



**DEFENSE CONTRACT AUDIT AGENCY**  
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**Frequently Asked Questions: COVID-19**

**INTRODUCTION:**

The COVID-19 national emergency is an unprecedented event that presents unique audit and cost allowability issues. The following FAQs do not address all topics or all provisions of the Families First Coronavirus Response Act (FFCRA) and Corona Virus Aid, Relief and Economic Security (CARES) Act. The answers in these FAQs are subject to revision based on Defense Pricing and Contracting (DPC) guidance. Please remember that only Contracting Officers make determinations about contract modifications, adjustments, and reimbursement under Section 3610 of the CARES Act. We will update this page as guidance is issued or changes are required.

**FAQS:**

1. Which entities are subject to the CARES Act?

**Answer:** The CARES Act applies to for-profit entities, small businesses, non-profit organizations as described in section 501(c)(3) of the Internal Revenue Code, Veterans organizations, and Tribal businesses described in the Small Business Act.

2. Can a contractor bill the Government for costs that are being paid through a Paycheck Protection Program (PPP) loan?

**Answer:** Yes, but the Government will be entitled to a credit if the PPP loan is subsequently forgiven. The Paycheck Protection Program (PPP) permits businesses to borrow money to fund business operations. Those loans may be forgiven if the proceeds are used for covered expenses during the covered time period, as defined in the law. FAR 31.201-1, Composition of Total Cost, states that total cost is the sum of the direct and indirect costs allocable to the contract less any allocable credits. Accordingly, to the extent that PPP credits are allocable to costs allowed under a contract, the Government should receive a credit or a reduction in billing for any PPP loans or loan payments that are forgiven.

3. Will deferring current payroll taxes to 2021 and 2022 change the contractor's incurred payroll taxes for the current period?

**Answer:** No. CARES Act Section 2302 permits deferral of payroll taxes to 2021 and 2022. The deferred payroll tax is a cost of the current accounting period that should be accrued, billed, and properly accounted for by the contractor. The cost will be remitted to the IRS by the adjusted deadlines.

4. Should the contractor adjust its provisional billing rates if the contractor is deferring current payroll taxes to 2021 and 2022?

**Answer:** No. CARES Act Section 2302 permits deferral of payroll taxes to 2021 and 2022. The contractor's provisional billing rates were developed with payroll taxes included and the deferred payroll tax is still a cost of the current accounting period. The deferred taxes should be accrued, billed, and properly accounted for by the contractor. The cost will be remitted to the IRS by the adjusted deadlines.

5. Can payment of payroll taxes be deferred if a contractor has a PPP loan forgiven under Section 1106?

**Answer:** No. An employer who has a PPP loan forgiven in accordance with Section 1106 of the CARES Act is not eligible to defer payment of payroll taxes under the provisions of Section 2302.

6. Which leave costs can a contractor have reimbursed through CARES Act Section 3610?

**Answer:** CARES Act Section 3610 permits Agencies to reimburse contractors for certain leave costs related to COVID-19. In general, leave costs granted by a contractor to employees who are unable to work on-site due to a COVID-related closure or other event, and who also cannot telework, are reimbursable under this section at "contract billing rates." The Director, Defense Pricing and Contracting, has provided detailed guidance in this area and continues to do so as the legislative and contracting environment evolve. See the following link for current DPC guidance and FAQs: <https://www.acq.osd.mil/dpap/pacc/cc/COVID-19.html>.

7. Can a contractor receive CARES Act Section 3610 cost reimbursements and still receive payroll tax credits and PPP loan forgiveness?

**Answer:** No. A contractor may not be reimbursed through Section 3610 for leave costs that was reimbursed to the contractor through another credit. The Director, Defense Pricing and Contracting, has provided detailed guidance in this area and continues to do so as the legislative and contracting environment evolve. See the following link for current DPC guidance and FAQs: <https://www.acq.osd.mil/dpap/pacc/cc/COVID-19.html>.

8. Is there additional guidance on COVID-19 that applies to Nonprofits and Institutes of Higher Education (IHE) and where can I find it?

**Answer:** Yes. The Office of Management and Budget (OMB) has issued specific guidance that impacts Nonprofits and IHEs. OMB issued Memorandum No. M-20-17 dated March 19, 2020, to provide administrative relief to an expanded scope of recipients affected by the COVID-19 crisis. This memorandum itemizes actions that federal awarding agencies are authorized to take and requires awarding agencies to maintain records on the level of particular exceptions provided to recipients. The OMB M-20-17 can be found at: <https://www.whitehouse.gov/wp-content/uploads/2020/03/M-20-17.pdf>.

In addition to this guidance, The Department of Defense issued a Frequently Asked Questions (FAQ) for DoD Research Proposers and Awardees Impacted by the Novel Coronavirus on the OMB memo, which provides additional clarification. The DoD FAQs can be found at:

<https://basicresearch.defense.gov/COVID-19/Frequently-Asked-Questions/>

9. Is the audit team responsible for considering the impact of COVID-19 on existing and future forward pricing engagements?

**Answer:** Yes. Auditing standards require auditors to consider the impact of known information up to the date of audit report issuance. The circumstances and manner in which each contractor and our audits have been impacted by COVID-19 will vary. Events such as layoffs, maximum telework, shut downs, slow-downs, new personal protective equipment, et cetera could impact forward pricing rates. Also impacted is to what degree historical data (prior to and during the COVID-19 national emergency) accurately represents future operations. Auditors should assess how the contractor's current and future operations have been impacted by COVID-19 and develop audit procedures to address identified risks.

If the contractor's proposal does not consider the potential impact of COVID-19 and the impact is significant enough that its disclosure is necessary to ensure the proposal is representative, the auditor should determine if the contractor plans to revise the proposal, notify the requestor, and take appropriate action.

10. Should forward pricing engagements always include a general scope limitation due to the potential impact of COVID-19 on the contractor's proposal?

**Answer:** No. The COVID-19 pandemic itself does not prevent auditors from complying with GAGAS on all audits. The manner in which a contractor's estimates are impacted as a result of COVID-19 and our ability to obtain sufficient appropriate evidence to form an audit opinion will vary. Therefore, a general scope limitation is not appropriate.

Consistent with existing guidance, the audit team should assess whether scope limitations exist in every audit. Reservations about the engagement (scope limitations) occur when the auditor is unable to obtain sufficient appropriate evidence. Scope limitations can refer to any unresolved problem the auditor had in complying with applicable GAGAS requirements (e.g., the auditor was not able to perform all the procedures that he or she considers necessary in the circumstances) or, in an agreed-upon procedures engagement, the specific procedures agreed to by the parties.

- When sufficient appropriate evidence for procedures (including procedures designed as a result of COVID-19 related risks) can be performed, no scope limitation would be required.

- When the auditor cannot perform all the procedures that he or she considers necessary in the circumstances, a scope limitation should be reported.
- Any concerns the auditor believes the reader should know about that do not rise to the level of a scope limitation should be discussed with the contracting officer prior to the report issuance and can be reported in the “Report on Other Matters” section.

11. If we observe the contractor extracting a report from its system via cloud meeting (e.g., Webex), is this sufficient or does the audit team need to observe the contractor in person to avoid a scope limitation?

**Answer:** The observation performed via cloud meeting may be sufficient. If, in the audit team’s professional judgment, the quality of the audit evidence obtained through the cloud meeting was sufficient for their intended purpose, then a scope limitation is not required. If this is the case, the audit team will not need to perform the observation in person after we resume normal operations.

12. Is a scope limitation always required for audits performed during the COVID-19 national emergency?

**Answer:** No, not always. The COVID-19 scope limitation discussed in MRD 20-PAS-001(R), Audit Alert on Limited Contractor Access Due to COVID-19, is similar to other scope limitations. The audit team should evaluate the audit evidence it received during the audit and its impact on the audit opinion. If the audit team has obtained sufficient appropriate audit evidence by performing alternative procedures that mitigate the risk of material misstatement to an acceptable level, then a scope limitation should not be reported.

13. Is a CAS Disclosure Statement revision creating a COVID-19 Leave cost category considered a cost accounting practice change requiring a cost impact proposal?

**Answer:** No, the establishment of a new cost category is not a cost accounting practice change requiring a cost impact proposal.

14. When a report was issued with a COVID-19 scope limitation, how does the audit team determine whether to perform previously unperformed procedures?

**Answer:** Per MRD 20-PAS-001(R), the audit team should perform procedures they were previously unable to perform if COVID-19 caused the scope limitation (e.g., audit teams received electronic documents from the contractor via e-mail and were unable to validate to original records). The purpose of these post-audit procedures is to provide the audit team reasonable assurance that, had the procedures been performed during the audit, they would not have significantly impacted the audit opinion or reported findings. Therefore the audit team should use professional judgment and limit the extent of procedures (i.e. the number of test items selected) appropriately. If these limited procedures indicate that the audit report opinion

may have been incorrect or findings may have been significantly underreported, the audit team may expand procedures as needed.

The FAO should issue a supplemental audit report if it will serve a useful purpose. Generally, supplemental reports do not serve a useful purpose when the subject matter of the report has already been negotiated or otherwise settled. When the audit team is uncertain if a supplemental report would serve a useful purpose, they should coordinate with the intended report user prior to drafting a supplemental report.

15. When a report was issued with a COVID-19 scope limitation, what is the expected timeframe to complete procedures the auditor was previously unable to complete?

**Answer:** The audit team should perform these procedures within approximately 90 days of resuming normal operations. The specific start date for the 90 days will depend on the nature of the disruption that prevented the application of the procedure. For example, if the audit team could not validate the source of original documents because the contractor temporarily closed a facility, the 90 days would generally start when the contractor facility becomes available to the auditor and local DCAA management approves working at the contractor facility.

16. How does the audit team document supplemental procedures when the CaseWare package is already closed?

**Answer:** Follow the procedures in CAM 4-410 Supplemental Revisions to the Audit Working Papers after the Audit Report is issued.

17. How would the computation of an indirect rate be adjusted if the funds of a forgiven PPP loan were used to pay indirect expenses?

**Answer:** When the funds from a PPP loan were originally used to pay indirect expenses, the amount of indirect pool costs allocable to a contract should be adjusted for any forgiven amount. To illustrate, if \$100,000 of a forgiven loan were used to pay the office rent included in the overhead pool, the pool should be adjusted for the same amount and the overhead indirect rate would be calculated as follows:

<u>Cost Element</u>	<u>Amount</u>
Rent	\$ 125,000
Other Overhead Costs	400,000
Subtotal	\$ 525,000
Less PPP Loan Forgiveness:	
Rent	(100,000)
Total Overhead Pool	\$ 425,000
Overhead Base	\$ 1,725,000
Overhead Rate*	25%

\* Rounded

18. How should an indirect rate be applied if the funds of a forgiven PPP loan were used to pay direct contract costs?

**Answer:** Indirect costs should be allocated on the basis of a beneficial/causal relationship; which means that allocation bases should include all costs that contributed to generating the indirect pool. Therefore, forgiven PPP loans do not change how indirect rates are applied. In the case of forgiven PPP loans, costs paid with forgiven loan funds are still proper business expenses incurred that should receive their fair share of indirect allocations. To illustrate, if direct labor costs incurred totaled \$1,725,000 and PPP loan funds were used to pay \$250,000 of that labor, overhead costs should still be allocated to all direct labor costs because all the direct labor costs contributed to generating those overhead expenses. Using the overhead rate calculated in FAQ No. 17, the indirect allocation would be calculated as follows:

<u>Cost Element</u>	<u>Amount</u>
Direct Labor	\$ 1,475,000
PPP Loan Direct Labor	250,000
Total Contract Direct Labor	\$ 1,725,000
Overhead Rate	25%
Overhead Applied	\$ 431,250

19. What is the impact on total contract costs if the funds of a forgiven PPP loan were used to pay both, indirect expenses and direct contract costs?

**Answer:** Total contract costs should be adjusted for any direct or indirect costs allocable to the contract that were originally paid with funds from a forgiven PPP loan. To

illustrate, if the contractor used proceeds from a forgiven PPP loan to pay \$100,000 of office rent (see FAQ No. 17) and \$250,000 to pay direct labor on a contract (see FAQ No. 18), the calculation of total contract costs should be adjusted to reflect the forgiven amounts. To illustrate, total contract costs would be calculated as follows:

<u>Cost Element</u>	<u>Amount</u>
Direct Labor	\$ 1,475,000
PPP Loan Direct Labor	250,000
Other Direct Costs	50,000
<b>Total Direct Costs</b>	<b>\$ 1,775,000</b>
Overhead @ 25%	\$ 431,250
<b>Total Direct Costs plus Overhead</b>	<b>\$ 2,206,250</b>
G&A-TCI @ 10%	220,625
<b>Subtotal</b>	<b>\$ 2,426,875</b>
Less PPP Loan Forgiveness:	
Direct Labor	\$ (250,000)
<b>Total Contract Costs</b>	<b>\$ 2,176,875</b>