

Compliance Today – March 2021 Provider Relief Fund: What does an audit mean to me?

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Over the course of 2020, many providers received numerous rounds of Provider Relief Fund (PRF) money through the Coronavirus Aid, Relief, and Economic Security Act^[1] as well as through the Coronavirus Preparedness and Response Supplemental Appropriations Act^[2] and the Families First Coronavirus Response Act.^[3] While these funds were eagerly received as a means of offsetting significant declines in operations as a result of the pandemic, providers in many cases were also agreeing to be the subject of audits on their use of the funds. A lot of those same providers have never been through an audit before and are not sure what to expect. Over the course of this article, we will discuss what an audit means and some of the issues to plan for in preparation for one.

What is an audit?

For many providers, the PRF audits will be the first time they are being audited, and that can be quite unnerving. Uncertainties such as what documentation one needs, what kind of questions the auditors ask, how long it takes, and what type of report the auditors provide are all issues that anyone who has not had an audit faces. The truth is that the types of audits that providers will be facing associated with PRF requirements are different than traditional financial statement audits, where auditors examine comprehensive documentation, such as general ledgers, individual transactions, and contracts, in order to provide an opinion on the financial results and position of the organization. The PRF audits will be singularly focused on the usage of the PRF during the period being examined (i.e., January 1, 2020, through December 31, 2020, and/or January 1, 2021, through June 30, 2021).

The PRF instructions state that any distribution exceeding \$750,000 will require a single audit,^[4] so what is a single audit? What many refer to as a “Yellow Book audit,” a single audit is one that is performed according to 45 C.F.R. Part 75 Subpart F—the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for the U.S. Department of Health & Human Services Awards.^[5] The single audit must be performed in accordance with generally accepted government auditing standards, which are issued by the Government Accountability Office and are commonly referred to as the Yellow Book.^[6] These standards include guidance on independence, required audit procedures and processes, continuing professional education requisites, supervisory guidelines, and quality control procedures. Auditors must meet all of these standards when performing an audit or risk being sanctioned by the federal government for failure to meet minimum standards. The Compliance Supplement Addendum specifically addressing the single audit requirements of the PRF can be found at [whitehouse.gov](https://www.whitehouse.gov).^[7]

Timing

Traditionally, single audits have been due within nine months of the end of the audit period and have included financial statement audits. For June 30 fiscal year-ends, for example, that would mean the single audit would be

due March 31 of the following year. Per the 2020 Compliance Supplement Addendum, however, for organizations with fiscal year-ends prior to December 31, 2020, the single audit requirement will be deferred until their fiscal 2021 year-end. Typically, single audits include both the financial statements of the auditee and the Schedule of Expenditures of Federal Awards. The PRF audits, however, may be different in that a number of PRF recipients do not have annual audits performed, so the first single audit may be limited to the PRF report required for the period ending December 31, 2020 (the first reporting period as required by the PRF instructions) in the form of a program-specific audit. As a result, it may be due September 30 of the following year.

Applicability

Nonprofit organizations meeting the \$750,000 threshold will likely be required to have a single audit performed. For-profit organizations, for which single audits would be new, may choose between a single audit or a financial audit in accordance with the generally accepted government auditing standards.

Thresholds

Traditionally, auditors have looked at all governmental program funds that are closely related as a cluster of funds that are considered as one major program for threshold determinations (i.e., \$750,000). This would mean that even if an organization received less than \$750,000 in PRF, if it also received other similar funds in another distribution, it may meet the major program threshold if the sum of all of the similar funds exceeds \$750,000.

Schedule of Expenditures of Federal Awards

It is designed to contain all of the activity related to the federal award. In the case of the PRF, this will include both the calculation of lost revenue and the COVID-19-related expenses by type of expense.

Internal control

Historically, single audits have included a review of internal controls that the organization is required to implement related to the federal program funds. These internal controls include the following components.^[8]

- **Control environment:** Policies and procedures that establish a foundation for the organization to implement internal controls.
- **Risk assessment:** Process by which the organization determines the likelihood that an action occurs that will adversely affect the organization.
- **Control activities:** Actions designed to mitigate the occurrence of adverse events affecting the organization.
- **Information and communication:** Ongoing process of distributing information in support of the control activities and other internal control activities that contribute to the control environment and the organization's goals.
- **Monitoring:** Continual assessment of each of these components to determine how effectively they are being implemented on a consistent basis.

A lot of organizations receiving PRF, while having never received a financial statement audit, have also not focused on a complex system of internal controls. As a result, requiring a traditional internal review assessment as part of the single audit may not be feasible. Instead, the Compliance Supplement Addendum addresses compliance with laws and regulations, both in general and specifically related to the PRF, and while an opinion

on compliance may not be required, auditors should consider compliance with such as part of their review.

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