

Overview of the Paycheck Protection Program (PPP)

Part 2

WSDOT Audit Office
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Recap from PPP Training Part 1

- As discussed in the first presentation on the PPP loan forgiveness credits:
 - If the PPP loan is forgiven, the Federal Acquisition Regulations (FARs) requires a credit to the Government for a cost that is reimbursed through other means. (Per 48 CFR 31.201-5)
- Firms will also need to split their labor into three “buckets” for the loan period.
 - Direct FAR: labor incurred for contracts using the overhead rate
 - Direct Non-FAR: labor incurred for contracts that did not use the overhead rate as part of the billing
 - Indirect Labor to include vacation/sick/holiday
- Firms will need to provide the following documents to support the loan allocation:
 - Copy of the loan forgiveness application,
 - Payroll Report for the PPP reporting period,
 - Labor Distribution Report (LDR) or Staff Utilization Report for the 8- or 24-week period covered by the loan, and
 - Project Detail Report for the PPP covered period identifying which jobs worked on during the loan period used the overhead rate as part of the billing.

Step 1 – Determine how the PPP funds were used

- Start with the loan forgiveness application to identify which expenses need to be credited; how much was used for payroll versus rent or utilities.
- Firms will be expected to apply the credit as the funds were spent.
- Regarding the payroll costs, firms that didn't specifically track how they spent the PPP for payroll costs **in their accounting system**, will apply a pro rata share to the different labor buckets (more on that coming up).
 - The payroll report for the PPP reporting period will identify the pro rata share of payroll taxes and other costs such as health insurance that was covered with PPP funds. For example:

	Payroll Report	Pro Rata of \$100K in PPP for Payroll
Salaries	\$150,000	\$75,000
Payroll Taxes	\$25,000	\$12,500
Health Ins.	\$25,000	\$12,500

- The core labor costs from the payroll report will break down into three labor buckets based on the LDR and Project Detail Report.

Step 2 – Identify the Indirect Labor Bucket

- Firms that haven't already done so for the forgiveness application, will need to calculate the labor costs for the loan period which are eligible for forgiveness.
 - The Paycheck Protection Program included compensation limits for employees and owners. For purposes of calculating the forgiveness credit, firms may have to adjust the labor expense for the loan period to reduce the compensation for those who were paid above the compensation limits.
 - For employees, the compensation is capped at \$100,000 annually, or \$48.08/hr.
 - For owners, the compensation limits depend on the loan period;
 - For an 8-week loan period, owner compensation is capped at \$15,385.
 - For a 24-week loan period, owner compensation is capped at \$20,833.
- Provide an LDR for the PPP reporting period using the above labor ceilings, that will identify how much of the PPP was allocable to indirect labor.

Step 2 – Identify the Indirect Labor Bucket Example

XYZ, Inc. Labor Distribution Report Loan Period: 5/1/2020 - 10/15/2020

Employee	Standard Hourly Rate (based on 2,080 Hours)	*PPP Salary Limits	Direct Hrs	PPP Adjusted Direct Amount	Indirect Hrs	PPP Adjusted Indirect Amount	Total PPP Eligible Amount
Peter Venkman	\$55.00	\$48.08	576	\$27,692	384	\$21,120	\$48,812
Ray Stantz	\$60.00	\$21.70	576	\$12,500	384	\$8,333	\$20,833
Egon Spengler	\$60.00	\$21.70	576	\$12,500	384	\$8,333	\$20,833
Winston Zeddemore	\$20.00		576	\$11,520	384	\$7,680	\$19,200
Janine Melnitz	\$15.00		576	\$8,640	384	\$5,760	\$14,400
Louis Tully	\$15.00		575.1	\$8,627	384.9	\$5,774	\$14,400
Dana Barrett	\$15.00		268.1	\$4,022	500	\$7,500	\$11,522
Totals				\$85,500		\$64,500	\$150,000

In the table above, two owners and an employee were compensated at rates higher than the compensation limits of the PPP loan. The firm has adjusted the total eligible payroll costs by reducing their compensation to the limits and applying that adjusted rate to the different labor categories.

Step 3 – Identify the Direct FAR Labor Bucket

- The portion of the forgiven loan allocable to the direct labor on agreements requiring FAR compliance will be included in the credit. If an agreement is billed using the indirect cost rate, the associated direct labor should be included in the credit calculation.
- To support the allocation, firms will be asked to provide a job cost report breaking out the direct labor by contracts with and without FAR overhead rates. The report should include;
 - Contract client,
 - Contract basis of payment,
 - Employee name,
 - Hours and,
 - *Wages.

*Wages on the report should reflect the PPP loan compensation limits.

Step 3 – Identify the Direct FAR Labor Bucket

XYZ, Inc. Job Cost Report

Project	Client	Contract Basis	Employee	Hours	Rate	Labor Cost	PPP			
							Adjusted Rate	Adjusted Cost	Subject to FAR?	
2019-001	Thurston County	Cost Plus	Peter Venkman	576	\$55.00	\$31,680.00	\$48.08	\$27,692	Yes	
2019-001	Thurston County	Cost Plus	Ray Stantz	576	\$60.00	\$34,560.00	\$21.70	\$12,500	Yes	
2019-001	Thurston County	Cost Plus	Egon Spengler	576	\$60.00	\$34,560.00	\$21.70	\$12,500	Yes	
2020-001	WSDOT	Negotiated Hourly Rate	Winston Zeddemore	576	\$20.00	\$11,520.00	\$20.00	\$11,520	Yes	
2020-001	WSDOT	Negotiated Hourly Rate	Janine Melnitz	576	\$15.00	\$8,640.00	\$15.00	\$8,640	Yes	
2020-005	ABC	Lump Sum	Louis Tully	575.1	\$15.00	\$8,626.50	\$15.00	\$8,627	No	
2020-006	DEF	Lump Sum	Dana Barrett	268.1	\$15.00	\$4,021.65	\$15.00	\$4,022	No	
Total								\$85,500		
Total Direct Labor Subject to FAR									\$72,852	

In the table above, the firm identified \$72,852 in direct labor expenses as associated with FAR contracts.

Step 4 – Calculate the Credit

- The firm can now calculate the credit to the ICR schedule.
- Based on federal guidance, the portion of the PPP loan allocable to direct labor that was not associated with a contract requiring FAR compliance is exempt from the credit.

	Payroll Report	Payroll Breakout	Pro Rata of \$150K in PPP for Payroll	Pro Rata Payroll	PPP Credit
Salaries	\$150,000		\$75,000		
Indirect Labor		\$64,500		\$32,250	\$32,250
Direct FAR Labor		\$72,852		\$36,426	\$36,426
Direct Non-FAR Labor		\$12,648		\$6,324	
Payroll Taxes	\$25,000		\$12,500		\$12,500
Health Ins.	\$25,000		\$12,500		\$12,500
Total					\$93,676

As the table above presents, the firm was able to calculate the credit of \$93,676, excluding the \$6,324 attributable to direct non-FAR projects.

Contracting Concerns

- WSDOT will not use the PPP reduced ICR for negotiating multi-year agreements.
- Firms will use the PPP reduced ICR for billing purposes for a one-year period on cost reimbursement agreements.
- Firms are not locked into using the PPP reduced ICR for multiple years.

Undue Economic Hardship

- Credits for forgiven loans will impact firm's Indirect Cost Rate schedules differently depending on the percent of revenue derived from government contracting.
- If the PPP adjustment creates an economic hardship preventing a firm from recovering its costs, options may be available.
- To evaluate an economic hardship claim, firms will be asked to provide:
 - Current year-to-date P&L,
 - Current year-to-date Labor Distribution Report,
 - Current and pending work authorization amounts for WSDOT/local agency contracts, and
 - The percentage of future work using the indirect cost rate.

Questions?

Please feel free to reach out if you have any questions regarding PPP forgiveness.

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