FrankelZacharia LLC

Certified Public Accountants

Provider Relief Fund: More Clarity Needed for Healthcare Providers

The COVID-19 pandemic has created a wide range of challenges for healthcare providers, as they began switching to virtual appointments, had to come up with additional PPE and sanitization procedures for facilities and faced a healthcare crisis of a magnitude that hadn't been seen in a century. With billions of dollars of stimulus payments provided via the Provider Relief Fund (PRF) for assistance with the financial impact of the pandemic, the stimulus rollout also presented numerous challenges, specifically in the lack of clarity in the PRF's terms and conditions.

Clarification Please!

The PRF was established by Congress via the Coronavirus Aid, Relief and Economic Security (CARES) Act to create funding that compensated healthcare providers for lost revenue and unreimbursed expenses resulting from the pandemic. Guidance was regularly provided on the PRF through updates to the terms and conditions, reporting guidance and frequently asked questions (FAQs) by the U.S. Department of Health and Human Services (HHS), providing a rolling update in how to handle the issue.

As an example, September 2020 saw HHS defining “lost revenue” as the decline in year-over-year operating margins. Unfortunately, this was significantly different from what many professionals in the industry believed the calculation was intended to be, a loss in top line revenue. October saw HHS releasing revised reporting requirements that changed the definition yet again, now defining lost revenue as the difference between actual calendar year 2020 revenue and actual calendar year 2019 revenue. Given that prior HHS guidance that had made them believe that the lost revenue could be based on the comparison of actual revenue versus budgeted or forecast revenue, these answers still didn't provide the answers many healthcare providers were hoping for.

To provide further clarification, December saw Congress passing the Consolidated Appropriations Act 2021 (CAA). It did two things for the PRF that were of interest to healthcare providers. It once again changed how lost revenue was calculated, permitting a budget-to-actual calculation as well as actual year-over-year calculations, and it allowed providers that fall under the umbrella of a parent organization of subsidiaries which received targeted distributions to allocate their distributions to other healthcare providers that were eligible within the same organization.

These changes in targeted distribution allocation flexibility and lost revenue definition changes made it much easier for many PRF recipients to move into 2021 with more financial security. The predicament created when their lost revenue was defined as the difference between calendar year 2019 versus 2020 did not account for expected revenue growth that they had budgeted for in 2020 due to pandemic effects. This created profitability concerns due to slow revenue growth as higher budgeted revenue had driven their decisions around higher expenses.

Staying in Compliance through Audits

In 2021 and beyond, healthcare providers and auditors alike will need to stay on top of the guidance being issued within the HHS's FAQs which subject the PRF funds to compliance audits. Nonfederal entities, such as state and local governments, Native American tribes, higher education institutions and nonprofit organizations, are required to consider PRF funding received when deciding whether an audit is needed under 45 CFR Part 75 Subpart F. The process and determination are often more familiar to nonfederal entities than for-profit commercial entities which have never received federal financial assistance before. Commercial entities receiving $750,000 or more in awards annually will have two options that they can use to address compliance audit requirements. First, they can complete a financial-related audit of the award that is completed according to the Government Auditing Standards (GAS). Second, they can undertake an audit that conforms with the requirements of 45 CFR Part 75 Subpart F.

Experts in the healthcare industry expect that most commercial organizations will choose to undertake a GAS audit. However, the complicating factor in using this type of audit is the lack of guidance currently available. Though commercial entities receiving PRF funds know that they'll need to complete an audit, the timeframe of when the audit must be completed is unclear. HHS has discussed audit timing and other unanswered questions with the American Institute of Certified Public Accountants, so hopefully we will see guidance issues in the next few weeks or months based on those efforts.

For now, all we can do is continue reviewing the terms and conditions of the PRF grants and related FAQs and reporting guidance, document methodologies, approaches, rationale and assumptions while ensuring that documentation of your compliance is easy to follow and audit, and finally discuss information needs with your accounting firm so that you can timely complete the compliance audits.

If you need help clarifying best practices during this difficult time, please contact Frankel Zacharia at 402.496.9100.