budgets or projections used to determine the amount of lost revenue.



Record retention requirements: Colleges must retain financial records, supporting documents, statistical records, and all other institutional records pertinent to lost revenue and the administration of the HEERF grant programs generally for a period of three years from the date of submission of the final expenditure report

#### Lost Revenue –Offsetting Costs Unnecessary



FAQ 12. Question: Does an institution need to assign specific costs or expenses once it has charged its HEERF grant award for its estimate of lost revenue?



Answer: No. The incurring of the
"cost" of lost revenue on an
institution's HEERF grant award
any costs or expenses that the
institution will pay using the
amount of lost revenue since the
llowable cost in the HEERF grant
rograms is the reimbursement of
the lost revenue itself. However,
in calculating the amount of lost
revenue, the institution must
nclude only permitted sources as
described in Questions 3 and 4.

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e incurring of the revenue on an ERF grant award to be assigned to Il pay using the revenue since the Indirect costs should not be claimed on lost revenue. Modified total direct costs are used for the indirect cost calculation



## Schedule of Expenditures of Federal Awards



All grants under ALN 84.425 needs to be treated as one program regardless of suffix (e.g. E, F, H, L)



Expenditures will drive revenue, except for lost revenue which will not be based on expenditures.



Record Lost Revenue in federal account code (offset is cash) and ensure that amounts reported on SEFA are reconciled to Exhibit II, A and C.



#### Don't Forget about Cost Principles

- Applies to all federal grants
- Uniform Guidance 2 CFR 200.420-.476
- Unallowable
  - Advertising and public relations costs that not related to the performance of the Federal Award (200.421)
  - Alcohol (200.423)
  - Bad debt expenses (200.426)
  - Entertainment Costs (200.438)
  - Fines, penalties, damages and other settlements (200.441)
  - Lobbying (200.450)

# **Basics of HEERF II**

- Section 314(a)(1) of the CRRSAA states that Colleges must provide the same amount in financial aid grants to students from CRRSA that it was required to which it would have been required to provide under its original HEERF I Student Aid Portion award.
- College A Total Award \$64.7 million
  - CARES Act Minimum for Student Aid \$14.1 million
  - \$50.6 million for Institutional portion
- Allocations for students enrolled in exclusively distance education courses
  - College A received \$1.6 million (part of institutional portion)

# **Basics of HEERF II**

- CRRSA requires that Colleges prioritize students with *exceptional need*, such as students who receive Pell Grants. (difference from CARES Act)
- Colleges cannot (1) condition the receipt of financial aid grants to students on continued or future enrollment in the institution, (2) use the financial aid grants to satisfy a student's outstanding account balance, unless it has obtained the student's written (or electronic), affirmative consent, or (3) require such consent as a condition of receipt of or eligibility for the financial aid grant.
- Students may use HEERF II for any component of the student's cost of attendance or for emergency costs that arise due to coronavirus, such as tuition, food, housing, health care (including mental health care) or childcare.

The ARPA has two new required uses for the **HEERF III Institutional Portion** grant funds for public and private nonprofit institutions in which, if the Institutional Portion is not used entirely for emergency financial grants to students, a portion of funds must be used to: (a) implement evidence-based practices to monitor and suppress coronavirus in accordance with public health guidelines; and (b) conduct direct outreach to financial aid applicants about the opportunity to receive a financial aid adjustment due to the recent unemployment of a family member or independent student, or other circumstances, described in section 479A of the HEA.

Modified the share of (a)(1) funds that must be used for emergency financial aid grants to students:

As described in Question 20, the ARP provides a new formula for the amount of (a)(1) funds that must be used for financial aid grants to students. This amount is represented in the "Student Aid Portion" column listed on the ARP (a)(1) allocation table and explained in the accompanying ARP (a)(1) methodology document.

As announced in the Department's final rule, "Eligibility To Receive Emergency **Financial Aid Grants to Students Under** HEERF" (May 14, 2021, 86 FR 26608) (final rule), the term "student," for purposes of the phrases "grants to students," "emergency financial aid grants to students," and "financial aid grants to students" as used in the HEERF programs, is now defined as any individual who is or was enrolled (as defined in 34 CFR § 668.2) at an eligible institution (as defined in 34 CFR § 600.2) on or after March 13, 2020, the date of declaration of the national emergency due to the coronavirus (85 FR 15337). Thus, students are no longer required to be eligible for Title IV student financial aid in order to receive HEERF grants to students.

Put more plainly, students who are or were enrolled in an institution of higher education during the COVID-19 national emergency are eligible for emergency financial aid grants from the HEERF, regardless of whether they completed a Free Application for Federal Student Aid (FAFSA) or are eligible for Title IV.

As under the CRRSAA, institutions are directed with the ARP funds to prioritize students with exceptional need, such as students who receive Pell Grants <u>or are undergraduates with</u> <u>extraordinary financial circumstances</u> in awarding emergency financial aid grants to students.

11. Question: What are the requirements for making emergency financial aid grants to students?

Answer: Students who are or were enrolled in an institution of higher education on or after the date of the declaration of the national emergency due to the coronavirus (March 13, 2020) are eligible for emergency financial aid grants from the HEERF, regardless of whether they completed a FAFSA or are eligible for Title IV.

The CRRSAA requires that institutions prioritize students with exceptional need, such as students who receive Pell Grants or are undergraduates with extraordinary financial circumstances, in awarding emergency financial aid grants to students.

Beyond Pell eligibility, other types of exceptional need could include students who may be eligible for other federal or state need-based aid or have faced significant unexpected expenses, such as the loss of employment (either for themselves or their families), reduced income, or food or housing insecurity. In addition, the CRRSAA and ARP explicitly state that emergency financial aid grants to students may be provided to students exclusively enrolled in distance education provided the institution prioritizes exceptional need.

12. Question: When might the Department determine that an institution has failed to prioritize emergency financial aid grants to students with exceptional need?

Answer: The Department will make an individualized determination about whether an institution failed to prioritize emergency financial aid grants to students with exceptional need. The Department may determine an institution has failed to do so if the institution established preconditions for students to receive emergency financial aid grants (e.g.,

- (1) establishing a minimum GPA,
- (2) imposing other academic or athletic performance or good standing requirements,
- (3) requiring continued enrollment in the institution or
- (4) required the student to first pay any outstanding debt or balance)

that results in failure to prioritize students with exceptional need.

Institutions may not (1) condition the receipt of emergency financial aid grants to students on continued or future enrollment in the institution, (2) use the emergency financial aid grants to satisfy a student's outstanding account balance, unless it has obtained the student's written (or electronic), affirmative consent, or (3) require such consent as a condition of receipt of or eligibility for the emergency financial aid grant. Institutions should carefully document how they prioritize students with exceptional need in distributing emergency financial aid grants to students, as the Department is exploring reporting requirements regarding the distribution of emergency financial aid grants to students (see 2 CFR § 200.334). 28

- 1. May not direct or control what students may use their emergency financial aid grants on
- 2. Grants made to students are not taxable
- 3. Rationale, methodology, etc. must be documented.
- 4. CARES Act, CRRSAA, nor ARP is not counted as income in the family Expected Family Contribution (EFC)
- 5. Colleges must receive affirmative written consent from students before using emergency financial aid grants to satisfy a student's outstanding account balance.

Uses of Funds (See ARPA FAQ Questions 23 & 24)

While construction and real property are not allowed uses, minor remodeling is allowed.

Answer: Minor remodeling means minor alterations in a previously completed building, for purposes associated with the coronavirus. The term also includes the extension of utility lines, such as water and electricity, from points beyond the confines of the space in which the minor remodeling is undertaken but within the confines of the previously completed building. The term does not include permanent building construction, structural alterations to buildings, building maintenance, or repairs.

#### Uses of Funds

While construction and real property are not allowed uses, minor remodeling is allowed.

Some examples of permissible minor remodeling may include, but are not limited to:

• The installation or renovation of an HVAC system, to help with air filtration to prevent the spread of COVID-19.

• The purchase or lease of temporary trailer classroom units to increase social distancing.

• The purchase or costs of the installation of "room dividers" within a previously completed building to increase social distancing.

#### Uses of Funds

While construction and real property are not allowed uses, minor remodeling is allowed.

Some examples of permissible minor remodeling may include, but are not limited to:

• The installation or renovation of an HVAC system, to help with air filtration to prevent the spread of COVID-19.

• Seek advice of attorney Department of Education has provided guidance on HVAC for ESSER funds (K-12) and indicated that HVAC work may be considered minor remodeling and others may be considered construction

43. Question: Can my institution charge indirect costs to its HEERF grants?

Answer: Indirect costs may be charged only to Institutional Portion awards, both new and supplemental, and may not be charged to any student grant awards (under either ARP (a)(1) or ARP (a)(4)) because the student allocation represents an amount of funds that must be distributed to students.



# Period of Performance

- March 13, 2020 through one year after the Grant Award Notice (GAN)
- Example:
- GAN April 7, 2021

Period of Performance end date April 6, 2022

No-cost extensions (NCE) for unobligated funds for an additional 12 months (April 5, 2023)

NCEs must be approved and cannot be used simply because the entity has unobligated funds



#### **Period of Performance**

#### ARPA FAQ #51

- My institution has expended all the funds associated with one of its HEERF grants and is preparing to close out this grant. What must we do?
- Answer: Institutions that are winding down their HEERF grants must do the following to comply with the close out requirements described in 2 CFR § 200.344:
   Contact the ED Program Contact listed in Box 3 of your GAN.
- Remaining funds have been liquidated for expenditures incurred during the grant period of performance.
- 2 CFR 200.344 (b) has been updated: Institutions have 120 calendar days to liquidate all financial obligations incurred under the award after the period of performance.
- All quarterly reporting is properly publicly posted online and submitted to the Department as required by the HEERF Quarterly Reporting requirements (please see Question 36)



#### **Period of Performance**

- Additionally, public quarterly reports should remain online for a period of at least three years after the submission of the last quarterly or annual performance report.
- Submit the annual performance report covering the last period of grant performance when the Department opens the system for annual performance reporting (the next annual performance report will be submitted in early 2022 per Question 37).
- Maintain all grant financial records, supporting documents, statistical records, and all other entity records pertinent to the HEERF grant award for a period of three years from the date of submission of the last quarterly or annual performance report per 2 CFR § 200.334.
- Submit all required audits as described in Question 38 and the Department's HEERF Grant Program Auditing Requirements Letter (issued on March 8, 20



# Procurement, Suspension and Debarment

- The College may not enter into a contract with a vendor that is suspended or debarred.
  - Sam.Gov (<u>https://sam.gov/content/exclusions</u>)
  - Contract Provision
  - Certification signed by the vendor
- Follow the most restrictive rules
  - Local policy set by Board
  - State procurement rules (\$50,000 or more)
  - Federal procurement rules under 2 CFR 200.318 through 2 CFR 200.327



# Procurement, Suspension and Debarment

Beware of the use of Sole Source Vendors.

The Uniform Guidance only allows the use of a noncompetitive procurement method under these circumstances (2 CFR 200.320 (c)):

- (1) The acquisition of property or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (see paragraph (a)(1) of this section);
- (2) The item is available only from a single source;
- (3) The public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation;
- (4) The Federal awarding agency or pass-through entity expressly authorizes a noncompetitive procurement in response to a written request from the non-Federal entity; or

(5) After solicitation of a number of sources, competition is determined inadequate.

- OMB Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System applies to all COVID-19 programs (except for CRF) included in the 2020 Compliance Supplement
- "Reporting" is subject to audit ("Y" on Matrix of Compliance Requirements) and
- Direct Recipient makes first-tier subawards/subcontracts of \$25,000 or more to report subaward data through FFATA subaward Reporting System (New UG - \$30K)
- For single audits with year-ends after 9/30/2020, this requirement applies to all Major Federal Programs, even if COVID-19 funding is not present.
- https://www.fsrs.gov/

• Each College will report to the Secretary the following: how grants were distributed to students, how the amount of each grant was calculated, and any instructions or directions that the institution gave to students about the grant. Institutions must also comply with the reporting requirements under Section 15011 of the CARES Act.

- (1) An acknowledgement that the institution signed and returned to the Department the Certification and Agreement and the assurance that the institution has used, or intends to use, no less than 50 percent of the funds received under Section 18004(a)(1) of the CARES Act to provide Emergency Financial Aid Grants to Students.
- (2) The total amount of funds that the institution will receive or has received from the Department pursuant to the institution's Certification and Agreement for Emergency Financial Aid Grants to Students.
- (3) The total amount of Emergency Financial Aid Grants distributed to students under Section 18004(a)(1) of the CARES Act as of the date of submission (*i.e.*, as of the initial report and every calendar quarter thereafter).

- (4) The estimated total number of students at the institution eligible to participate in programs under Section 484 in Title IV of the Higher Education Act of 1965 and thus eligible to receive Emergency Financial Aid Grants to Students under Section 18004(a)(1) of the CARES Act.<sup>[1]</sup>
- (5) The total number of students who have received an Emergency Financial Aid Grant to students under Section 18004(a)(1) of the CARES Act.
- (6) The method(s) used by the institution to determine which students receive Emergency Financial Aid Grants and how much they would receive under Section 18004(a)(1) of the CARES Act.

- Reporting Period: The reporting period for the first HEERF annual report began on January 5, 2021 and ends on February 8, 2021. The grantee reporting portal can be accessed <u>here</u>. A user guide, webinar, and other resources can be accessed <u>here</u>. All HEERF grantees are required to submit an annual report during this reporting period.
- Quarterly Public Reporting Form for (a)(1) Institutional Portion, (a)(2), and (a)(3) Funds
- The first two Quarterly reports are due July 10, 2021 (January-March and April-June)

- What are the quarterly reporting requirements for HEERF III grants?
- HEERF grantees receiving ARP funds must continue to adhere to the two quarterly reporting requirements originally implemented through the CARES Act for HEERF I funding.

#### Quarterly Budget and Expenditure Reporting for HEERF I, II, and III (a)(1) Institutional Portion, (a)(2), and (a)(3), if applicable

Institution Name:			Date of R	eport:	Covering Quarter Endi	Covering Quarter Ending:	
PR/Award Number(s): P425F	P425J	P425K:	P425L	P425M:	P425N:		
Total Amount of Funds Awar	ded: Section (a)(1) Ins	titutional Portion: \$0	Sectio	n (a)(2): <sup>\$ 0</sup>	Section (a)(3): \$ 0	Final Report? 🔲	

Category	Amount in (a)(1) institutional dollars	Amount in (a)(2) dollars, if applicable	Amount in (a)(3) dollars, if applicable	Explanatory Notes
Providing additional emergency financial aid grants to students. <sup>1</sup>	\$ 0	\$ 0	\$ 0	
Providing reimbursements for tuition, housing, room and board, or other fee refunds.	\$ 0	\$ 0	\$ 0	
Providing tuition discounts.	\$ 0	\$ 0	\$ 0	
Covering the cost of providing additional technology hardware to students, such as laptops or tablets, or covering the added cost of technology fees.	\$ 0	\$ 0	\$ 0	
Providing or subsidizing the costs of high-speed internet to students or faculty to transition to an online environment.	\$ 0	\$ 0	\$ 0	
Subsidizing off-campus housing costs due to dormitory closures or decisions to limit housing to one student per room; subsidizing housing costs to reduce housing density; paying for hotels or other off-campus housing for students who need to be isolated; paying travel expenses for students who need to leave campus early due to coronavirus infections or campus interruptions.	\$ 0	\$ 0	\$ 0	
Subsidizing food service to reduce density in eating facilities, to provide pre-packaged meals, or to add hours to food service operations to accommodate social distancing.	\$ 0	\$ 0	\$ 0	

#### https://www2.ed.gov/about/offices/list/ope/arpheerfiiiqaurterlyreporting.pdf

- What are the quarterly reporting requirements for HEERF III grants?
- Each report is separate for the calendar quarter reporting period and not cumulative.
- Institutions that expended HEERF grant funds during the calendar quarter from January 1 – March 30 are required to post the two quarterly reports that involved the expenditure of HEERF II CRRSAA and HEERF I CARES Act funds.
- For the July 10, 2021 quarterly reporting deadline, institutions are encouraged to also submit their two quarterly reports (institutional and student) to the Department by emailing those reports as PDF attachments to HEERFreporting@ed.gov.

- What are the quarterly reporting requirements for HEERF III grants?
- The Department will be collecting an annual report for HEERF III ARP grantees in early 2022. The Department will share more information regarding this annual report, which will also require institutions to report on their uses of any remaining HEERF I CARES Act funds and HEERF II CRRSAA funds, in advance of the ARP annual reporting deadline.

## **ARPA FAQ**

https://www2.ed.gov/about/offices/list/op e/arpfaq.pdf

Question: Which previously issued HEERF FAQs and documents apply to the HEERF III programs?

Answer: The following FAQ documents remain, in whole or in part, applicable to the HEERF III ARP programs (unless superseded by the text of ARP):

- Lost Revenue FAQs (issued on March 19, 2021)
- CRRSAA HEERF II (a)(1) FAQs (issued on January 14 and updated March 19, 2021)

### **ARPA FAQ**

### https://www2.ed.gov/about/offices/list/op e/arpfaq.pdf

### (continued)

Question: Which previously issued HEERF FAQs and documents apply to the HEERF III programs? Answer: The following FAQ documents remain, in whole or in part, applicable to the HEERF III ARP programs (unless superseded by the text of ARP):

- CRRSAA HEERF II (a)(4) FAQs (issued on January 14 and updated March 19, 2021)
- HEERF CARES Act Rollup FAQs (issued October 14, 2020 and revised January 28, 2021)
- HEERF Grant Program Auditing Requirements Letter (issued on March 8, 2021)

### SEFA Reporting

Use the Correct CFDA # (Assistance Listing #)

Identify all clusters and provide the cluster total

Use "COVID-19" in the description of the federal program where appropriate

Verify grant agreements for any COVID-19 components to existing programs (e.g. Head Start; TANF)

Pass-through IDs and Entities must be correct

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OPERATOR CLASSES ----

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