

AUDIT PROOF YOUR PAYCHECK PROTECTION PROGRAM LOAN MONIES



PPP Tips, Tricks, and Traps

Money (That's What I Want). A pretty famous song by the Beatles. The opening lyric is “they say the best things in life are free”. Many businesses saw the Paycheck Protection Program (PPP) loans as just that—free money. Now, with the controversy over large businesses such as Shake Shack, Harvard, and even the Los Angeles Lakers receiving PPP loans, politicians and regulators are weighing in with potential new requirements to “audit” these PPP monies. That money doesn't sound so free now, does it?

So, how can businesses audit proof their PPP monies and maximize the loan forgiveness? We believe you can take a few very prudent steps, which don't unnecessarily add to your administrative burden, to ensure that you aren't stuck at the end with repaying a loan that you thought would be forgivable.



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- 1. Document how you support each of the four representations you made in your loan application.** You must certify four items as part of your PPP loan application. The first one is that the uncertainty of current economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient. Document how you can make that representation. We suggest showing the deterioration in financial results from last year to this year. That could be showing declines in cash flows or showing how sales have declined. But you must demonstrate the economic uncertainty somehow. This is a critical step due to the controversy described above.
- 2. Set up a separate bank account for the PPP funds.** Keeping the funds separate and moving the monies over into your operating bank account only when you need to pay for eligible costs adds a clear audit trail to the use of the funds.
- 3. Set up a budget for how you will use the PPP funds once the loan is funded.** You should identify those employees whose payroll costs you are funding with the PPP loan. Schedule those out for the eight weeks allowed by the program. If there is still PPP money left over, (and there should be), identify mortgage interest, utility costs, or other debt interest to allocate the PPP loan monies.
- 4. Use a separate cost center code for costs incurred.** Your accounting software likely has the functionality to set up a separate cost center to allow you to track the PPP costs you incur. At worst, you can use a comment field to label the transaction as a PPP transaction. If you use the comment field, make sure you use the same labeling every time. We recommend something like COVID PPP costs. This will make doing a search much easier.

5. **Track your use of PPP monies against the budget that you have established.** Develop a report of budgeted costs to actual costs incurred and provide that report to your owners. After all, what gets monitored gets done. Prepare this report no less than monthly, preferably every two weeks for the eight weeks of the program.
6. **Avoid the temptation to use the PPP monies for expenses other than those allowable.** Keep your eye on making sure you maximize forgiveness. Use the funds only for eligible costs like payroll, mortgage interest, utilities costs, and other debt interest.
7. **Conduct a periodic “pre-audit” of these costs, especially the budget to actual report.** Make sure that you maintain and label all the supporting documentation as described above. You can even have your auditor do the pre-audit to ensure that everything looks well supported.

Be prepared to submit this information to your bank for loan forgiveness as soon as they begin taking forgiveness applications. Don't get caught in the inevitable backlog of forgiveness processing. Get it in early. But you can only be ready to submit it quickly if you follow the basic steps outlined above.