The Double-Dipping Conundrum – Where We Stand Today

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Since the Paycheck Protection Program (PPP) was first introduced, borrowers were advised that they cannot double-dip, or be reimbursed for the same expense twice. A surprise to many is that the PPP guidance does not actually address double-dipping. Double-dipping rules are embedded in other guidance, most of which was in existence prior to the PPP's enactment, and the interplay between those rules and the PPP are not entirely clear. As borrowers near the end of their 24-week covered period, this remains a significant unresolved issue – perhaps the most significant unresolved issue – faced by many not-for-profit organizations (nonprofits).

With myriad reporting requirements at the federal, state and local level and reporting deadlines looming, there is mounting anxiety over the prospect of having to return some or all of the PPP or other government funds. Standing still is not a viable option for many nonprofits; but moving forward in this sea of uncertainty is a challenge, to say the least.

The Crux of the Issue

The PPP, like most government grant programs, is a cost-based arrangement. However, unlike most other government grant programs (or awards), which have specific budgeted costs that are reimbursed, the PPP forgives loan proceeds based on a large pool of eligible costs that often far exceeds the PPP loan amount. At this point, it is not clearly outlined in existing guidance which of the eligible costs within the pool of costs are covered by the PPP loan proceeds and which are covered by other awards. Without specific guidance on how the PPP loan proceeds must be applied to specific costs, nonprofits – as well as federal, state and local agencies – are left to their own to figure this out.

Since eligible costs paid with PPP loan funds can result in loan forgiveness, nonprofits cannot charge costs paid with PPP funds to other federal (and/or state/local) awards. Further, the forgiven loan amount may also result in a dollar-for-dollar reduction in other award revenue. Accordingly, identifying which costs are paid with PPP loan funds is critical to determining non-PPP award revenue and thus maximizing overall revenue.

Existing Guidance

Federal cost principles, detailed at 2 CFR, Subpart E, §200.400 through 200.475, provide guidance for determining allowable costs of federal award programs. These guidelines require that costs be necessary and reasonable for performance of the federal award, allowable under the cost principles, and consistently applied to both federally-financed and other activities. However, the PPP legislation and related guidance define the allowable costs, so as a result, the federal cost principles are of limited use in the context of the PPP.

Perhaps the most significant, relevant guidance to date is an internal memo issued by the Office of Management and Budget (OMB) in mid-June – Memorandum M 20-26 (M 20-26). This memo advised federal agencies that:

- "Awarding agencies may allow recipients to continue to charge salaries and benefits to active Federal awards consistent with the recipients' policy of paying salaries (under unexpected or extraordinary circumstances) from all funding sources, Federal and non-Federal."
- "… payroll costs paid with Paycheck Protection Program (PPP) PPP loans … must not also be charged to Federal awards …"
- Federal award "recipients must 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."

This directive has been parroted by federal grantor agencies to award recipients, generally without any meaningful guidance on just what it means or how it will be implemented. This guidance, which applies only to recipients of federal awards, not state or local awards, leaves many questions unresolved, including:

- How does a nonprofit determine which payroll costs were paid for with PPP loan funds and which can be applied to other awards?
- Is there a difference in the way active and inactive award programs are treated? Does the requirement to use other available funding sources to sustain the workforce apply only to federal programs that are suspended or inactive during the pandemic? Or, does this requirement apply to all federal programs, both active and inactive?
- Which "other available funding sources" must be exhausted to sustain the workforce? Do they include PPP loan funds, or just non-federal sources of funds? Do these other funding sources include state and local funds?

State and local government grant agreements also generally prohibit double-dipping, and many state and local agencies are telling award recipients that they must apply PPP funds to state/local programs. But these state and local agencies are generally not telling award recipients how to determine to which programs the PPP loan funds were applied. This makes sense, as it probably is not appropriate for a state or local agency to direct a grant recipient's use of federal funds received directly from the federal government. And if the *other available funding sources* described by M-20-26 include state and local funds, it may be improper to apply the PPP funds to state and local award programs.

Guidance from other sources, including the American Institute of CPAs, has advised nonprofits to use separate general ledger accounts or tracking spreadsheets so that expenses being paid with PPP funds (or Coronavirus Provider Relief Funds) are kept separate from those paid with other government award funds. While this is sound advice, this guidance does not indicate how a nonprofit should determine which funding sources expenses should be charged to if multiple possible funding sources exist.

Applying PPP Funds – A Range of Possibilities

The PPP loan forgiveness application instructions specify that borrowers should include *all eligible payroll costs* in computing forgiveness. But, as previously noted, eligible costs will often far exceed the loan amount. Getting from the total eligible costs to the expenses actually paid for with PPP funds is where the issues lie.

Given the lack of definitive guidance, we believe that each organization must decide for itself, in collaboration with its funders and perhaps its attorney, which approach it will take in allocating forgiven (or forgivable) PPP loan funds to specific programs or activities. Within the guidelines provided by Federal Cost Principles, there are numerous ways to approach this. Here are three possibilities:

1. Apply the PPP loan funds on a pro rata basis to all payroll dollars included in the base used to determine the loan amount. If the borrower included all agency-wide payroll costs in the base, then they would apply the PPP funds across all payroll. If the borrower included only non-grant funded payroll costs in the base, they would apply the PPP funds only to non-grant funded payroll costs.
2. Apply the PPP funds only to non-grant funded activities, or to non-grant funded activities and inactive grant-funded programs.
3. Apply the PPP funds to each program or activity based on funding needs. Activities which are underfunded will receive the benefit of the PPP funds first. Once all activities are at or above break-even, any remaining PPP funds are applied on a pro rata basis to all activities.

The above approaches are not all-inclusive, and as far as we know, none of them have been supported by the SBA or any other federal, state or local agency.

Other Considerations

Identify and document your costs. For each employee, you must determine to which program(s) or funding sources they are being charged and you must allocate their salaries and other payroll costs accordingly. Nonpayroll costs, including rent, utilities and loan interest, must be similarly allocated. If you have programs that were inactive, or had reduced activity due to COVID-19, you should also allocate costs between the active and inactive periods. Be sure that your allocation methods comply with Federal Cost Principles and you have documentation to support all your expenses.

Don't forget about indirect costs. Most federal and state awards include an allowance for indirect costs, including those that are payroll and nonpayroll-related. Be sure to consider and appropriately allocate these indirect costs as well.

Include nonpayroll costs in your forgiveness application. While many nonprofits will be able to achieve forgiveness based on payroll costs alone, the inclusion of nonpayroll costs in the forgiveness application may be beneficial for many nonprofit borrowers. The PPP loan forgiveness application instructions explicitly allow borrowers to pick and choose which eligible nonpayroll costs to include in their pool of eligible costs. Including non-grant funded, nonpayroll costs in the pool of forgivable costs will reduce the pool of eligible payroll costs that may be subject to double-dipping, and thus reduce the funds potentially subject to claw-back by grantors.

Try to remain patient. It is possible there may be additional guidance on how to determine which costs were paid with PPP loan funds so that borrowers can know with greater certainty that they have avoided double-dipping. Analyze and document all your costs. Organize all your documents. Get ready to file. But wait to see if there is additional guidance that will help clarify the methods to be used in applying PPP funds to programs and activities, as this could alleviate some potential issues in the future.

Some Final Thoughts

There is plenty of time to submit your PPP loan forgiveness; however, financial reporting and grant cost reporting are somewhat more pressing, particularly for nonprofits with a June 30th year end. Borrowers have a choice in how to account for PPP loan funds and related forgiveness. From a financial reporting perspective, we believe it is best for nonprofits with other federal and/or state/local grants that might be impacted by PPP loan forgiveness to keep the PPP loan funds on the balance sheet as a liability until forgiveness is granted. This will defer the recognition of income until a future period when more complete information, and perhaps better guidance, is available.

Federal, state and local grant reporting is a more difficult issue. An overly conservative approach to applying the PPP funds to government awards may unnecessarily result in a reduction in grant revenue; while an overly aggressive approach could result in issues with grantor agencies and with auditor reporting. Finding the right balance will be a challenge.

We simply don't know where this will end up. There are no easy answers, and the path forward will likely differ from nonprofit to nonprofit. Take the time to understand the issues. Educate your board and consider the alternatives discussed in this article.

Contact Us

If you have any questions on double-dipping, please contact your PKF O'Connor Davies engagement team or email us at LoanForgiveness@pkfod.com. As always, we're here to help.