

# PPP Double-Dipping and Cost Reporting Revisited

*Questions remain, but it's time to move forward*

By Bruce L. Blasnik, CPA, CGMA, Partner

We are 10 months into the Paycheck Protection Program (PPP). The program has been reopened with expanded eligibility and a second bite at the apple for many of the hardest hit businesses. The list of eligible costs has been expanded; we have clarity on tax deductibility, and many, many of our other questions have been answered. But two major questions remain for not-for-profit organizations (NFPs) with federal, state, local or private cost reimbursement contracts or grants:

- Is our approach for avoiding being reimbursed for the same cost from two different funding sources ("double-dipping") sufficient?
- How do we prepare Form 3508, the PPP Loan Forgiveness Application (the Application), when *eligible payroll costs* have been funded by a source other than our PPP loan?

The source of the confusion stems primarily from one line in the instructions to the Application that requires borrowers to report *all eligible payroll costs* in the Application. While the definition of eligible payroll costs excludes salaries in excess of \$100,000 (annualized) per employee and wages eligible for certain tax credits, there is no exclusion for payroll costs paid by other government programs or restricted funding sources ("grant-funded costs"). The issue was further compounded by a confusing memo issued to other federal agencies by the Office of Management and Budget in June, 2020 (Memorandum M 20-26) that vaguely implies PPP funds must be used to supplant other federal funding. To make matters worse, state, local and private grantors may each have their own interpretation as to what constitutes double-dipping (i.e., can you pick and choose which costs to apply the PPP funds to, or must they be applied on a pro rata basis to all eligible payroll costs?).

## Nonprofit Organizations: Flexibility

The good news is that there does seem to be a consensus that NFPs have the flexibility to pick and choose which costs to apply the PPP loan funds to. With this flexibility, NFPs are able to choose to apply the PPP loan funds only to non-grant-funded costs even though borrowers are still instructed to include all payroll costs in their PPP Loan Forgiveness Application. This approach seems to be consistent with the Federal Cost Principles [2 CFR 200.405(c)], and some federal agencies have released *unofficial guidance* to this effect. We caution you, however, that we are not aware of any specific *official guidance* that supports this position directly. Additionally, as noted above, state, local and private grantors may choose to apply different rules. Nonetheless, we believe that it is reasonable for NFPs to take the position that they can choose which funding sources they apply eligible costs to -- as long as they have the accounting records to support their approach – in order to avoid (or minimize) double-dipping.

## Two Schools of Thought

The question remains: If an NFP has the accounting records to support that they have not double-dipped, how should this be reflected in the Application, if at all? One school of thought is that eligible costs should be reduced by grant-funded costs and reflected net in the Application. This is certainly clear and definitive, and it makes the most sense. However, it is in direct conflict with the explicit direction in the Application instructions that require borrowers to include *all eligible payroll costs*. Accordingly, the second school of thought is that borrowers should follow the instructions and include all eligible payroll costs in the Application while maintaining separate records to demonstrate to federal, state, local and private funding agencies that the organization has not double-dipped – meaning requested reimbursement for forgiven PPP loan funds (or those expected to be forgiven).

There is no right or wrong answer. While perhaps more confusing to grantor agencies, we favor the second school of thought – follow the Application instructions. We believe this approach is less likely to raise questions through the forgiveness process because it: (a) avoids the need to provide reconciliations between payroll records and the amounts reported on the Application, and (b) does not highlight the fact that other funds were available (which may unnecessarily raise the question of need).

## Conclusion

Explicit guidance may be forthcoming, but this seems more and more doubtful with each passing day. Absent further guidance, borrowers must make their own decisions regarding what constitutes double-dipping and how to report costs to funding agencies and/or grantors. Regardless of the approach taken, it is important to document your thought process and make sure you have the accounting records to clearly support your cost allocation approach. We recommend that you prepare a detailed cost allocation schedule at the same time you prepare the Application and that you maintain this schedule with the other required supporting documentation. This schedule may be necessary to prove to grantors and auditors that you have not double-dipped.

## Contact Us

For those looking for more information, please reach out to your PKF O'Connor Davies client service representative or email us at [LoanForgiveness@PKFOD.com](mailto:LoanForgiveness@PKFOD.com).

## About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, fourteen offices in New York, New Jersey, Florida, Connecticut, Maryland and Rhode Island, and more than 900 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 27th on *Accounting Today's* 2020 "Top 100 Firms" list. It is also ranked among the top 20 best accounting employers to work for in North America by *Vault*.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in over 400 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.