Volume 4
Processing Aid and Managing FSA Funds
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Introduction to Volume 4

The purpose of this publication is to provide participating schools with guidance on how to request, disburse, manage, and report on the use of Federal Student Aid funds.

Here, we provide a summary of the changes and clarifications presented in greater detail in the chapters that follow. **Alone the text herein does not provide schools with the guidance needed to satisfactorily administer the Title IV HEA programs**. For more complete guidance, you should refer to the text in the chapters cited, the Code of Federal Regulations (CFR), and the Higher Education Assistance Act (HEA) as amended.

Throughout this volume, new information is indicated with the following symbol: NEW

When the text represents a clarification rather than a change, it is indicated with: Clarification

When we believe that historically there might be some misunderstanding of a requirement, we indicate that with: Reminder

If we want to point out a bit of helpful information, we indicate it with: TIP

Finally, if we want to draw your attention to something, we indicate it with: !

Notes on Active Links

At the top of each page you will find links to Dear Colleague Letters, The Code of Federal Regulation, and the Federal Student Aid Glossary and Appendices.

Glossary-Acronyms CFR DCL

Major Changes

Chapter 1—Requesting and Managing FSA Funds

- We explain two-factor authentication.
- We note that schools placed on Heightened Cash Management or Reimbursement must credit a student's ledger account for the amount of Title IV funds that the student or parent is eligible to receive, and pay the amount of any credit balance due, before the school seeks reimbursement from the Department for those disbursements.
- We have revised the treatment of the types of depository accounts in which schools must maintain federal funds.
- We have revised the treatment of the consequences of holding excess cash and the deadlines by which it must be returned to avoid penalties.

Chapter 2—Disbursing FSA Funds

- We clarify the requirements for Direct Loan and TEACH Grant notification.
- We explain the conditions under which a school may include the costs of books and supplies as part of tuition and fees.
- We have revised the treatment of paying prior-year charges.
- We have revised the treatment of disbursements by payment period.
- We explain that a school, and its third-party servicer, must have a process for determining that a student is eligible to receive a Title IV disbursement and explain the conditions under which a third-party servicer is responsible for confirming a student's eligibility.
- We explain the criteria under which a school may make a retroactive payment.
- We explain the conditions under which a school may credit a student's account with a late disbursement of FSA grant funds without the student's permission.
- We explain that schools must notify the Department of their relationships with third-party servicers.
- We explain the requirement that schools provide students a choice of the way they receive Title IV credit balances.
- We explain Tier One and Tier Two arrangements.
- We clarify how a school must proceed if it is holding a student's Title IV credit balance and 240 days have elapsed.
- We explain how, in NSLDS, to recognize a TEACH Grant that has been converted to a Direct Unsubsidized Loan.

Chapter 3—Overawards and Overpayments

- We remind schools about COD reporting when they report a Pell Grant overpayment in NSLDS.
- We clarify the actions a school should take upon discovering that it has disbursed a Title IV grant to an ineligible student.

Chapter 4—Returning FSA Funds

- We explain the electronic process for returning Perkins Loan Funds to the Department.

Requesting and Managing FSA Funds

Except for funds received as an administrative cost allowance (ACA), Federal Student Aid (FSA) funds received by a school are held in trust by the school for students and the Department. The cash management regulations discussed in this chapter establish rules and procedures that a school must follow in requesting and managing FSA program funds. These rules and procedures also apply to third-party servicers.

PURPOSE OF CASH MANAGEMENT REGULATIONS

The cash management regulations are intended to

- promote sound cash management of FSA program funds by schools;
- minimize the costs to the government of making FSA program funds available to students and schools; and
- minimize the costs to students who receive FSA loans.

Except for funds provided by the Secretary for administrative expenses, and for funds used for the Job Location and Development Program under 20 CFR part 675, subpart B, funds received by an institution under the Title IV programs are held in trust for the intended beneficiaries. **The school, as a trustee of those funds, may not use the funds as collateral or engage in any practice that risks the loss of those funds. Moreover, a school must exercise the level of care and diligence required of a fiduciary in managing Title IV program funds.**

To ensure adequate cash management practices, a school must have in place a cash management system that adheres to federal regulations and other standards. A school's cash management practices are governed by

- Generally Accepted Accounting Principles (GAAP),
- standards prescribed by the federal Office of Management and Budget (OMB),
- U.S. Department of Treasury regulations, and
- U.S. Department of Education (ED/the Department) regulations.

Cash management
34 CFR Subpart K

Purpose of regulations
34 CFR 668.161

Standard of Conduct Defined

Standard of conduct An institution must exercise the level of care and diligence required of a fiduciary with regard to managing Title IV, HEA program funds.

Self-Assessment Tool For Fiscal Management

You can evaluate your school's fiscal management procedures by referring to the "Fiscal Management Assessment" in the Schools section of the FSA Assessments at

ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html.

EDCAPS AND G5

EDCAPS

The Education Central Automated Processing System (EDCAPS) is designed to integrate the Department's financial processes, including financial management, contracts and purchasing, grants administration, and payment management.

EDCAPS integrates four formerly separate system modules into a single system. EDCAPS consists of the following:

- Financial Management Systems Software;
- Travel Management;
- Contracts and Purchasing Support System; and
- Grant Management System (G5).[1]

G5 is the EDCAPS module that directly affects schools' participation in the FSA programs and the only part of EDCAPS to which schools have access.

G5 Overview

G5 is a delivery system that supports program award and payment administration. It is a component of EDCAPS, ED's integrated financial processing system, managed and administered by the Department's Office of the Chief Information Officer (OCIO).

G5 provides financial management support services for the grant life cycle in a single system. It supports the planning, obligating, authorizing, disbursing, and the final closing of Department of Education grant awards. G5 is the central repository for payment transactions of schools that receive funds from the Department.

Schools may use G5 to request payments, adjust drawdowns, and return cash. G5 also provides continuous access to current grant and payment information, such as authorized amounts, cumulative drawdowns, current award balances, and payment histories.

Am I a grantee or a payee?

A **grantee** (not a person) is an entity that applies for and receives a grant award from the Department. The grantee is responsible for ensuring the grant is administered in accordance with program regulations.

A **payee** is an entity (designated by the grantee) to request and manage federal funds on its behalf. The grantee and payee can be the same entity.

What is a TIN?

The TIN is the federal tax identification number given to the grantee organization. The TIN is the unique nine-digit number the organization uses to report activity to the Internal Revenue Service.

TIP Every user must register to gain access to G5. There is no limit to the number of users an entity or organization may have with access to G5. Business officers and financial aid administrators are encouraged to use G5 to help reconcile FSA funds.

Access to G5

G5 can be accessed through the Internet at the G5 Web page
www.G5.gov

The G5 Help Desk phone number is
1-888-336-8930

1. *G5 controls cash for both FSA and non-FSA Title IV programs.

A school uses G5 to request cash for the

- Federal Pell Grant Program,
- Iraq and Afghanistan Service Grant Program,
- TEACH Grant Program,
- Federal Supplemental Educational Opportunity Grant (FSEOG) Program,
- Federal Work-Study (FWS) Program,
- Federal Perkins Loan Program, and
- Direct Loan Program.

Accessing G5

Schools request federal cash electronically using G5. To request cash, a school must access G5 via the Internet at **www.G5.gov**.

Before you can use G5, and as part of applying for Title IV participation, your school must register with the Department. This process includes:

1. obtaining a Data Universal Numbering System (D-U-N-S) Number;
2. obtaining a Grant Award Number;
3. setting up bank information;
4. registering the D-U-N-S and Taxpayer Identification Number (TIN) with the System for Award Management (SAM) at **https://www.sam.gov/portal/public/SAM/**; and
5. obtaining user ID(s) and password(s).

Setting up bank information

Funds requested from G5 will be transmitted to the payee's bank account using either the Automated Clearing House (ACH) or the FEDWIRE transmission method. A payee designates its method of transmission when providing its bank account information.

ACH

For payees using ACH, G5 electronically transfers payments through the U.S. Department of the Treasury into the payee's bank account.

To use ACH, you must enroll with the Office of the Chief Information Officer, Department of Education. To enroll, you complete a Direct Deposit Sign-Up Form (SF1199A) and send it to the Department.

The form is located on the G5 home page in the Frequently Asked Questions (FAQs). Look under the Banking section and then find the subheading ***Domestic.*** The SF1199A is the first bullet point.

What is a D-U-N-S Number?

The Data Universal Numbering System (or D-U-N-S Number) is a unique nine-digit identification code that is assigned to a school. G5 grantees and payees must register their D-U-N-S Number and TIN with the System for Award Management (SAM).

You can acquire a D-U-N-S Number by calling Dun & Bradstreet at 1-800-333-0505 or by completing a D-U-N-S-Number Request Form. The form can be obtained via the Internet at

https://eupdate.dnb.com/requestoptions.asp

The D-U-N-S Number represents your school as a unique financial entity. You must notify the Department if your school merges with another organization, is sold to another organization, or separates from an existing organization and becomes a freestanding organization.

What is a Grant Award Number?

The Grant Award Number is a unique, 11-character "number" that identifies each grant award issued by a specific program office to a specific grantee. **All funds are requested (and returned) using the Grant Award Number.**

The following is an example of a Grant Award Number and an explanation of the parts that make up the number:

P031B151234

P	Program Office issuing the award
031	Catalog of Federal Domestic Assistance (CFDA) numeric suffix of the program
B	Alphabetic subprogram identifier
15	The trailing year in the academic year for DL and TEACH and the beginning year in the academic year for Pell and all other awards.
1234	Unique identifier

Example of Prefixes to Grant Award Numbers

P007A	FSEOG
P033A	FWS
P063P	Pell
P268K	DL

Title IV funds are program and award year specific.

- P063P16#### is the award for 2016–2017 Pell funds.
- P268K17#### is the award for 2016–2017 Direct loan funds. Note that DL uses trailing years as the award year indicator.

"####" represents a school's unique four digit G5 ID.

There is a unique grant award number for the Pell Administrative Cost Allowance funds to which your school might be entitled— P063**Q**##XXXX.

You must reenroll in ACH when any of the following occur:

1. you change banks;
2. the payee or its bank changes the account number;
3. the depositor account is closed; or
4. the bank closes—either voluntarily or involuntarily.

ACH processing times

ACH payment requests made before 3 p.m. Eastern Time (ET) are deposited the next business day. ACH payment requests made after 3 p.m. ET are deposited on the second business day. You can enter payment requests up to 30 days in advance.

You should always verify deposits before disbursing cash. When verifying ACH payments, you must tell the bank to check for deposits made through the Automated Clearing House. There are several kinds of electronic fund transfers. If other terms are used, the bank may search for the wrong payment(s).

FEDWIRE

The FEDWIRE transmission method is an electronic wire transfer of cash directly from G5 through the U.S. Department of Treasury into the payee's bank account. Large payees generally use this payment method. Most banks charge a fee for processing FEDWIRE payments.

Before a payee can receive FEDWIRE payments, the payee must enroll with the Office of the Chief Information Officer in the Department of Education. If the bank is online with the U.S. Department of Treasury, you must send the Department a letter containing the

- name and address of the payee's bank;
- bank's ABA number;
- contact (name and telephone number at the bank); and
- depositor's account number at that school, and the bank's telegraphic abbreviation.

If the bank is not online with the U.S. Department of Treasury, send the Department a letter containing the following:

- name of the payee's bank, and
- payee's account number at the bank.

You must reenroll in FEDWIRE (by sending the Department a letter) if any of the information listed above changes. Payees may obtain a FEDWIRE enrollment form letter by contacting the G5 Hotline at **1-888-336-8930**.

System for Award Management

The System for Award Management (SAM) is a free website that consolidates the capabilities in Central Contractor Registration (CCR), Online Representations and Certifications Application (ORCA), Federal Agency Registration (FedReg), and Excluded Parties List System (EPLS).

If you had an active record in CCR, you have an active record in SAM. You can search for registered entities in SAM by typing the D-U-N-S Number or business name into the search box.

FEDWIRE processing time

Payees may request FEDWIRE payments using the G5 Hotline. Payment requests completed by 2 p.m. ET will be deposited in the payee's bank account the same day. FEDWIRE payment requests made after 2 p.m. ET will be deposited the next business day.

You should always verify deposits before disbursing cash. When verifying FEDWIRE payments, you must tell the bank to check for deposits made through the FEDWIRE. There are several kinds of electronic fund transfers. If other terms are used, the bank may search for the wrong payment(s).

Obtaining a user ID and password

Individual authorized users must register for a G5 user ID and password. To obtain a user ID, an individual must complete a *G5 Production System External User Access Request Form*. The form is generated during the online registration process.

You can also download the form at **www.G5.gov**. You can register for a user ID and password by following these instructions.

1. The first step in registering after reaching www.G5.gov is to click on the "Not registered? Sign up" link.
2. Complete all necessary steps in the external user registration process.
3. Once you have completed registration, you will receive an email to activate the account. Follow the email instructions to finalize the user ID and password registration.

   If you do not receive an activation email you must contact the G5 Help Desk at 1-888-336-8930.

Please note that your G5 user ID will be your email address. You can recover a forgotten user ID or password on the G5 website by clicking on the Forgot Email ID or Password on the home page of G5.

Using the user ID and password

User IDs and passwords are required to gain access to G5 or to request cash through the G5 Hotline. (Note: To enhance G5 security, payees are required to enter or state additional identifiers to gain access to G5.) You will be requested periodically to validate every user ID assigned to your organization. You are responsible for ensuring that this information is correct.

Once a grantee receives a grant (or is authorized funding), the designated payees will request cash by Grant Award Number using G5. Alternatively, payees can also call the G5 Hotline between 8 a.m. and 6 p.m. Eastern Time (ET) to request cash. A school may also call the G5 Hotline for help resolving problems with payments.

TIP Schools that use third-party servicers to request and return Title IV funds remain ultimately responsible for the process. Those schools, at a minimum, should request view-only access to G5 so they can review the work of their servicers.

Two-Factor Authentication

The U.S. Office of Management and Budget has mandated that all federal agencies implement increased cybersecurity capabilities to prevent unauthorized access to government systems. The U.S. Department of Education is implementing a more secure means for users of the G5 Grants Administration System to gain access, referred to as ***Two-factor Authentication***.

Two-factor Authentications (TFA) is a security process in which the user provides two means of identification from separate categories of credentials. One is typically something that you know, such as a password; and the other is something that you have, such as a security code you download from your mobile device. The combination of these two security factors makes it more difficult for someone to access government systems. Once both the first and second factors are validated, users are allowed into the G5 system.

Two-factor Authentication will be rolled out to G5 users in groups starting in mid-April 2016 and extend through the end of June 2016.

Each group of users will be notified via an email a week before they are required to begin logging into G5 using Two-factor Authentication.

You can find training on Two-factor Authentication at www.G5.gov under the HELP menu. You do not need to be a registered user to access the training materials.

If you have any questions, please contact the G5 Hotline using one of the options below:

- Phone number: 1-888-336-8930
- Email: edcaps.user@ed.gov
- Go to the self-help portal at **edcaps.force.com** to submit a ticket.

Projecting cash needs

Immediate need

Immediate need is defined as the amount of FSA program funds a school needs to make disbursements within three business days following the date the school receives the funds. **This definition of immediate need applies to all FSA program funds (other than Perkins Loan funds), regardless of whether the school draws down funds by electronic funds transfer (EFT) through the ACH or through FEDWIRE.** Drawing down amounts beyond immediate need may result in excess cash, and there are penalties for holding excess cash. Schools should carefully review the excess cash tolerances regulation. (See the discussion of excess cash later in this chapter.)

Excess cash
34 CFR 668.166

Three-day rule for funds received under the advance payment method

A school must disburse FSA funds as soon as administratively feasible but no later than three business days following the date the school received those funds.

34 CFR 668.162(b)(3)

A school on the advance payment method must determine the amount of funds it needs before it transmits a request to G5. So that excess funds do not exist after disbursements are made, for each FSA program, the amount requested must be limited to the amount needed to make immediate disbursements. The amount should be enough to meet

- Federal Pell Grant, Iraq and Afghanistan Service Grant, and TEACH Grant disbursements to students;
- the federal share of Federal Supplemental Educational Opportunity Grant (FSEOG) disbursements to students and, if it applies, an administrative cost allowance (ACA);
- the federal share of Federal Work-Study (FWS) payroll disbursements and, if it applies, ACA;
- the federal share of Federal Perkins Loan disbursements and, if it applies, ACA; and
- Federal Direct Loan disbursements.

Federal Capital Contribution (Perkins)

Congress has not authorized any Federal Capital Contribution (FCC) for the 2016–2017 application year.

In general, the following equation may be used to calculate projected immediate needs:

Anticipated Disbursements
minus Balance of Cash on Hand
minus Anticipated Recoveries
minus ACH/EFT Cash in Transit
equals Projected Immediate Need

A school's request for funds should not exceed its immediate need.

Timing issues

When a school initiates a drawdown from G5, it should consider that processing requests within G5 typically takes one to three business days, and consider whether the school is using ACH/EFT or FEDWIRE. Schools should also be aware of system downtime, federal holidays, and other delays in processing cash requests when determining immediate need.

Recording payments

Payees should keep records of submitted payment requests. The amount of each request and the corresponding control number(s) need to be carefully documented. These records will serve as an audit trail and help payees reconcile their books to the G5 Activity Report.

Delayed, denied, or reduced payment requests

Your payment requests may be delayed, denied, or reduced if any of the following occurs:

- An award included in your payment request is flagged for review and approval.
- The Department's accounts receivables unit has entered an offset against one or more of the awards.
- A program office has intervened as a result of a program review or audit finding.

AWARD PERIODS

Before you can request cash, you must understand the award periods for G5 program authorizations. The length of the award periods vary by program and authorizing statute. The award period dictates when the payee can request cash. There are four award periods:

1. Performance period (59 months)
2. Liquidation period (1 month)
3. Suspension period (1 month)
4. Closeout period

The discussion that follows explains the differences between the award periods and how they affect a school's ability to draw funds. Also see the discussion in *Chapter 4* under *Returning Funds Through G5 for Both Open and Closed Awards*.

Performance period

The performance period is the period between the Title IV program award begin date and the Title IV program award end date. During this period, schools can draw down cash. Before drawing down cash, schools must obligate that cash to eligible recipients (such as by submitting to the Department anticipated disbursement records for students eligible for the Federal Pell Grant Program). Once the performance period ends, the closeout process begins.

During the performance period

- payees may request payments;
- payees may modify payment requests (Note that if a change needs to be made after the payment is out of "Ready for Scheduling" status, the school would have to return funds, create an adjustment, or create another payment request.);
- payees may adjust drawdowns (This should only happen when a school has accidentally drawn funds from the wrong award and needs to move the full amount to correct the error.); and
- changes may be made to the Federal Student Aid program's grant awards authorizations.

TIP

Liquidation period

The liquidation period is one month, follows the performance period, and is the first closeout phase. During the liquidation period

- no new expenditures may be processed against a grant award;
- payees can draw down funds for obligations incurred during the performance period; and
- payees may use the period to adjust drawdowns for expenditures incurred during the performance period (This also should only happen when a school has accidentally drawn funds from the wrong award and needs to correct the error.).

The last date a school can draw down cash from the Department without special permission from the program office is the end of the liquidation period.

Suspension period

The suspension period is also one month and follows liquidation. Once an FSA program has entered the suspension period, no payment actions can take place without the approval of the program office. The Department program offices use this period to prepare for final closeout.

Closeout period

The closeout period immediately follows the suspension period. During closeout, the grant award is closed and any remaining cash is deobligated.

The *Closeout Process* includes the liquidation, suspension, and closeout periods.

DRAWING DOWN FSA FUNDS

A school's ***authorization*** is the amount of FSA funds a school is currently eligible for in the year and the program in question. The authorization is called the Current Funding Level (CFL). Please note that in Direct Loan and TEACH Grant Programs, you might also hear the authorization referred to as the Cash Control Amount (CCA).

A school's ***available balance*** is the amount of cash available for a school to draw down through G5. The available balance is the difference between the authorized amount and the school's net drawdowns to date. A separate authorization is maintained for each program by award year. Note that **FSA funds are school, award year, and program specific, and should not be used for another school, award year, or program.**

TIP

A school may not request more funds than it needs to make disbursements to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible but no later than three business days following the date the school receives those funds. If G5 accepts a school's request for funds, it will make an EFT of the amount requested to a bank account designated by the school.

Three-day disbursement required
34 CFR 668.162(b)(3)

The methods under which the Department provides Title IV funds to schools

The Department provides funds to participating schools through one of three payment methods—the advance payment method, the reimbursement payment method, or heightened cash monitoring payment method. The vast majority of schools receive funds under the advance payment method, so we will discuss those procedures first. You can find a discussion of the reimbursement and heightened cash monitoring payment methods in an insert later in this chapter.

The methods under which the Department provides funds
34 CFR 668.162(a)

Advance payment method

Under the advance payment method, a school submits a request for funds to the Department that may not exceed the amount of funds the school needs to make immediate disbursements.

If the Department accepts that request, it initiates an electronic funds transfer (EFT) of that amount to the depository account designated by the school. The school must disburse the funds requested as soon as administratively feasible but no later than three business days following the date the school receives those funds.

Drawing down funds in the Pell and TEACH Grant Programs

There are no initial authorizations in the Pell Grant and TEACH Grant programs. A school's authorization for these programs will be based on the total actual (DRI = true) accepted and posted disbursement records accepted by the COD System. A new Electronic Statement of Account (ESOA) will be sent to a school's Student Aid Internet Gateway (SAIG) mailbox each time the school's authorization changes.

Drawing down funds in the Campus-Based Programs

The Department awards Campus-Based funds to a school for an upcoming award year on the basis of *The Application to Participate* portion of the *The Fiscal Operations Report and Application to Participate* (FISAP). The way in which schools request Campus-Based funds from G5 will vary depending on the funding method under which schools operate. In all cases, a school may not request funds in excess of the actual disbursements it has made or will make to students (plus any Administrative Cost Allowance, if applicable).

Note: For the Campus-Based Programs, schools do not report individual disbursements in COD. Schools report expenditures on their FISAP expenditure reports (due before October 1). Therefore, a school's allocation of Campus-Based funds is not revised during the year unless the school receives a supplemental allocation (see sidebar).

See *Volume 6* for more information on applying for and receiving Campus-Based funding.

Iraq and Afghanistan Service Grant Disbursements

For the Iraq and Afghanistan Service Grant Program, schools do not submit actual disbursements. In the Iraq and Afghanistan Service Grant Program, the Department will provide schools with an "Exception-Based Process" through which schools will be funded when they submit anticipated disbursements (where DRI = False).

Drawing down funds in the Direct Loan Program

Generally, schools under the advance payment method receive Initial Direct Loan authorizations in late spring or early summer (prior to July 1). Initial authorizations are based on a school's net accepted and posted disbursements from the previous award year.

As a school submits actual disbursement records where the ***Disbursement Release Indicator*** (DRI) = true, the COD System will compare the total net accepted and posted disbursements to the school's current authorization. Each time the school's total net accepted and posted disbursements exceed the school's authorization, the COD System will automatically increase the schools authorization to the school's total net accepted and posted disbursements.

Supplemental Campus-Based Allocations

Schools must return unused prior year Campus-Based funds and request funds for the upcoming year through the **Reallocation-Supplemental award process**. Schools deobligate or request additional funds by completing the Reallocation form (the Department Form E40-4P), due the third Friday in August.

The Department will notify schools of any supplemental funding during the month of September.

Direct Loan schools on Heightened Cash Monitoring (HCM1 and HCM2), Reimbursement, foreign schools, and those that request to be "records first" do not receive an initial authorization. They will receive funding increases based on actual disbursement records that are submitted and accepted by the COD System.

The Reimbursement and Heightened Cash Management Payment Methods

Heightened Cash Monitoring Payment Methods

The Department places a school on a Heightened Cash Monitoring (HCM) payment method to closely monitor cash management. Schools operating under a Heightened Cash Monitoring payment method do not receive an initial authorization. They will receive an authorization and increases to the authorization after the COD System has accepted and posted actual disbursement records. Administration of the Heightened Cash Monitoring payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report regarding the school's compliance with the cash monitoring requirements.

Under the Heightened Cash Monitoring payment method, a school must credit a student's ledger account for the amount of Title IV funds the student or parent is eligible to receive, **and pay the amount of any credit balance due under §668.164(h), before the school submits a request for funds**. A school's request may not exceed the amount of the disbursements the institution has made to the students included in that request. There are two types of Heightened Cash Monitoring payment methods:

1. **Heightened Cash Monitoring 1** (HCM1). After a school makes disbursements to eligible students from institutional funds and submits disbursement records to COD, it draws down FSA funds to cover those disbursements in the same way as a school on the Advance Payment Method.
2. **Heightened Cash Monitoring 2** (HCM2). A school placed on HCM2 no longer receives funds under the Advance Payment Method. After a school on HCM2 makes disbursements to students from institutional funds, a Reimbursement Payment Request must be submitted for those funds to the Department. In its request, the institution must
   - complete and submit OMB 1845-0089 (Form 270), and
   - submit all requested documentation to the Department showing that each student included in the request for funds was eligible for and received those funds. The Department may tailor the documentation requirements for schools on a case-by-case basis.

     After the payment request is approved, the Department transfers electronically the appropriate amount of FSA funds to the bank account in which the school maintains its federal funds, after recovering any negative or unsubstantiated cash balance that may be owed. A school may submit a Reimbursement Payment Request only once during any 30-day period.

Reimbursement Payment Method

The Department places a school on Reimbursement if it determines that it needs to increase the monitoring of the school's participation in the FSA programs. A school placed on Reimbursement must credit a student's ledger account for the amount of Title IV funds that the student or parent is eligible to receive, and **pay the amount of any credit balance due under 34 CFR 668.164(h), before the school seeks reimbursement** from the Department for those disbursements. As part of its request, a school that has been placed on Reimbursement must

- complete and submit OMB 1845-0089 (Form 270),
- identify the students and parents for whom it is seeking reimbursement by submitting a completed Student Data Spreadsheet in the format specified by the Department, and
- submit documentation demonstrating that each student and parent included in the request was eligible to receive, and received, FSA funds for which reimbursement is sought.

After the reimbursement request is approved, and after recovering any negative or unsubstantiated cash balances that may be owed the Department, the Department electronically transfers the appropriate amount to the bank account in which the school maintains its federal funds. A school may submit only one such request for reimbursement during any 30-day period.

If a school is placed on Reimbursement, its administration of the Reimbursement payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report regarding the school's compliance with the reimbursement requirements.

Maintaining and accounting for funds
34 CFR 668.163

Bank account requirements
34 CFR 668.163(a)&(b)

Interest-bearing accounts
34 CFR 668.163(c)

Record keeping requirements
34 CFR 668.24

MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, FSA funds. For a school located in a state, the depository account must be insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA). A school generally is not required to maintain a separate account for each FSA program unless the Department imposes this requirement as a result of a program review or other action.

When a school does not maintain a separate account

A school has a fiduciary responsibility to segregate federal funds from all other funds and to ensure that federal funds are used only for the benefit of eligible students. Absent a separate bank account, the school must ensure that its accounting records clearly reflect that it segregates FSA funds. Under no circumstances may the school use federal funds for any other purpose, such as paying operating expenses, collateralizing or otherwise securing a loan, or earning interest or generating revenue in a manner that risks the loss of FSA funds or subjects FSA funds to liens or other attachments (such as would be the case with certain overnight investment arrangements or sweeps). Clearly, carrying out these fiduciary duties limits the ways the school can otherwise manage cash in an operating account when that account contains FSA funds.

If a school does not maintain a separate account for FSA program funds, its accounting and internal control systems must

- identify the balance for each FSA program that is included in the school's bank or investment account as readily as if those funds were in a separate account; and
- identify earnings on FSA program funds in the school's bank or investment account.

A school must maintain its financial records in accordance with the record keeping requirements described in *Volume 2.*

Depository Accounts of Foreign Schools

For a school not located in a state, the depository account may be insured by the FDIC or NCUA, or by an equivalent agency of the government of the country in which the institution is located. If there is no equivalent agency, ED may approve an account designated by the foreign school.

Not Applicable to Some Programs

The cash management requirements are not applicable to the state grant and scholarship programs. The Robert C. Byrd Honors Scholarship (Byrd) Program, and if a state is the grantee, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) are administered under rules established by the state.

SEPARATE DEPOSITORY ACCOUNT

The Department may require a school to maintain Title IV funds in a separate depository account that contains no other funds if the Department determines that the school failed to comply with: (1) the cash management regulations, (2) The recordkeeping and reporting requirements, or (3) applicable program regulations.

Timely Return of Funds

Schools are required to make a timely return of any unearned funds after a student withdraws, as discussed in *Volume 5.*

Bank account notification requirements

For each account that contains FSA program funds, a school located in a state must identify that FSA funds are maintained in the account by

- including the phrase *federal funds* in the name of the account; or
- notifying the depository institution that the depository account contains Title IV program funds that are held in trust and keeping a copy of this notice in its records and, except for public institutions, filing a Uniform Commercial Code Form (UCC-1) statement with the appropriate state or municipal government entity that discloses that an account contains federal funds. The school must keep a copy of the UCC-1 statement in its records.

Bank Notification via UCC-1 form

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase *federal funds* was established to reduce the possibility that a school could misrepresent *federal funds* as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they are exempt from the requirement.

Interest-bearing or investment account

To the extent possible, FSA funds must be maintained in an interest-bearing account or an investment account unless

- the school receives less than $120,000 in federal awards per year; or
- the best reasonably available interest-bearing account would not be expected to earn interest in excess of $500 per year on the school's federal cash balances; or
- the financial institution holding the funds would require an average or minimum balance so high that maintaining the balance would not be feasible within the expected Federal and non-federal cash resources.

As provided under 34 CFR 674.8(a), any interest earned on Federal Perkins Loan program funds is retained by the school. A school may also keep up to $500.00 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining the account.

No later than 30 days after the end of that award year, the school must remit any interest earned in excess of $500 through G5.

Standards for holding federal funds in depository accounts

The Department has adopted the OMB guidance for holding federal funds in depository accounts.
2 CFR 200.305(b)(8).

Retaining interest
34 CFR 668.163(c)(3)

Remitting Interest

The fastest, most efficient way to remit interest is through the G5 website at

www.g5.gov

A school with a user ID and password can go to the main menu and select **"Refunds"** then **"Interest."** The school will be taken to the screens through which the school can send the Department interest.

To return interest via G5, you go to Payments > Refunds > Refunds Creation. Look to the bottom for the Miscellaneous section, type in the amount that needs to be returned, and choose Interest Earned from the Refund Type dropdown.

Schools can also return excess interest income to the Department by check. Send the check to:

Department of Health and Human Services
Payment Management System
Rockville, MD 20852

On the front of the check, the school should note its D-U-N-S Number and Document Award Number, and it should also indicate that the remittance is for interest earned.

Additional Perkins Loan requirements

Perkins bank account requirements
34 CFR 674.19(a) & (b)

A school that participates in the Perkins Loan Program must always maintain an interest-bearing account or an investment account for Perkins Loan funds. The school must maintain sufficient liquidity in its Perkins fund to make all required distributions.

If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. However, if the school chooses to maintain one account, it must determine the amount of any interest earned on the Perkins Loan funds and retain those funds for use in the Perkins Program. The interest earned on the school's Perkins funds is not included in the $500.00 maximum award year interest the school is permitted to retain.

A school may deduct from the interest earned any bank or service charges incurred as a result of maintaining the fund assets in an interest-bearing account and deposit only the net earnings.

If a collection agency or third-party servicer receives funds directly from Perkins borrowers, it must immediately deposit those funds in a school trust account. The agency or servicer may open and maintain the account, but the funds in it belong to the school. If the funds will be held for more than 45 days, the account must be interest bearing.

EXCESS CASH

Excess cash
34 CFR 668.166

As mentioned earlier, under the advance payment method, a school must disburse funds no later than three business days following the date the school receives them. The Department considers excess cash to be any amount of FSA funds, other than Perkins Loan funds, that a school does not disburse to students or parents by the end of the third business day following the date the school

- received those funds from the Department; or
- deposited or transferred to its depository account previously disbursed FSA funds received from the Department, such as those resulting from award adjustments, recoveries, or cancellations.

Sometimes a school cannot disburse funds in the required three days because of circumstances outside the school's control. For example, a school may not have been able to disburse funds because of a change in a student's enrollment status, a student's failure to attend classes as scheduled, or a change in a student's award as a result of verification. In view of these circumstances, a school may maintain some excess cash for up to seven additional days.

Allowable excess cash tolerances

A school may retain for up to seven days an additional amount of excess cash that does not exceed 1% of the total amount of funds the school drew down in the prior award year. The school must return immediately to the Department any amount of excess cash over the 1% tolerance and any amount remaining in its account after the seven-day tolerance period.

The Department reviews schools to determine where excess cash balances have been improperly maintained. Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school.

Where excess cash balances are disproportionately large or where they represent a continuing problem with the school's ability to responsibly administer the FSA programs, the Department may initiate a proceeding to fine, limit, suspend, or terminate the school's participation in one or more of the FSA programs. For more on fines and other actions against schools, see *Volume 2*.

When the Department considers a check has been issued

Generally, the Department considers a check to be issued when the school mails the check to the student or parent or notifies the student or parent that a check is available for immediate pickup.

However, upon finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school's bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Consequences for maintaining excess cash

Upon a finding that a school maintained excess cash for any amount of time over that allowed, the actions the Department may take include, but are not limited to

- requiring the school to reimburse the Department for the costs the federal government incurred in providing that excess cash to the institution; and
- providing funds to the school under the reimbursement | payment method or Heightened Cash Monitoring payment method.

Deadlines by which funds must be returned to avoid excess cash penalties

For funds electronically transmitted by the Department, the three-day period begins on the day the school receives the funds in the account designated by the school for that purpose.

For funds deposited by the school in the school's federal account—

- as part of the school's compliance with the requirement to return funds if a student withdraws before completing a period for which the student was paid;
- for Federal Pell Grant funds deposited because of adjustments to the student's award and federal Direct Loan funds deposited because of adjustments or cancellations; and

- for funds deposited because a student failed to begin attendance;

the three-day period begins on the date the school deposits the funds in the school's federal account.

Note: A school must return aid for a student who withdraws before completing a period for which the student was paid within 45 days of determining the student withdrew. (See *Volume 5*.)

A school must return or deposit funds for a student who failed to begin attendance no later than 30 days after the date the school becomes aware that the student did not begin and will not begin attendance. See the discussion under *When a Student Fails to Begin Attendance* in *Chapter 3*.

Administrative Cost Allowance
34 CFR 690.10(b) and 34 CFR 673.7

TIP Pell Grant Administrative Cost Allowance funds to which your school is entitled are identified by a unique grant award number **P**063Q##XXXX, where ## is the last two digits of the first year of the award year.

If you receive funds identified by the award number P063Q##XXXX, please note that those are your school's funds. Please do not return the funds to the Department or disburse them to students.

ADMINISTRATIVE COST ALLOWANCE (ACA)

The ACA is an annual payment calculated by the Department and made available for drawdown in G5 to help offset the cost of administering the FSA programs. The Department reimburses schools participating in the Pell Grant Program $5.00 per award year for unduplicated recipients at the school who receive a Pell Grant. For the Campus-Based Program, the ACA is taken from the school's federal allocation, and the maximum amount permissible is up to five percent of the sum of the loans advanced in Perkins, the total earned compensation in FWS, and the total awards to recipients in FSEOG.

Charging Perkins cost against ACA

If a school charges any ACA against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.

For the Campus-Based Programs, the ACA is not a separate allowance sent to the school. Rather, the school has the option of taking its Campus-Based ACA out of the annual authorizations the school receives for the FSEOG and FWS Programs and/or from the available cash on hand in its Perkins Loan fund. A school may draw its allowance from any combination of Campus-Based Programs, or it may take the total allowance from only one program provided there are sufficient funds in that program and as long as the school has disbursed funds to students from that program during the award year.

TIP For more information about the Pell Grant ACA, See the *Electronic Announcement of March 2, 2016* on Pell Grant Administrative Cost Allowance Payments for the 2015-2016 Award Year.

A school must use its administrative cost allowance to offset its cost of administering the Pell Grant, FWS, FSEOG, and Federal Perkins Loan programs. Administrative costs may include the expenses incurred in carrying out a school's student consumer information requirements. In addition, a school may use up to 10% of its ACA that is attributable to the school's expenditures under the FWS Program to pay the administrative costs of conducting community service programs.

A SCHOOL'S FIDUCIARY RESPONSIBILITY

Cash management
34 CFR Subpart K

Scope and Institutional responsibility
34 CFR 668.161

Except for funds received by a school for administrative expenses and for funds used for the Job Location and Development Program, funds received by a school under the FSA programs are held in trust for the intended student beneficiaries. As a trustee of those funds, a school may not use (or use as collateral) FSA funds for any other purpose.

FSA funds are awarded to a student to pay current-year charges. Notwithstanding any authorization obtained by a school from a student or parent, the school must pay

- any remaining balance from loan funds by the end of the loan period; and
- other remaining FSA funds by the end of the last payment period in the award year for which they were awarded.

A school that fails to disburse funds by those dates is in violation of the Department's cash management regulations.

In addition, a school has a fiduciary responsibility to

- safeguard FSA funds;
- ensure FSA funds are used only for the purposes intended;
- act on the student's behalf to repay a student's FSA education loan debt when the school is unable to pay a credit balance directly to the student; and
- return to the Department any FSA funds that cannot be used as intended.

Accounting and fiscal records

As part of meeting its fiduciary responsibilities, a school must maintain an accounting and internal control systems, including records that

1. identify the cash balance of the funds of each Title IV, HEA program that are included in the institution's depository account or accounts as readily as if those funds were maintained in a separate depository account.;
2. identify the earnings on Title IV, HEA program funds maintained in the institution's depository account or accounts; and
3. maintain its fiscal records in accordance with the provisions in 34 CFR 668.24.

GARNISHMENT OF FSA FUNDS IS PROHIBITED

Time frame for returning unclaimed funds
34 CFR 668.164(l`)

Garnishment/attachment prohibited
HEA 488A(d)

No FSA grant, loan, or work assistance (or property traceable to that assistance) is subject to garnishment or attachment except to satisfy a debt owed to the Department. Schools must oppose any garnishment order they receive.

FSA funds may only be used for educational purposes. If your school is not the employer in an off-campus employment arrangement, it must have an effective procedure to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

With the permission of the student, a student's FWS wages may be used by the school to pay current year charges and prior-year charges of not more than $200. (See *Volume 6* for additional information.)

Unpaid FWS Wages

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school's FWS account.

If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.

ESCHEATING OF FSA FUNDS IS PROHIBITED

A school must return to the Department any FSA program funds, except FWS Program funds, that it attempts to disburse directly to a student or parent if the student or parent does not receive the funds or cash the check. (For FWS Program funds, a school is required to return only the federal portion of the payroll disbursement.)

A school must have a process that ensures FSA funds never escheat to a state or revert to the school or any other third party. A failure to have such a process in place would call into question a school's administrative capability, its fiscal responsibility, and its system of internal controls required under the FSA regulations.

Undelivered Perkins Funds

If a portion of the undelivered credit balance consists of Perkins funds, the school must reimburse its Perkins Loan fund for that amount and report those funds as other income in Part III, Section A of the FISAP.

Example of a Policy to Prevent Escheating

Typically, each state establishes the useful life of a check or bank draft used to disburse FSA program funds. After this established date, the check cannot be negotiated and the proceeds of an uncashed check normally escheat to an unintended third party (the state or the institution).

In state A, a bank check has a useful life of 180 days. In order to prevent FSA funds from escheating to a third party, the business office at School A, at the end of each month, identifies all outstanding uncashed checks containing FSA funds. Prior to the 180th day, the business office voids the uncashed checks and restores the funds back to the applicable FSA program.

In order to prevent the escheating of Title IV funds, the Department encourages schools that disburse Title IV credit balances by EFT to remind students before the end of the award year (or at the time of withdrawal for students who cease attendance before completing the period for which the funds were paid) to examine the balances remaining in any accounts to which Title IV funds were transferred.

Disbursing FSA Funds CHAPTER 2

These rules apply to the following programs: Pell Grants, TEACH, Iraq and Afghanistan Service Grants, Federal Supplemental Educational Opportunity Grants (FSEOG), Perkins Loans, and Direct Loans. We have indicated when a rule applies to Federal Work-Study (FWS) funds. This chapter will discuss the rules for crediting Federal Student Aid (FSA) funds to the student's account and making direct disbursements to the student or to the parent, with provisions for early disbursements, delayed disbursements, and late disbursements.

NOTIFICATIONS

Notification of disbursement

In general, there are two types of notifications a school must provide: (1) a general notification to parent Direct PLUS borrowers and all students receiving FSA funds, and (2) a notice when FSA loan funds or TEACH Grant funds are credited to a student's account.

General notification

A school must notify a student of the amount of funds the student and his or her parent can expect to receive from each FSA program, including FWS, and how and when those funds will be disbursed. This notification must be sent before the disbursement is made.

If the funds include a Direct Loan, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. A school must provide the best information that it has regarding the amount of FSA program funds a student can expect to receive. Because the actual loan disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), you may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

Loan and TEACH Grant notification

Except in the case of loan funds made as part of a post-withdrawal disbursement, when Perkins Loan, Direct Loan or TEACH funds are being credited to a student's ledger account, the school must also notify the borrower in writing (paper or electronically) of the:

- anticipated date and amount of the disbursement;
- student's or parent's right to cancel all or a portion of a loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds or TEACH Grant proceeds returned to the Department; and

Notices and Authorizations

Notices
34 CFR 668.165(a)

Student and parent authorizations
34 CFR 165 (b)

Note on Iraq and Afghanistan Service Grants

The HEA (Sec. 420R(d)) specifies that those grants shall be awarded in the same manner, and with the same terms and conditions, as Federal Pell Grants.

Borrower Notification via email

If you are notifying the student of the next disbursement by email or other electronic means, you are encouraged to follow up on any electronic notice for which you receive an "undeliverable" message.

The loan notification requirements for post-withdrawal disbursements are covered in ***Volume 5.***

Privacy of Loan Data

Schools are reminded that the details of any loan transaction may be shared only with the borrower.

Acceptable means of notification

Your school may not use an in-person or telephonic conversation as the sole means of notification of disbursement because these are not adequate and verifiable methods of providing notice. However, a school may use in-person and telephone notices in addition to those provided in writing.

- procedures and deadlines by which the student or parent must notify the school that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement.

The timing of a loan or TEACH Grant notification varies depending on whether a school obtains affirmative confirmation from a student that he or she wants a loan **or** accepts the grant. Affirmative confirmation is a process under which a school obtains written confirmation of the types and amounts of Title IV loans a student wants for the period of enrollment before the institution credits the student's account with those loan funds (34 CFR 668.165(a)(6)). The process under which the TEACH Grant program is administered is considered to be an affirmative confirmation process.

This notification must be sent

- ***if the school obtains affirmative confirmation***, no earlier than 30 days before and no later than 30 days after crediting the student's account; or
- ***if the school does NOT obtain affirmative confirmation***, no earlier than 30 days before and no later than 7 days after crediting the student's account.

If the borrower or TEACH Grant recipient wishes to cancel all or a portion of a loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement, he or she must inform the school. A school must return the loan or grant proceeds, cancel the loan or grant, or do both, provided that the school receives the loan cancellation request within the following time frames:

- ***If the school obtains affirmative confirmation from the student***, by the later of the first day of a payment period or 14 days after the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan or grant.
- ***If the school does not obtain affirmative confirmation from the student***, within 30 days of the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan.

Self-assessment tool for fiscal management procedures

You can evaluate your school's fiscal management procedures by referring to the "Fiscal Management Assessment" in the Schools section of the FSA Assessments at

ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html.

If a school receives a borrower's request for cancellation outside of the period during which the school is required to cancel the loan, grant, or loan or grant disbursement, the school has the option of canceling and returning the loan or grant. In the case of a loan, if a school declines to return a disbursement, the school should direct the borrower to contact the borrower's assigned loan servicer.

The school must inform the student or parent **in writing** of the outcome of any cancellation request. **Schools should not return loan funds on a borrower's behalf if more than 120 days have elapsed since the funds were disbursed.** (See the *Handbook Appendices* for information on how a school should proceed when a student dies.)

Schools should not return Direct Loan funds to ED's federal loan servicers directly. If a borrower asks the school to return Direct Loan funds more than 120 days after the disbursement date, the school should direct the borrower to the appropriate servicer for guidance on how the borrower can return the money. However, if a school must return Direct Loan funds in its possession when a borrowers dies, the school may return those funds to the appropriate servicer.

TIP Schools should always use G5 to return funds from loans or grants cancelled within the 120-day period.

When acting upon a cancellation request, your school must return the funds (if received) and/or cancel the loan or grant as appropriate. A school is not responsible for returning any portion of a loan or grant that was disbursed to a student or parent directly (e.g., as a result of a credit on the student's account) before the request for cancellation was received. However, you are encouraged to take an active role in advising the borrower to return the funds already received.

Direct Loan funds that are returned within 120 days of the disbursement by the school or the borrower, for any reason, are treated as a partial or full cancellation, with the appropriate adjustment of the loan fee and interest. In addition, Direct Loan funds that are returned by a school at any time to comply with a regulatory or statutory requirement are treated as a partial or full cancellation.

Direct Loan funds that a borrower returns 120 days or more after disbursement are processed as a payment, and there is no adjustment of the loan fee or interest. For additional information on returning loan funds, see *Chapters 3 and 4* in this volume, and *Volume 5,* Chapter 1.

AUTHORIZATIONS

You must obtain authorization from a student (or parent borrower) before your school can perform any of the following activities:

- Use FSA funds to pay for allowable educationally related charges **other than** tuition, fees, and room and board (if the student contracts with the school).
- Credit FWS wages to a student's account to pay any educationally related charges.
- Disburse FWS wages by Electronic Funds Transfer (EFT) to a bank account designated by the student or parent.
- Hold an FSA credit balance (see the discussion later in this chapter).
- Apply FSA funds (including FWS) to prior-year charges other than for tuition, fees, room, and board.

Authorizations
34 CFR 668.165(b)

Electronic disclosures
CFR 34 668.41(b) & (c)

Information Security Requirements

The Gramm-Leach-Bliley (GLB) Act requires that schools have in place an information security program to ensure the security and confidentiality of customer information, protect against anticipated threats to the security or integrity of such information, and guard against the unauthorized access to or use of such information. (For information on the GLB Act, see ***Volume 2.***)

An authorization must explain what FSA funds are covered by the document, and it must specify the time period covered by the authorization. Unless otherwise specified, a student or parent may authorize a school to carry out the allowable activities for a specific period of time such as an academic year or for the entire period the student is enrolled, including multiple academic years.

A school may not require or coerce the student or parent to provide an authorization, and it must clearly explain to the student or parent how to cancel or modify the authorization. The school must also explain how it will go about cancelling the authorization and that a cancellation is not retroactive.

A student or parent may cancel or modify an authorization at any time. A cancellation or modification is not retroactive—it takes effect on the date that the school receives it from the student or parent. If a student or parent cancels an authorization to use FSA funds to pay for other allowable charges, the school may use FSA funds to pay only authorized charges incurred by the student before the notice was received by the school.

If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible but no later than 14 days after the school receives the notice. (See the discussion under *Time frame for paying FSA credit balances* later in this chapter.)

Reminder

If a school holds excess student funds, the school must

- identify the amount of funds the institution holds for each student or parent in a subsidiary ledger account designed for that purpose;
- maintain, at all times, cash in its depository account in an amount at least equal to the amount of funds the institution holds on behalf of the student or the parent; and
- notwithstanding any authorization obtained by the school, pay any remaining balance on loan funds by the end of the loan period, and any remaining other Title IV funds by the end of the last payment period in the award year for which the funds were awarded.

A school may include two or more of the items that require authorization in one statement. Each component and term in the authorization must be conspicuous to the reader, and a student (or parent borrower) must be informed that he or she may refuse to authorize any individual item on the statement.

An authorization must clearly explain how the school will carry out an activity, but it does not need to detail every aspect pertaining to the activity. However, a blanket authorization that only identifies the activities to be performed is not acceptable. For instance, an authorization permitting a school to use an FSA credit balance (discussed later in this chapter) must provide detail that is sufficient to give the student or parent a general idea of what charges the credit balance would be used to pay. A blanket statement that the credit balance would cover any charges is not acceptable.

Using electronic processes for notifications and authorizations

So long as there are no regulations specifically requiring that a notification or authorization be sent via U.S. mail, a school may provide notices or receive authorizations electronically. You may also use an electronic process to provide required notices and make disclosures by directing students to a secure website that contains the required notifications and disclosures.

If you use an electronic process to provide notices, make disclosures, or direct students to a secure website, then you must notify each student individually every year. You may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an email address.

The annual individual notice must

- identify the information required to be disclosed that year;
- provide the exact Internet or intranet address where the information can be found; and
- state that, upon request, individuals are entitled to a paper copy, and inform students how to request a paper copy.

A School Must Obtain a Student's Voluntary Consent to Participate in Electronic Transactions

Voluntary consent to participate in electronic transactions is required for all financial information provided or made available to student loan borrowers, and for all notices and authorizations to FSA recipients required under 34 CFR 668.165. (The Electronic Signatures in Global and National Commerce Act (E-Sign Act)

Power of attorney
Perkins: 34 CFR 674.16(g)
FWS: 34 CFR 675.16(a)(8)

Limitations on using a power of attorney in disbursing FWS and Perkins funds

A school may not obtain a student's power of attorney to authorize FWS disbursements unless the Department has granted prior approval (contact your School Participation Team). Your school must be able to demonstrate that there is no one else (such as a relative, landlord, or member of the clergy) who could act on behalf of the student.

Similarly, a school official may not use a student's power of attorney to endorse any Perkins Loan disbursement check or to sign for any Perkins Loan advance unless the Department has granted prior approval. Approval may be granted only if

- the student is not available to sign the promissory note, and there is no one else (such as a relative, landlord, or member of the clergy) who could act on behalf of the student;
- the school shows that the funds cannot be directly deposited or electronically transferred;
- the power of attorney is not granted to a school official or any other official who has an interest in the loan; and
- the power of attorney meets all legal requirements under the law of the state in which the school is located, and the school retains the original document granting power of attorney in its files.

INSTITUTIONAL CHARGES

Institutional versus noninstitutional charges

Institutional charges generally are defined as the charges for tuition and fees, room and board, and other educational expenses that are paid to the school directly. If a fee (like a registration or technology fee) is required for all students in a program, then the fee should be considered an institutional charge. A charge does not have to appear on a student's account to be considered an institutional charge.

All charges for tuition, fees, and room and board (if contracted with the school) must be considered institutional charges

NEW

A school may include the costs of books and supplies as part of tuition and fees

A. If the school

- has an arrangement with a book publisher or other entity that enables it to make those books or supplies available to students below competitive market rates,
- provides a way for a student to obtain those books and supplies by the seventh day of a payment period, and
- provides a way for a student to opt out of the way the school provides books and supplies.

B. If the school documents on a current basis that the books or supplies, including digital or electronic course materials, are not available elsewhere or accessible by students enrolled in that program from sources other than those provided or authorized by the institution. Or

C. If the school demonstrates there is a compelling health or safety reason for the school to provide those books and supplies.

Exceptions: When calculating Returns under 34 CFR 668.22 a school may exclude from the total amount of institutional costs, such as the documented cost of unreturnable equipment and documented cost of returnable equipment if not returned in good condition within 20 days of withdrawal.

Paying Overtime Charges is Prohibited

A school may not use Title IV funds to pay overtime charges for a student who fails to complete his or her academic program within the normal time frame. Section 472 of the HEA defines cost of attendance as the tuition and fees normally assessed a student carrying the academic workload required of all students in the same course of study. Overtime charges are in addition to normal tuition and fees. Since they are not charges normally assessed, they may not be included in a student's cost of attendance for Title IV purposes. (See ***Volume 3***, *Chapter 2* for additional information.)

Noninstitutional charges (not included in a Return calculation) include

- charges for any required course materials that a school can document a student had a real and reasonable opportunity to purchase elsewhere (see the discussion that follows);
- charges to a student's account for group health insurance fees if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal, and
- charges to a student's account for discretionary, educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.).

Three Principles Associated With Institutional Charges

Published in a January 7, 1999, policy bulletin, these principles are applicable to determining institutional charges.

Principle 1: Most costs charged by the school are institutional charges.

The most important principle to keep in mind is that all tuition, fees, room and board, and other educationally related charges a school assesses a student are institutional charges, unless demonstrated otherwise. If you want to exclude specific charges or costs from a calculation, you must document that the charges are not institutional charges.

Principle 2: An institutional charge does not need to be assessed to all students.

A charge assessed to all students enrolled in a course or program is an institutional charge whether or not it is assessed to all students at the school. Moreover, a charge does not have to be specified in a student's enrollment agreement to be considered an institutional charge.

Principle 3: Charges on a student's account are not always school charges; school charges do not always appear on a student's account.

With the student's authorization, a school may credit a student's account with Title IV funds to pay for noninstitutional charges. If a student withdraws from the school with debits for noninstitutional charges on his or her account, the school should exclude those charges from the Return calculation.

Conversely, there may be institutional charges that do not appear on a student's account. If a school disburses Title IV funds to a student to buy required books, equipment, supplies, or materials and the student does not have a real and reasonable opportunity to purchase them from another source, those costs must be classified as institutional charges.

Apportioning and prorating charges

In most cases, the total charges a school assesses the student in a semester, academic year, or other instructional period are for education and services the institution provides within that period of time. However, some schools charge a student up front for the total cost of a multiyear program (for example, the student signs an enrollment agreement and is charged for the total costs of an 1,800-clock-hour program at the beginning of the program). In this case, because the charges assessed up front represent the costs of education and services that will be provided over a two-year period, the institution would, on a program basis, apportion the total charges over the two-year period to determine the amount of charges applicable to each year (each loan period or award year, as appropriate).

Institutional charges (generally speaking, tuition and fees) allocated to each year (or portion of a year) would be based on the education and services the school provides during that period of time, in the same way as they are for schools that charge their students year by year. Charges for books, equipment, supplies, and other materials could be allocated on a pro rata basis, or, alternatively, could be allocated to the period in which they must be purchased. An institution would use the total charges allocated to each year in determining the amount of current-year charges. The amount of current-year charges would then be used for determining whether the student has an FSA credit balance as described later in this chapter.

TIP

Please see the discussion later in this chapter under *Disbursements by payment period* for additional information about the charges and payment periods.

Note that this procedure for apportioning the costs over the length of the program does not affect how a school maintains or should maintain its accounting records.

Example: Apportioning Charges When a School Posts All Charges to the Student's Account During the First Payment Period and the Student Has an FSA Loan

Katrina Technical Center (KTC) is a nonprofit postsecondary institution located in Houma, Louisiana, offering a program in storm-water abatement. Hanna Galiano entered KTC 's Abatement program on May 4, 2015. KTC posts the charges for the entire (1,500-hour) program at the beginning of the program.

Program Profile

Academic Year/Program	900 hours 30 weeks of instructional time
Program	1,500 hours 50 weeks of instructional time
Program Start Date	May 4, 2015
Program End Date	April 16, 2016
Program Cost	$13,500.00
Pell Award Years Included	July 1, 2014–June 30, 2015 July 1, 2015–June 30, 2016
Payment Period 1 (450 hours)	May 4, 2015 to August 14, 2015
Payment Period 2 (450 hours)	August 17, 2015 to November 27, 2015
Payment Period 3 (300 hours)	November 30, 2015 to February 5, 2016
Payment Period 4 (300 hours)	February 8, 2016 to April 16, 2016
First loan period (900 hours)	May 4, 2015 to November 27, 2016
Second loan period (600 hours)	November 30, 2015 to April 16, 2016

Hanna's Federal Student Aid Information

Hanna was eligible to receive the following federal student aid during her program.

2014–2015 Pell Grant Scheduled Award	$4,800.00
2015–2016 Pell Grant Scheduled Award	$4,800.00
Subsidized Direct Loan for First Loan Period	$3,500.00
Subsidized Direct Loan for Second Loan Period	$2,334.00
Unsubsidized Direct Loan for Second Loan Period	$1,000.00

When a school charges for an entire program at the start of the course (up front), a school may apportion or otherwise assign the total charges for a multiyear program to determine the amount of those charges applicable to each year (loan period or award year as appropriate). **Note that a school must use the same basis to apportion the charges for all students in a program.** For example, KTC could

- apportion the charges in proportion to the number of clock hours in each loan period (900 hours/$8,100.00 in the first loan period and 600 hours/$5,400.00 in the second loan period; or
- increase the charges the school assigned to the first loan period and decrease the charges in the second loan period because the school retained charges for books and materials in the first period; or

Apportioning charges example continued

- apportion the $13,500 equally ($6,750) over each of the two loan periods (four payment periods).

KTC chose to apportion the charges in proportion to the number of clock-hours in each loan period.

Student's Apportioned Charges

First Payment Period (450 hours)	$ 4,050
Second Payment Period (450 hours)	$ 4,050
Third Payment Period (300 hours)	$ 2,700
Fourth Payment Period (300 hours)	$ 2,700

On May 4, 2015, the school credited Hanna's account with $4,150.00 in FSA funds—$2,400 in 2014–2015 Pell Grant funds and $1,750.00 in Direct Loan funds. When applied against the $4,050.00 in school charges for the first payment period, the FSA funds created an FSA credit balance of $100.00 ($4,150.00 – $4,050.00) that the school electronically transferred to the bank account that Hanna had previously specified be used for that purpose.

On August 17, 2015, the school credited Hanna's account with $4,150.00 in FSA funds—$2,400.00 in 2014–2015 Pell funds and $1,750.00 in Direct Loan funds. When applied against the $4,050.00 in school charges for the second payment period, the FSA funds created an FSA credit balance of $100.00 ($4,150.00 – $4,050.00) that the school electronically transferred to Hanna's specified bank account.

On November 30, 2015, the school credited Hanna's account with $2,767.00 in FSA funds—$1,600.00 in 2014–2015 Pell funds and $1,167.00 in Direct Loan funds. When applied against the $2,700.00 in school charges for the third payment period, the FSA funds created an FSA credit balance of $67.00 ($2,767.00 – $2,700.00) that the school electronically transferred to Hanna's specified bank account.

Hanna began the fourth and final payment period on February 8, 2016, and the aid officer posted $1,167.00 in Direct Loan funds to Hanna's account. When the aid officer looked at Hanna's Pell eligibility, she found that Hanna had already used $4,000.00 of her $4,800.00 scheduled award, so Hanna was eligible for only $800.00 in Pell funds and a total of $1,967.00 in FSA funds ($1,167.00 + $800.00).

When the $1,967.00 in FSA funds was applied against the $2,700.00 in school charges for the fourth payment period, an unpaid balance of $733.00 ($2,700.00 – $1,967.00) remained. Hanna told the aid officer that she was able to meet her living expenses through her part-time job, but needed additional help to pay her tuition. She also said that she could use a little help with other school-related bills.

After discussing the matter, they arrived at the decision that Hanna would use an Unsubsidized Direct Loan in the amount of $1,000.00 to cover the balance of the tuition and the aid officer would transfer any credit balance remaining after her tuition was paid to the bank account Hanna had previously identified for that purpose.

Hannah's tuition and fees were now paid in full.

Hanna graduated from KTC and is working for the Army Corps of Engineers helping ensure that the levees in New Orleans never fail again.

PAYING INSTITUTIONAL CHARGES

Paying pass-through charges

Charges Incurred at Bookstores
DCL GEN-12-21, November 28, 2012

The law allows a school to credit a student's account with FSA funds to pay for institutionally provided housing, or to pay for charges incurred at a school owned bookstore. However, it is not necessary that the school actually own the student housing or the bookstore. The school may enter into a contract with a third party to provide institutional housing and/or bookstore services.

Students must have an option

A school must give a Title IV eligible student the opportunity to opt out of having purchases of books and supplies from any institutionally owned or contracted bookstore charged to the student's account.

34 CFR 668.164(m)(3)

Under a contractual agreement, for housing and books and supplies, we view the school as providing the goods and services itself. Consequently, as allowed under 34 CFR 668.164(c) with the student's authorization, a school may credit a student's account with Title IV, HEA funds to pay for housing and for educationally related charges incurred by the student at the bookstore.

A school may credit a student's account with Title IV, HEA funds to pay for educationally related goods and services purchased by the student at a bookstore as long as (1) the school has a written contract or other legal agreement with the entity operating the bookstore under which the student is able to charge educationally related goods and services, and (2) the school obtains the student's authorization.

Keep in mind that other FSA requirements apply to both the funds used for the housing payment and bookstore services, and to the physical location of the housing or bookstore. For instance:

- A school must include the cost of housing as an institutional charge in any Return calculation required when an eligible recipient ceases to be enrolled prior to the end of the payment period or period of enrollment. (See *Volume 5.*)
- A student's bookstore charges must be included as institutional charges when performing a Return calculation if the student did not have a "real and reasonable opportunity" to purchase the books and supplies from any place other than at that bookstore.
- The school must include the contracted third-party housing among the locations for which it fulfills the requirements for reporting campus crime and safety information.

Campus security
34 CFR 668.41(e), 668.46, and 668.49

- If the bookstore is located on-campus, or, if the bookstore is in any off-campus building or property that is owned or controlled by the institution, the institution must include the bookstore among the locations for which it fulfills the requirements for reporting campus crime and safety information.

  www2.ed.gov/admins/lead/safety/handbook.pdf

  See *Volume 2* for additional information.

The third party that owns the housing or bookstore also must comply with the civil rights and privacy requirements contained in the school's Program Participation Agreement (see *Volume 2*).

Prior-year charges
34 CFR 668.164(c)(3) & (4)

Authorizations for paying prior-year charges
34 CFR 668.165(b)

Paying prior-year charges

In general, FSA funds may only be used to pay for the student's costs for the period for which the funds are provided. However, a school may use current-year funds to satisfy prior award year charges of not more than $200 for

- tuition, fees, and room and board, provided by the school without obtaining the student's or parent's authorization; and
- educationally related goods and services provided by the school, if the school obtains the student's or parent's authorization under §668.165(b).

A "prior year" is any loan period or award year prior to the current loan period or award year, as applicable.

TIP

Prior Year

If the student's aid package does not include a Direct loan, ***prior year*** means **any** award year that ended prior to the start of the current award year.

If the student's aid package includes a Direct Loan, ***prior year*** means **any** loan period that ended prior to the start of the current loan period.

The costs of education and other services a school provides a student are associated with the "year" for which the education and services are provided. "Year" is defined as follows:

NEW

- For a student or parent who receives only a Direct Loan, the current year is the current loan period.
- For a student who does not receive a Direct Loan, the current year is the current award year.
- For a student or parent who receives a Direct Loan AND funds from any other Title IV program, the current year is either the current loan period or the current award year.

FSA funds may not be used to repay a student's loan. Loan payments are not part of the cost of attendance for the period of enrollment.

Disbursements by payment period

Reminder

Except for paying a student his or her work-study earnings, or unless one or more payment periods have elapsed before a school makes a disbursement, a school must disburse during the current payment period the amount of FSA funds that a student enrolled at the institution, or the student's parent, is eligible to receive for that payment period. That is, a disbursement made for a payment period must be in direct relation to the actual cost incurred by the student for that payment period.

A school may not reduce or eliminate a student's eligibility for a Title IV credit balance by front-loading or apportioning institutional charges to a payment period the school cannot document are attributable to that payment period.

For a program with substantially equal payment periods, a school apportions the charges associated with a current payment period by dividing the total institutional charges for the program by the number of payment periods in the program.

For a program that does not have substantially equal payment periods, a school apportions the charges associated with a current payment period by dividing the number of credit or clock hours in the current payment period by the total number of credit or clock hours in the program, and multiplying that result by the total institutional charges for the program.

A school may make a prior year, late, or retroactive disbursement during the current payment period as long as the student was enrolled and eligible during the payment period covered by that prior year, late, or retroactive disbursement.

For more information about disbursing funds by payment periods, see *Volume 3, Chapter 1*.

Apportioning and prorating charges
34 CFR 668.164 (c)(5)

Disbursements to Students on Leave of Absence

A school may disburse Pell, TEACH Grant, Iraq & Afghanistan Service Grant, FSEOG, or Perkins Loan funds to a student on a leave of absence. However, a school must not disburse Direct Loan funds to a student on a leave of absence.

Because FSA credit balance funds are funds that have already been disbursed, a school must pay an FSA credit balance to a student on a leave of absence.

If a Borrower Dies Before Loan Funds are Disbursed

The Department does not permit disbursement of Title IV loan funds when there is no possibility of repayment. Therefore, if a student borrower or parent PLUS loan borrower dies after the school has received the loan funds but before the loan is disbursed, the school must return the entire disbursement to the Department.

CHECKING ELIGIBILITY AT THE TIME OF DISBURSEMENT

Third-party servicers responsibility for checking eligibility before disbursement
34 CFR 668.25(c)(4)
34 CFR 668.164(b)(3)

A third-party servicer is bound by the same provisions that apply to a school. The servicer must carry out its contracted activities in a manner keeping with a fiduciary under the Title IV, HEA programs. (NPRM 28495)

Interim disbursements to students selected for verification

A school can make an interim disbursement of certain types of FSA funds to a student who is selected for verification (including a student selected for verification by the school rather than the CPS). If the school has any conflicting documentation or other reason to believe that it does not have a valid output document, it may not make such a disbursement. See the current version of the ***Application and Verification Guide***, for more details.

Disbursement of funds received under advance payment
34 CFR 668.162(b)(3)

Importance of Timely Review of Pell Lifetime Eligibility Used

Electronic Announcement, August 13, 2012

TEACH Grant Counseling

A student must complete TEACH Grant initial counseling prior to receiving the first disbursement of the student's first TEACH Grant. See ***Volume 3*** for information about the required counseling.

Before you awarded funds to a student, you confirmed that he or she was an eligible student and was making satisfactory academic progress (see *Volume 1*). However, before disbursing FSA funds, you must determine and document that a student remains eligible to receive them. A school, and its third-party servicer, must have a process (consistent with the regulations) for determining that a student is eligible to receive a Title IV disbursement. Please see the discussion under *When a School Uses Third-Party Servicers to Disburse FSA Funds by EFT* and *Tier One and Tier Two Arrangements* later in this chapter for additional information about working with third-party servicers. A school must confirm the following:

- the student is enrolled in classes for the period;
- for a student otherwise eligible for a Pell grant, the scheduled disbursement will not cause the student to exceed his or her Lifetime Eligibility (see *Volume 3*);
- a student enrolled in a non-term program or nonstandard term program with terms that are not substantially equal in length has completed the previous period (credits and weeks of instruction or clock-hours and weeks of instruction);
- except for Direct Loans, if the disbursement occurs on or after the first day of classes, that the student has begun attendance in the classes on which his or her eligibility was based;
- for Direct Loans, the student is enrolled at least half time and has a valid, linked MPN;
- first-time FSA borrowers have completed entrance counseling, received the required disclosures, and completed the first 30 days of their academic program (See *Volume 3*.);
- for TEACH Grant awards, the student has
    a) completed the relevant initial or subsequent counseling;
    b) signed an *Agreement to Serve*; and
    c) earned the appropriate GPA, otherwise met the performance standard through testing, or is a retiree or a current or former teacher (see *Volume 1*).

The most common change that would make a student ineligible for a Direct Loan disbursement is if the student has dropped below half-time enrollment, so it is important that the financial aid office have a system to verify the student's enrollment status at the time of disbursement. If the student has only temporarily dropped below half-time enrollment, you may still make a Direct Loan disbursement after the student resumes at least half-time enrollment.

Conditions under which a third-party servicer is responsible for confirming a student's eligibility

A third-party servicer is responsible for confirming a student's eligibility if the school engages the servicer to perform activities or transactions that lead to or support a disbursement of Title IV funds. Examples of activities and transactions are —

- processing financial aid applications;
- performing needs analysis;
- verifying students have begun attendance in the classes on which their Title IV aid was based;
- verifying that students are making satisfactory academic progress (SAP);
- performing verification;
- determining the type and amount of Title IV, HEA program funds that a student is eligible to receive;
- creating origination, disbursement or other records in COD;
- requesting funds under the Advanced, Reimbursement, or Heightened Cash Management payment methods; or
- accounting for funds that are originated, requested, or disbursed, in reports or data submissions to the Department.

Time Frame for Submitting Disbursements

A school must submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records and Direct Loan disbursement records, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement.

The Department considers that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed on the date that the school: (a) credits those funds to a student's account in the school's general ledger or any subledger of the general ledger, or (b) pays those funds to a student directly. We consider that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed even if a school uses its own funds in advance of receiving program funds from the Department.

A school's failure to submit disbursement records within the required timeframe may result in the Department rejecting all or part of the reported disbursement. Such failure may also result in an audit or program review finding or the initiation of an adverse action, such as a fine or other penalty.

Federal Register 81, Number 64 (Monday, April 4, 2016)

TIME FRAMES FOR PAYING FSA FUNDS

Prompt disbursement (three-day) rules

In general, schools that are not receiving federal cash from the Department through one of the Heightened Cash Monitoring payment methods must make disbursements as soon as administratively feasible but no later than three business days after receiving funds from the Department. The disbursements may be credited to the student's account or made directly to the student or parent, as discussed earlier.

In order to comply with the excess cash regulations (described in *Chapter 1*), when requesting funds with which to make FSA disbursements, schools must ensure they do not draw down more cash than they can disburse over the next three days.

Note that these time frames for disbursing to the student's account (or directly to the student or parent) are different than those for paying FSA credit balances to the student or parent. As we discuss later in this chapter, a school generally has 14 days to pay an FSA credit balance to the student or parent, unless it has written permission to hold the credit balance.

Defining the Date of Disbursement (34 CFR 668.164(a))

(***These rules apply to the FWS program, as well.***)

It is important to define the date of disbursement because several regulatory requirements are based on that date. For instance, you must disburse an FSA credit balance to a student no later than 14 days of the date it was created or no later than 14 days after the first day of class, and you must notify a student of a loan disbursement within a time frame related to the date of that disbursement.

The date of disbursement also determines when the student becomes an FSA recipient and has the rights and responsibilities of an FSA recipient. For example, when FSA loan funds are disbursed to a recipient, the student or parent assumes responsibility for the loan and has the right to cancel the loan.

A disbursement occurs when your school credits a student's account **or** pays a student or parent directly with

- FSA funds received from the Department; or
- School funds labeled as FSA funds in advance of receiving actual FSA funds (except as noted below).[1]

When using school funds in place of FSA funds, there are two situations where the FSA disbursement is considered to have taken place on the earliest day that the student could have received FSA funds rather than the actual disbursement date.

- If a school credits a student's account with its own funds earlier than 10 days before the first day of classes of a payment period, that credit is not considered an FSA disbursement until the 10th day before the first day of classes (the earliest a school may disburse FSA funds).
- If a student borrower is subject to the 30-day disbursement delay and a school credits the student's account with its own funds before the 30 days have elapsed, this is not counted as an FSA loan disbursement until the 30th day after the beginning of the payment period (the 31st day of classes).

[1] If your school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an FSA credit (for example, an estimated Federal Pell Grant), it is not a disbursement. For example, some schools prepare billing statements or invoices showing the estimated amount of FSA funds that students are eligible to receive. These estimated amounts are not FSA disbursements.

Submitting disbursement records

A school must submit Federal Pell Grant, TEACH Grant, and Direct Loan disbursement records no later than 15 days after making a disbursement or becoming aware of the need to adjust a student's disbursement.

Early Disbursements
34 CFR 684.164(i)

A school's failure to submit disbursement records within the required time frame may result in an audit or program review finding. In addition, the Department may initiate an adverse action, such as a fine or other penalty for such failure.

EARLY DISBURSEMENTS

The earliest a school may disburse Title IV funds to an eligible student or parent is

- if the student is enrolled in a credit-hour program offered in terms that are substantially equal in length—10 days before the first day of classes of a payment period; or
- if the student is enrolled in a credit-hour program offered in terms that are not substantially equal in length, a non-term credit-hour program, or a clock-hour program, the later of
    a) 10 days before the first day of classes of a payment period; or
    b) the date the student completed the previous payment period for which he or she received Title IV, HEA program funds.

Exception to the 30-day delay
The 30-day restriction does not apply if the school is exempt from the 30-day delayed disbursement requirements under 34 CFR 685.303(b)(5)(i)(A) or (B).

34 CFR 668.164(i)(2)

A school may not make an early disbursement of a Direct Loan to a first-year, first-time borrower who is subject to the 30-day delayed disbursement requirements in 34 CFR 685.303(b)(5).

A school may not compensate a student employed under the FWS program until the student earns that compensation by performing work, as provided in 34 CFR 675.16(a)(5).

Retroactive payments
34 CFR 684.164(k)

RETROACTIVE PAYMENTS

If a school did not make a disbursement to an enrolled student for a payment period the student completed (for example, because of an administrative delay or because the student's ISIR was not available until a subsequent payment period), the school may pay the student for all prior payment periods in the current award year or loan period for which the student was eligible.

A school making a retroactive Pell Grant payment must be calculated based on the student's enrollment status according to work already completed, as required by 34 CFR 690.76(b).

Late disbursements
34 CFR 668.164(j)

Pell and Iraq and Afghanistan Service Grant disbursements

If a school receives a valid SAR or ISIR within the applicable deadlines, it must disburse the student's Pell or Iraq & Afghanistan Service Grant.

34 CFR 690.61(a)

Date of Origination TIP

The regulations define the date of loan origination as "the date a school creates the electronic loan origination record."

If the school created an electronic loan origination record in its system before the date the student became ineligible, and the school can document the creation of that record, the school satisfies the date of origination component required for making a late disbursement (assuming that all other late disbursement requirements are met).

34 CFR 685.301(a)(6).

Processed Date

For purposes of determining eligibility for a late disbursement, use the processing date on the SAR/ISIR. For an ISIR, use the field labeled ***Processed Date***. For a SAR, use the date above the EFC on the first page. For a SAR Acknowledgment, use the date labeled "transaction process date" in the School Use box.

Obtaining SAR/ISIR With Earlier Process Date

In some cases, a school may have a SAR/ISIR with an official EFC processed while the student was enrolled but before the student listed the school on the FAFSA or ISIR. Subsequently, the school may have received a SAR/ISIR for the student with a processed date after the student ceased to be eligible. In this case, you need to obtain a copy of the earlier SAR/ISIR to document eligibility for the late disbursement.

LATE DISBURSEMENTS

Generally, an otherwise eligible student or parent becomes ineligible to receive FSA funds on the date that the student

- for the Direct Loan program, is no longer enrolled at the school as at least a half-time student for the period of enrollment for which the loan was intended; or
- for the FSA Grant, or the Perkins Loan programs, the student is no longer enrolled at the school for the award year.

However, if certain conditions are met, students must be considered for a disbursement after the date they became ineligible. These disbursements are called "late disbursements."

Conditions for a late disbursement

A student must be considered for a late disbursement (and the parent for a parent PLUS Loan disbursement) if the Department processed a SAR/ISIR with an official EFC before the student became ineligible. Therefore, a school must review its records to see if a student who did not receive a disbursement of FSA funds before becoming ineligible is eligible for a late disbursement. (Check the "processed date" as described in the sidebar.)

In addition, for a Direct Loan or an award under the TEACH Grant Program, the school originated the loan or award prior to the date the student became ineligible (see sidebar). For an FSEOG or a Federal Perkins Loan, the school must have made the award to the student prior to the date the student became ineligible.

If a school receives a valid SAR/ISIR for a student who is no longer enrolled, before performing a Return calculation, the school must recalculate the FSA grant eligibility based on the student's enrollment status on the date the student ceased to be enrolled.

Late disbursements that must be made vs. late disbursements that may be made

If a student who qualifies for a late disbursement completes the payment period or period of enrollment, or withdraws during the payment period or period of enrollment, a school **must** make or offer, as appropriate, the late disbursement.

If the student completed the payment period or period of enrollment, the school must provide the student or parent the choice to receive the amount of Title IV, HEA program funds that the student or parent was eligible to receive while the student was enrolled at the institution. When making a late disbursement in this circumstance, the school may credit the student's account for allowed charges, but must pay or offer any remaining amount to the student or parent.

A late disbursement for a student who has withdrawn during the payment period or period of enrollment is called a post-withdrawal disbursement (see *Volume 5*). If the student withdrew from the school during a payment period or period of enrollment, the school must make any post-withdrawal disbursement required under 34 CFR 668.22 in accordance with the provisions of that regulation (see *Volume 5*).

If a student did not withdraw or fail to complete the payment period or period of enrollment but ceased to be enrolled as at least a half-time student, a school **may** make a late disbursement of a Direct Loan. So long as a school has previously confirmed that a student started the loan period enrolled at least half time, a school is not required to reconfirm a student's attendance before making a late disbursement of an FSA loan.

A student who withdraws and subsequently signs a promissory note in time for the school to include the loan funds in the Return of Title IV Aid calculation may receive a late (post-withdrawal) disbursement of the applicable amount of his or her loan funds (see *Volume 5* for more information). In addition, a student who loses eligibility for a reason other than his or her withdrawal and subsequently signs a promissory note may receive a late disbursement of the applicable amount of his or her loan funds.

Post-withdrawal disbursements

A post-withdrawal disbursement, a type of late disbursement, is a disbursement of FSA funds that were not disbursed before a student withdrew but which the student has earned based on a Return of Title IV Funds calculation. The conditions and limitations for a post-withdrawal disbursement are the same as for all other late disbursements. However, there are additional requirements for late disbursements made as a post-withdrawal disbursements. A school must follow the rules for paying and/or offering a post-withdrawal disbursement in regulations governing the Return of Title IV Funds (see ***Volume 5)***.

34 CFR 668.22(a)(5)

Late Disbursements May Be Declined

Though a school must make or offer late disbursements, a student or parent is never required to accept it. For example, a student may decline a late disbursement of a loan to avoid taking on debt.

Late Disbursement Limitations
34 CFR 668.164(j)(4)

Flexibility in Contacting Students

In order to avoid having to contact a student multiple times, a school may use one contact to

- counsel a borrower about his or her loan repayment obligations;
- obtain permission to credit loan funds to a student's account to cover unpaid institutional charges;
- obtain permission to make a late disbursement of grant or loan funds for other than institutional charges;
- obtain permission to make a late disbursement of grant or loan funds directly to a student; and
- confirm that a student wishes the school to receive, as a direct disbursement, any grant or loan funds the student is due as a late disbursement.

A student's response to an offer of FSA funds from late disbursement does not have to be in writing. However, a school must document the student's response.

Extended DL Processing

Direct Loan processing for an award year generally remains open in COD for 13 months following the end of the award year (until July 31 of the year following the end of the award year). A school should be able to submit data via batch or web processing through that time unless it has already confirmed closeout for the impacted award year. If a school finds the year is closed in COD before the 13-month period is over, the school should contact COD School Relations for assistance in re-opening the award year.

Once the 13-month period is over and COD has closed the year, a school may request Extended Processing through the COD website at **https://cod.ed.gov.**

Toward the end of each award year the Department publishes an Electronic Announcement containing information on the closeout deadline and instructions on how schools can request Extended Processing for Direct Loans after the closeout deadline.

Limitations on making a late disbursement

The regulations prohibit a school from making a late disbursement in certain situations, **even if a student otherwise meets the conditions for a late disbursement. A school is prohibited from making**

- a late second or subsequent disbursement of Direct Loan funds unless the student has graduated or successfully completed the loan period;
- a late disbursement of Direct Loan funds to a first-year, first-time borrower who withdraws before the 30th day of the student's program of study, unless the school meets the requirements for a waiver based on low default rates (see *Volume 2*); and
- a late disbursement of Title IV funds to a student for whom the school did not have a valid SAR/ISIR by the deadline established by the Department.

In addition, a school may not make a late disbursement later than 180 days after the date the student becomes ineligible.

Paying a late disbursement

If a school chooses to make a late disbursement of a Direct Loan to a student who ceases to be enrolled as at least a half-time student, the school determines the amount of the late disbursement of the Direct Loan it will offer the student by determining the educational costs the student incurred for the period of instruction during which the student was enrolled at least half time.

A school must contact a student prior to making any late disbursement of FSA loan funds and explain to the student his or her obligation to repay the loan funds if they are disbursed. The information provided in this notification must include the information necessary for the student or parent to make an informed decision about whether the student or parent would like to accept any disbursement of the loan funds. In addition, the school must confirm that the loan funds are still needed by the student and that the student wishes the school to make the disbursement.

Clarification

Your school may credit a student's account with a late disbursement of FSA grant funds without the student's permission for

- current allowable charges;
- for prior-year charges of not more than $200 for tuition, fees, and room and board, provided by the school; and
- prior–year charges of not more than $200 for educationally related goods and services provided by the school, if the school obtains the student's or parent's authorization under §668.165(b) before the student lost eligibility.

If grant funds remain to be disbursed from a late disbursement after the outstanding charges on the student's account have been satisfied, **the school must pay the grant funds directly to the student within 14 days**.

If a student with an FSA credit balance withdraws before the funds are disbursed, other limitations apply. See *Volume 5* for an explanation of the treatment of Title IV credit balances when a student withdraws.

Extended Processing and late disbursements of Pell and Direct Loans for a closed year

Extended Processing or ***Post Deadline Processing*** allows a school to make needed adjustments that may be identified after the Closeout or Processing Deadline.

A School may request an extension to the data submission deadline for Direct Loans or Grants via the Post Deadline/Extended Processing Request page in COD.

Note: Schools do not need to request Post Deadline Processing for Pell Grants if they are processing only downward disbursement adjustments.

Authorized school users must log on to the website, select the "School" menu and then select "Request Post Deadline/Extended Processing" on the left side. Users then

- select the correct award year and program for the request;
- choose the general reason why extended processing is being requested from the Reason Code dropdown menu;
- provide an explanation for the request; and
- select "Submit."

In the information a school provides to the students when the school informs them that they are due a late disbursement, the school may include information about the advantages of keeping loan debt to a minimum.

Conditions and Limitations on Late Disbursements

These Conditions Must Be Met Before a Student Loses Eligibility in Order for the Student to Receive a Late Disbursement (34 CFR 668.164(g)(2))

Program		
Pell Grant [1]	For all programs, the Department processed a SAR/ISIR with an official EFC.	No additional requirements.
FSEOG		Student is awarded a grant.
Direct Loans		A loan record is originated.[2]
Perkins Loans		Student is awarded the loan.
TEACH Grants		The grant is originated.

These Additional Limitations Must Be Satisfied Before a School May Make a Late Disbursement (34 CFR 668.164(g)(4))[3]

Program	
Pell Grant[1]	For all Title IV programs, a school received a valid SAR/ISIR by the date established by the Department.
FSEOG	No additional limitations.
Direct Loans	1 For a first-time, first-year borrower, student completed 30 days of the program. (Subject to waivers discussed in ***Volume 3***.) 2 For a second disbursement, student graduated or completed the period for which the loan was intended.
Perkins Loans	No additional limitations.
TEACH Grants	School received a valid SAR/ISIR by the date established by the Department.

[1] Within this chart, the rules for a Pell Grant also apply to Iraq and Afghanistan Service Grants.

[2] A school may not originate a Direct Loan for a loan period in which the student is no longer enrolled on at least a half-time basis, even if the student is otherwise still enrolled at the school.

[3] For all programs, the late disbursement is made no later than 180 days after the date of the school's determination that the student withdrew, or, for a student who did not withdraw, 180 days after the student became ineligible.

DISBURSING FWS WAGES

Your school may use any type of payroll period it chooses, provided students are paid at least monthly. It is a good idea to have the FWS payroll correspond to other similar payrolls at the school. Unless you are paying the student with noncash contributions (see sidebar), you must pay the nonfederal share to the student at the same time you pay the federal share.

FWS wages are earned when the student performs the work. A school may pay the student after the last day of attendance for FWS wages earned while he or she was still in school. However, when a student has withdrawn from school and is not planning to return, FWS funds may not be used to pay for work performed after the student withdrew. A correspondence student must submit the first completed lesson before receiving a disbursement under the FWS Program.

For audit and program review purposes, your school must have documentation (e.g., canceled checks, bank statements) showing that students received disbursements in the amount charged to the FWS Program.

Crossover payment periods

When a payment period is in two award years (that is, when it begins before July 1 and ends on or after July 1), the student is paid for compensation earned through June 30 with funds allocated for the first award year and for compensation earned beginning July 1 with funds allocated for the following award year. (See *Volume 6* for a discussion of carrying back funds for summer employment.)

Disbursing to students from the correct award year is important; schools have been held liable when students were paid from the wrong FWS authorization.

Holding FWS funds on behalf of the student

With written authorization from a student, a school may hold, on behalf of the student, FWS funds that would otherwise be paid directly to the student (unless this is prohibited by the terms of a reimbursement payment method). The restrictions for such an authorization are the same as those that apply to written authorizations for disbursements to student accounts. If your school holds FWS funds on behalf of students, it must:

- identify the amount of FWS funds held for each student in a designated subsidiary ledger account;
- maintain cash in its bank account that is always at a minimum equal to the FWS funds being held for students; and
- disburse any remaining balance by the end of the school's final FWS payroll period for the award period.

FWS payments to students
34 CFR 675.16

Crediting student's account
34 CFR 668.164(d)

Noncash contribution

Your school also has the option of paying its share of a student's FWS wages in the form of a noncash contribution of services or equipment—for example, tuition and fees, room and board, and books and supplies. However, you may not count forgiveness of a charge such as a parking fine or library fine against a student who is employed under FWS as part of the school's noncash contribution to the student.

Noncash payments (tuition, fees, services or equipment) must be made before the student's final payroll period of the award period. If the school pays its share for a forthcoming academic period in the form of prepaid tuition, fees, services or equipment, it must give the student—again, before the end of the student's final payroll period—a statement of the amount of the noncash contribution earned.

Self-assessment tool for disbursement procedures

You can evaluate your school's disbursement procedures by referring to the "Fiscal Management Assessment" in the Schools section of the FSA Assessments at

ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html.

Method of disbursement

- Credit to student's account: 34 CFR 668.164(c)
- Direct disbursements: 34 CFR 668.164(d)
- Releasing a Pell check: 34 CFR 690.78(c)
- Cost of attendance: HEA Section 47

Tuition and fees

Section 472 of the HEA
34 CFR 668.164(d)

Crediting Direct Loan funds to current charges first

Direct Loan funds credited to a student's account must first be used to pay for current charges.

Disbursements in programs of less than one year where grades are not awarded

Before disbursing funds to students enrolled in programs equal to or less than one year in which students do not receive grades or credits until the end of the program, your school must have a satisfactory academic progress standard as described in *Volumes 1* and *2* of the *Federal Student Aid Handbook*, and you must:

- measure a student's standing vis-a-vis satisfactory academic progress by the time the student has completed one-half of the program (one payment period), if no grades are given for the first half /payment period, a comparable assessment must be made; and
- not make second disbursements of FSA funds to a student who is not making satisfactory academic progress, except that a student on probation or warning may receive a second disbursement if he or she has completed the clock hours or credit hours associated with the first period.

METHOD OF DISBURSEMENT

There are two ways to disburse FSA funds: by crediting the student's account for allowable charges at your school or by paying the student or parent directly.

Credit to the student's account

When a school disburses FSA funds to a student by crediting a student's account, it may do so only for allowable charges associated with the current payment period (except for the allowances for prior year, late, or retroactive disbursements discussed elsewhere in this chapter).

Allowable charges include the following:

- current charges incurred by the student at the school for tuition and fees as defined in *Volume 3*, and room and board if the student contracts with the school (third-party or pass-through charges are not included except in the case of third-party housing, books and supplies contracted by the school);
- the prorated amount of those charges if the institution debits the student's ledger account for more than the charges associated with the payment period.
- books, supplies, and other educationally related goods and services provided by the institution if you obtain the student's or parent's (as applicable) written authorization, ; and
- prior-year charges not exceeding $200.00 (see the discussion under *Paying prior-year charges* later in this chapter).

Direct disbursement to the student or parent

You may also disburse FSA funds directly to the student or parent. Most schools choose to first credit FSA funds to the student's account at the school and then disburse the credit balance to the student or parent.

A school makes a direct payment for the amount of the Title IV program funds a student is eligible to receive (including Direct PLUS Loan funds that the student's parent authorized the student to receive) by

- initiating an EFT of that amount to the student's financial account, including transferring funds to stored-value cards and debit cards (see the discussion under *Paying FSA Credit Balances* later in this chapter);
- issuing a check or other instrument payable to and requiring the endorsement or certification of the student;
- dispensing cash for which the school obtains a receipt signed by the student.

A school makes a direct payment to a parent, for the amount of the Direct PLUS Loan funds that a parent does not authorize the student to receive, by

- initiating an EFT of that amount to the parent's financial account;
- issuing a check for that amount payable to and requiring the endorsement of the parent; or
- dispensing cash for which the school obtains a receipt signed by the parent.

When the Department considers a check to have been issued

The Department considers that a school has issued a check on the date the school

- mails the check to the student or parent; or
- notifies the student or parent that the check is available for immediate pick-up at a specified location at the institution.

Holding a check

A school may hold the check for no longer than 21 days after the date the school notifies the student or parent. If the student or parent does not pick up the check, the school must immediately

- mail the check to the student or parent,
- pay the student or parent directly by other means, or
- return the funds to the appropriate Title IV, HEA program.

34 CFR 668.164 (d)(2)

FSA CREDIT BALANCES

Credit balances
34 CFR 668.164((h)(1)

School responsibility to pay credit balance in time frame
34 CFR 668.164(h)(2)

School responsibility to pay credit balance by the end of the last payment period

34 CFR 668.165(b)(5)(iii)

A Title IV credit balances occurs whenever the amount of Title IV funds credited to a student's account for a payment period exceeds the amount assessed the student for allowable charges associated with that payment period. Please see *Volume 5* for a discussion of credit balances when a student withdraws.

If FSA disbursements to the student's account at the school create an FSA credit balance, you must pay the credit balance directly to the student or parent as soon as possible but no later than 14 days after

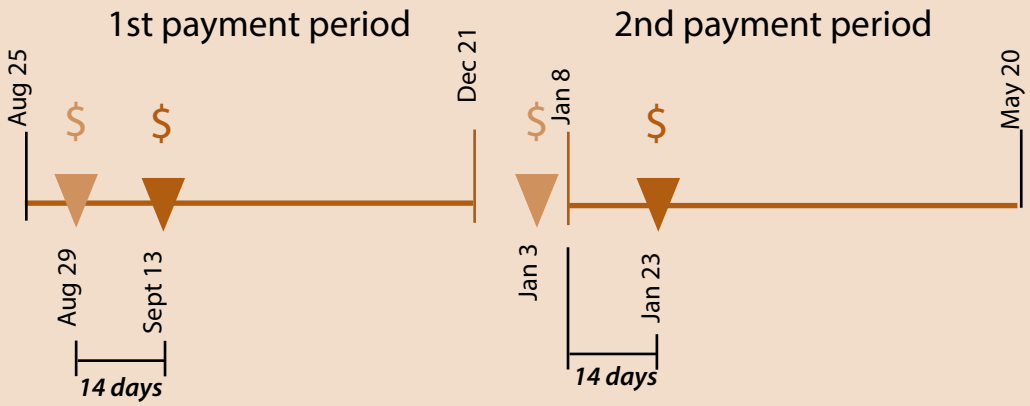
- the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period;
- the balance occurred if the credit balance occurred after the first day of class of a payment period.

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if PLUS Loan funds create a credit balance, the credit balance would have to be given to the parent. However, the parent may authorize your school (in writing or through **StudentLoans.gov**) to transfer the proceeds of a PLUS Loan credit balance directly to the student for whom the loan is made (for example, to a bank account in the student's name). The Department does not specify how a school must determine which FSA funds create an FSA credit balance.

A school may not require a student to take any actions to obtain his or her credit balance. It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory time frames.

Notwithstanding any authorization obtained by the school, the school must provide the student with any remaining FSA credit balance resulting from FSA loan funds by the end of the loan period and any other FSA program credit balances by the end of the last payment period in the award year for which the funds were awarded.

Example — 14-Day Time Frame for Paying Credit Balances



In the first payment period above, the school disburses FSA funds to incoming students after the students have started classes, so it has 14 days from that date to pay the credit balance to the student (or parent, in the case of PLUS).

In the second payment period, the school disburses FSA funds before classes start, so the school has 14 days ***from the beginning of classes*** to pay the credit balance.

FSA credit balances example

An FSA credit balance occurs only if the total amount of FSA program funds credited to the student's account exceeds allowable charges.

For example, Ms. Inu Nagar enrolls at Eaglewood Technical Institute as a computer student, and her total allowable charges for the fall term amount to $1,500. ETI credits $2,000 to her account, **comprised of** $1,000 in FSEOG, $500 in private scholarship funds, and $500 in Pell Grant funds.

Although there is an excess of $500 on the account, this does not constitute an FSA credit balance because the total amount of FSA funds ($1,500) credited to the student's account does not by itself exceed the amount of allowable charges ($1,500).

If, in this example, ETI credited $600 of Pell Grant funds, rather than $500, an FSA credit balance of $100 would be created because the total FSA funds credited to the account ($1,600) would exceed the allowable charges ($1,500). The order in which these funds were credited does not matter.

PAYING FSA CREDIT BALANCES

Refunds vs. paying credit balances

FSA regulations refer to the amount of aid that exceeds the allowable charges as a credit balance. School administrators sometimes refer to this as a refund; however, it is not the same thing as a refund under the school's refund policy or a post-withdrawal disbursement given to a student under the Return of Title IV Funds rules.

Credit balances under $1.00

A school is not required to pay a credit balance that is less than $1.00.

Paying credit balance by check

34 CFR 668.164(d)(1)(i)(b)&(ii)(b)

Paying credit balance by EFT

34 CFR 668.164(d)(1)(i)(A) & (ii)(A)

Delivery of FSA Funds Must Be Free

Schools are prohibited from charging students a fee for delivering FSA funds. If a school delivers FSA funds to students by crediting funds to a school-issued debit or smart card, the school may not charge students a fee for making withdrawals of FSA funds from that card. However, the school may charge for a replacement card.

See the discussion under the treatment of T1 and T2 Accounts later in this chapter for a discussion of charges allowed under those accounts.

Bank Account

Bank Account means a Federal Deposit Insurance Corporation (FDIC) insured account or a National Credit Union Share Insurance Fund (NCUSIF) account. This account may be a checking, savings, or similar account that underlies a stored-value card or other transaction device.

Paying FSA credit balances by issuing a check

A school may pay a credit balance by issuing a check payable to and requiring the endorsement of the student or parent. A school is considered to have issued the check on the date that it

- mails the check to the student or parent; or
- notifies the student that the check is available for immediate pickup and provides the specific location.

A school that is paying a student his or her credit balance with a direct disbursement must pay the student within the 14-day time frame. A school can, within that 14-day period, do a number of things, including sending a notice to the student that his or her money is available. A school that does that is considered to have met the 14-day requirement to give the student his or her credit balance, as long as the school's process complies with the rest of the regulation. That is, **the school must be able to give the student a check when the student comes to the office within the 14-day time frame.**

If a student is told (within the 14-day period) to come to the business office to pick up his or her credit balance, the student must be able to leave the business office with the funds in some form (e.g., a check, cash, or an appropriate stored-value card), and not be told that a check will be mailed to him or her.

A school may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student's or parent's bank account, or return the funds to the appropriate FSA program.

Paying FSA credit balances by initiating an EFT

A school may pay a credit balance by initiating an EFT to a bank account designated by the student or parent. Moreover, a school may establish a policy requiring its students to provide information about an existing bank account or open an account at a bank of the student's choosing as long as this policy does not delay the disbursement of FSA funds to students. Consequently, **if a student does not comply with the school's policy, the school must nevertheless disburse the funds to the student either by dispensing cash, for which the school obtains a signed receipt, or issuing a check. A school must disburse the credit balance within the regulatory time frame.** (See the discussion under *When a school uses third-party servicers to disburse FSA funds by EFT* later in this chapter for additional information.)

Special provisions for books and supplies

In order to academically succeed in a program, a student must be able to purchase books and supplies at the beginning of the academic period. Therefore, by the seventh day of a payment period, a school must provide a way for a student who is eligible for FSA funds to obtain or purchase the books and supplies required for the payment period if

- ten days before the beginning of the payment period, the school could have disbursed FSA funds to the student; and
- disbursement of those funds would have created an FSA credit balance.

A school must consider all the FSA funds a student is eligible to receive at the time it makes the determination, but the school need not consider aid from non FSA sources.

A school that includes the costs of books and supplies in the tuition charged and provides all of those materials to the student at the start of his or her classes meets the requirements of these regulations.

The amount a school must provide is the lesser of the presumed credit balance or the amount determined by the school that the student needs to obtain the books and supplies. In determining the required amount, a school may use the actual costs of books and supplies or the allowance for those materials used in estimating the student's cost of attendance for the period.

A school's policy must allow a student to decline to participate in the process the school provides for the student to obtain or purchase books and supplies.

If a student uses the method provided by the school to obtain or purchase books and supplies, the student is considered to have authorized the use of FSA funds, and the school does not need to obtain a written authorization for this purpose.

If a school uses a bank-issued stored-value or prepaid debit card that is supported by a federally insured bank account to deliver funds for books and supplies, a student must have access to the funds via the card by the seventh day of his or her payment period. If a bank delays issuing a stored-value or prepaid debit card to the student because it must resolve conflicting identity data under federal law, the Department will not hold the institution accountable as long as the institution exercises reasonable care and diligence in providing in a timely manner any identity information about the student to the bank. Likewise, the school is not responsible if the student provides inaccurate information or delays in responding to a request from the bank to resolve any discrepancies.

Provisions for books and supplies

34 CFR 668.164(m)

Authorization not required

If a Pell-eligible student uses the process provided by the school to obtain books or supplies, the student is considered to have authorized the use of the FSA funds, and no written authorization is required.

School options

A school has the flexibility to choose the method or methods to satisfy this provision based on its administrative needs and constraints or an evaluation of the costs and benefits of one or more method. For example, the school may issue a bookstore voucher, make a cash disbursement, issue a stored-value card, or otherwise extend credit to students to make needed purchases.

Effect of Verification

To be eligible to receive the disbursement for books and supplies, a student must meet all the student eligibility requirements before the start of the student's payment period.

A student who has not completed the verification process, has an unresolved "C" code on the SAR and ISIR, or has unresolved conflicting information is not covered by the special provisions for books and supplies if those issues have not been resolved at least 10 days before the start of the student's payment period.

Clarification

30-day Delay Requirement

If the 30-day delayed disbursement provisions for Direct Loans apply to a student, and a Direct Loan is the only Title IV aid the student is receiving, a school does not have to comply with the provisions of 34 CFR 668.164(m).

Book vouchers and institutional charges in the return of Title IV funds calculations

Remember, if a book voucher issued by a school cannot be used to purchase course materials from a **convenient unaffiliated source,** the student does not have a **real and reasonable opportunity** to purchase his or her course materials elsewhere.

In that case, the school must include the cost of books and materials purchased with the voucher as institutional charges in Step 5, Part L of any Return of Title IV funds calculation.

Under a consortium agreement between two eligible schools, if a student is enrolled in a course at the host school and classes start before the payment period begins at the home school that is paying the FSA funds, the regulations require that the student obtain the books and supplies by the seventh day of the start of the payment period of the home school. If the host school is paying the FSA funds, the student must be able to obtain the books and supplies by the seventh day of the start of the payment period of the host school.

A student may decline to participate (opt out) in the way a school provides for obtaining books and supplies. For instance, if a school provides a bookstore voucher, the student may opt out by not using the voucher. If the school provides the funds using a stored-value or prepaid debit card, the school must have a procedure through which the student may opt out. For example, a school may require a student to notify the school by a certain date so that the school does not unnecessarily issue a check to the student or transfer funds to the student's bank account. If a student opts out, the school may, but is not required to, offer the student another way to purchase books and supplies as long as it does not otherwise delay providing funds to the student as a credit balance.

A school is required to provide, in its financial aid information and its notifications provided to students receiving FSA funds, information on the way the school provides for Federal Pell Grant eligible students to obtain or purchase required books and supplies by the seventh day of a payment period under certain conditions and how the student may opt out. The information must indicate whether the school will enter a charge on the student's account at the school for books and supplies or pay funds to the student directly. Also, during the aid counseling process, the school must explain to a student who qualifies for the funds advanced to purchase books and supplies how the method is handled at the school and how a student may opt out.

TIME FRAME FOR RETURNING AN UNCLAIMED TITLE IV CREDIT BALANCE

Returning Funds
34 CFR 668.164(l)

FSA funds may not escheat to a state or any other third party. (See *Chapter 2* for additional information on escheating.)

A school must return to the Department any Title IV funds, except FWS program funds, that it attempts to disburse directly to a student or parent that are not received by the student or parent. For FWS program funds, a school is required to return only the federal portion of the payroll disbursement.

How to recognize TEACH Grants that have converted to Direct Unsubsidized Loans

TEACH Grants converted to Direct Loans loans in NSLDS will have a loan type code of D8 - Direct Unsubsidized (TEACH). On ISIRS, the "Financial Aid History" page has a TEACH Grant Loan Conversion Flag that populates with a "Y" for Yes or "N" for No.

If an EFT to a student's or parent's financial account is rejected, or a check to a student or parent is returned, a school may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the EFT was rejected or the check returned. In cases where the school does not make another attempt, the funds must be returned to the Department before the end of this 45-day period.

The school must cease all attempts to disburse the funds and return them no later than 240 days* after the date it issued the first check. All unclaimed credit balances must be returned. There is no *de minimis* amount.

The order in which Title IV funds must be returned

- Unsubsidized Direct Loans (other than Direct PLUS Loans), including a loan created because a TEACH Grant recipient failed to provide the confirmation required under 34 CFR 686.40(a), 120 days after ceasing enrollment
- Subsidized Direct Loans
- Federal Perkins Loans
- Direct PLUS Loans
- Federal Pell Grants
- FSEOG Grants
- TEACH Grants
- Iraq and Afghanistan Service Grants

Clarification

When A School Must Return a Title IV Credit Balance After 240 Days

Because the regulations allow schools up to 240 days to deliver a Title IV Credit Balance to a student who left school before receiving the credit balance, a school might find that it is holding Title IV funds that belong to a student the school cannot locate. When that happens, the school should return the Title IV funds in the same order the school would use if the school had to return funds because the student withdrew before the 60% point in the payment period or period of enrollment (See sidebar for the order of return).

Direct Loans—The school must complete two separate procedures

1. The school must return the funds through G5.
2. The return must be offset by a downward reduction in student's Direct Loan record in COD.

   When the school reduces the student's Direct Loan actual disbursement amounts in COD, the information is transmitted to the student's loan servicer and results in a reduction of the outstanding principal balance on the student's loan.

Perkins Loans—The school must

- reimburse its Perkins Loan fund;
- report those funds as income in Part III, Section A of the FISAP; and
- reduce the student's Perkins Loan balance, and make an accounting entry that ties the reduction to the journal entry for the reimbursement of its Perkins Loan fund.

The school should not make any changes to the student's Perkins promissory note.

Pell Grants, TEACH Grants, and ***Iraq and Afghanistan Service Grants***—The school must complete two separate procedures

1. The school must return the funds through G5.
2. The return must be offset by a downward reduction in student's Pell or Iraq and Afghanistan Service Grant award in COD.

Supplemental Educational Opportunity Grants—If the award year has not changed, the school can immediately award the funds to another eligible student. If the award year has changed **and** the school has not already carried forward the maximum 10% allowable, the school may carry the funds forward to the current year and award them to another eligible student. Note that the school will have to amend Part IV, Sections B-E and Part VI of the FISAP to reflect the amount being carried forward.

If the FSEOG funds cannot be carried forward to the next award year the school must return them to the correct award year through G5, and amend Part IV, Sections C-E and Part VI of the FISAP.

Prohibited Behavior

A school may not suggest or require that all students, or all of a specific group of students (e.g., all those in the final term or payment period of a program, as applicable) allow the school to hold a Title IV credit balance for unanticipated expenses that do not currently appear on the student's account and are not part of the charges normally assessed to those enrolled in the student's program of study.

Title IV funds are provided to a student to pay current charges (charges for the payment period or period of enrollment), not charges that might or might not accrue to the student at some undefined "later time." Moreover, Title IV credit balances must be available for students to use to pay non-institutional charges such as off-campus housing or transportation for the current period.

In addition, the requirement under 34 CFR 165(b)(5)(iii) that Title IV loan funds be disbursed by the end of the loan period means that those funds may not be held in anticipation of charges that might be posted to a student's account after the end of a loan period.

During a program review or federal audit, the Department will review authorizations to hold credit balances, and note patterns that suggest a school is pressuring students to allow the school to hold credit balances and then using those credit balances to pay charges for periods that begin after the end of the loan period or last payment period in the award year as applicable.

34 CFR 165(b)(5)(iii)
34 CFR 668.165(b)(2)(i)

HOLDING FSA CREDIT BALANCES

A school is permitted to hold credit balances if it obtains a voluntary authorization from the student (or parent, in the case of PLUS). If your school has the authorization to hold the credit balance, it must identify the amount of funds that it holds for the student or parent in a subsidiary ledger account designated for that purpose. Your school also must maintain, at all times, cash in its bank account at least equal to the amount that it holds for students. The school is permitted to retain any interest earned on the student's credit balance funds.

Because FSA funds are awarded to students to pay current year charges, notwithstanding any authorization from the student or parent, you must pay

- any remaining balance on FSA loan funds by the end of the loan period, and
- any other remaining FSA program funds by the end of the last payment period in the award year for which they were awarded.

If your school has lost contact with a student who is due a credit balance, you must use all reasonable means to locate the student. If you still cannot find the student, your school must return the credit balance to the appropriate FSA program(s) and/or lender. The FSA regulations do not set specific rules for determining which funds created a credit balance. However, we encourage schools to return FSA funds to loan programs first to reduce the borrower's loan balance. For more information on holding a credit balance, see the discussion under *Authorizations* earlier in this chapter and the sample authorization on the next page.

Note: Under the Reimbursement and Heightened Cash Management payment methods a school must credit a student's ledger account for the amount of Title IV funds the student or parent is eligible to receive, and pay the amount of any credit balance due, before the school submits a request for funds. Therefore, schools on the Reimbursement and Heightened Cash Management payment methods are prohibited from obtaining authorizations to hold credit balances and from holding credit balances.

Authorization to hold an FSA credit balance

All elements of an authorization to hold an FSA credit balance must be conspicuous. An authorization must include the following elements:

- An authorization must explain what FSA funds are covered by the document, and it must specify the time period covered.
- An authorization must clearly provide the student or parent with the information he or she needs to make an informed decision.
- The student or parent must be informed that he or she may refuse to authorize any individual item, that he or she may cancel such authorization at any time, and that a cancellation is not retroactive.
- A credit-balance authorization must provide detail that is sufficient to give the student or parent an idea of how the credit balance will be used.

Schools on Reimbursement and Heightened Cash Management are Prohibited from Holding Credit Balances

The regulations (34 CFR 668.162(c) & (d)) require a school on Reimbursement or Heightened Cash Management to credit a student's ledger account for the amount of Title IV funds the student or parent is eligible to receive, and **pay** the amount of any credit balance due under 34 CFR 668.164(h), before the school submits a request for those funds.

A requirement to pay students their credit balances prohibits a school from holding the funds. Since holding the funds is prohibited, obtaining an authorization do so is also prohibited.

Sample Authorization to Hold an FSA Credit Balance

TRISKAIDEKA MARLEY UNIVERSITY
AUTHORIZATION TO HOLD A FEDERAL STUDENT AID CREDIT BALANCE

Through this document, you will tell Triskaideka Marley University (TKMU/the University) how you would like the school to manage the FSA credit balance on your student account.

An FSA credit balance is created when the total of all FSA funds credited to a student's account exceeds the total of tuition, fees, room, board, and other eligible educational charges on a student's account. Your FSA credit balance of $2,500 was created by funds from the Federal Pell Grant and Federal Direct Loan Programs.

Unless a student or parent (in the case of a Parent PLUS loan) authorizes a school to hold a credit balance, the credit balance must be paid to the student or parent as soon as possible but no later than 14 calendar days after the balance is created (or 14 calendar days after the first day of class if the credit balance was created before the first day of class).

This form, if signed by you, authorizes TKMU to retain an FSA credit balance and pay it to you (the student or parent, as applicable) in accordance with *TKMU'S Procedure for Paying Federal Student Aid Credit Balances*. TKMU will pay credit balances by depositing the funds in a savings or checking account designated by the student or parent or transferring the funds to a "stored-value" or "debit card" designated by the student or parent.

A student or parent has the right to withhold agreement from all or part of this authorization. If you elect not to authorize the University to hold your FSA credit balance, the funds will be paid to you (the student or parent as applicable) within the 14-day period noted above. Note that if you elect not to sign this form or if you later cancel your authorization, you will be required to pay any outstanding charges to the University.

This authorization will remain in effect for each subsequent payment period unless you withdraw it. However, in no case will TKMU hold an FSA credit balance of loan funds beyond the end of the loan period, nor an FSA credit balance of other funds beyond the end of the last payment period in the award year for which the funds were awarded.

This authorization may be withdrawn at any time by providing a written request to the following address:

TKMU Financial Aid Office
Director of Financial Aid
1300 Ted Drive, Suite 1313
Pixie, CA 13013

If you withdraw your authorization, the University will deliver any remaining credit balance to you within 14 days. (Note that your cancellation is not retroactive.)

Authorization

I voluntarily authorize the University to hold and manage my FSA credit balance as described above, and I acknowledge that interest will not be earned on these balances.

_____ Signature

_____ Date

WHEN A SCHOOL USES THIRD-PARTY SERVICERS TO DISBURSE TITLE IV CREDIT BALANCES BY EFT

In response to current trends, banks and financial service companies are now offering services that include the following:

- obtaining a student's authorization to perform electronic transfers;
- transferring Title IV funds electronically to a student's bank account;
- opening a bank account for the student; and
- issuing debit cards in conjunction with a participating bank.

Companies that contract with schools to provide these types of services in most instances become third-party servicers.

So long as a school cannot recall or receive a payment from a student or parent account, the Department considers the electronic transfer of funds to a bank account that a servicer opens on behalf of a student to be the equivalent of a school's transfer of funds to a student's account and the equivalent of making a direct payment to a student.

A school that enters into a contract with a servicer to provide debit, demand, or smart cards through which FSA credit balances are paid to students must have a system to ensure compliance with all regulatory time frames, including students having access to any credit balance within the 14 days and to any FWS wages at least once per month.

Please see the discussion earlier in this chapter under *Conditions under which a third-party servicer is responsible for confirming a student's eligibility* for additional information about the responsibilities of third-party servicers

Schools Must Notify the Department About their Relationships with Third-Party Servicers

Schools are required to notify the Department of all third-party servicer contracts—including a servicer that participates in any way in establishing or maintaining accounts into which Title IV credit balances are deposited.

If a school has submitted information regarding its third-party servicers as part of applying for certification or recertification, no additional submission is required.

A school notifies the Department by updating Section J of the E-App within 10 days of the date of the change or action. This notification must include the name and address of the servicer and the nature of the change or action.

The school must notify the Department within 10 days of any of the following changes to servicer arrangements:

• The school enters into a contract with a new third-party servicer.

• The school significantly modifies a contract with an existing third- party servicer.

• The school or one of its third-party servicers terminates a contract.

• A third-party servicer ceases to provide contracted services, goes out of business, or files for bankruptcy.

A school is only required to submit a copy of its contract with a third- party servicer if the Department requests it. A school is not required to submit the contract as part of the recertification process. (See *Volume 1* for more information about contracts with third-party servicers.)

Third-party Servicer Agreements

A third-party servicer is an entity that contracts with a school to administer any aspect of its FSA programs, including managing the school's Perkins Loan collections. Thus, if a school contracts with a company to perform activities that are the school's responsibilities under the FSA regulations, the company is a third-party servicer.

The agreement between the school and servicer must be in the form of a written contract that may or may not require compensation to the third-party servicer. The contract between the institution and the third-party servicer must provide that the third-party servicer agrees to the following:

- comply with all the Title IV provisions (this includes those that refer solely to institutions as well as those that explicitly reference third-party servicers);
- be jointly and severally liable with the institution for any violation by the third-party servicer of any Title IV, HEA provision;
- use any Title IV funds (and any interest or earnings on them) solely for the purposes specified in and in accordance with the applicable program regulations;
- refer any reasonable suspicion of fraudulent or criminal conduct in the Title IV programs by the institution or by an applicant or student to the Department's Inspector General;
- return to the institution all Title IV, HEA program funds and records related to the servicer's administration in the Title IV, HEA programs if the contract is terminated, if the servicer ceases to perform any functions prescribed under the contract, or if the servicer files for bankruptcy;
- annually submit a compliance audit as provided at 34 CFR 668.23. For a servicer that contracts with several participating institutions, a single compliance audit can be performed that covers its administrative services for all those institutions. Additional information regarding these requirements can be found at the Department's Inspector General's website at:

  www2.ed.gov/about/offices/list/oig/nonfed/sfa.html

34 CFR 668.25
34 CFR 668.23(a)(3) & (c)
DCL GEN-12-08
34 CFR 99.31(a)(1)(i)(B)
34 CFR 668.2
DCL GEN 15-01

Note: For more information about activities that would define a third-party servicers see *Volume 1*, 34 CFR 668.2 and DCL GEN 15-01.

Schools must provide students a choice of the way they receive Title IV credit balances

NEW

A school located in a state that makes direct payments to students by EFT that enters into an arrangement described later in this chapter under ***Tier One*** (T1) ***and Tier Two*** (T2)***Arrangements*** including an institution that uses a third-party servicer to make those payments, must establish a **selection process** under which students choose one of several options for receiving those payments.

In all cases student consent must be obtained in writing (including electronically) and schools must retain copies of that consent.

A school's selection process must

1. inform students in writing that they are not required to open or obtain a financial account or access device offered by or through a specific financial institution in order to receive their Title IV credit balances;
2. ensure that student options for receiving direct payments are described and presented in a clear, fact-based, and neutral manner;
3. ensure that initiating direct payments by EFT to a students' existing financial accounts is as timely and no more onerous to students as initiating an EFT to accounts provided under Tier One and Tier Two Arrangements;
4. allow students, at any time, to change their previously selected payment options, as long as students provide the school with written notice of the change within a reasonable time;
5. ensure that no account option is preselected; and
6. ensure that students who do not make an affirmative selection are paid the full amount of their credit balance within the time-frame specified in the appropriate regulations.

Student Choice
34 CFR 668.164 (d)

"Located in a State" Defined

State A State of the Union, American Samoa, the Commonwealth of Puerto Rico, the District of Columbia, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau. The latter three are also known as the Freely Associated States. An institution is physically located in a state if it has a campus or other instructional site in that state.

Clarification

Exception to Selection Process

A school that does not offer or use any financial accounts under Tier One or Tier Two Arrangements may make direct payments to a student's or parent's existing financial account, or issue a check or disburse cash to the student or parent without establishing this selection process.

NEW

In describing the options under its selection process, a school

- must present prominently as the first option, a financial account belonging to the student;
- must list and identify the major features and commonly assessed fees associated with each financial account offered under Tier One and Tier Two arrangements
- must provide a URL on which the terms and conditions associated with each account are provided;

TIP

The Department will consult with the Bureau of Consumer Financial Protection and publish in a future Federal Register standards for the format, content, and update requirements regarding the major features and assessed fees associated with these accounts. If, by July 1, 2017, a school is in compliance with those standards, it will satisfy the Department's requirements with respect to describing the major features and assessed fees associated with the accounts.

- May provide, for the benefit of the student, information about available financial accounts (other than those provided in Tier One and Tier Two arrangements) that are checking, savings, or similar accounts insured by the Federal Deposit Insurance Corporation (FDIC) accounts or National Credit Union Share Insurance Fund (NCUSIF).

Why the Department Distinguished Between Financial Institutions and Third-Party Servicers that Process Direct Payments

Financial entities and third-party servicers face divergent monetary incentives. Banks and credit unions have incentives to create long-term relationships with college students because such providers are working to establish relationships (and resultant revenue) that will go on long after the student has left the school. Other types of entities—third-party servicers in particular—are more likely to seek to partner with schools to provide fee-based services to both the schools and the students.

A third-party servicer's relationship with a student typically ends once the student is no longer enrolled, and the nature of this short-term interaction creates an incentive to increase fee revenue over what traditional banks might charge. In addition, third-party servicers have privileged access to systems and data that more traditional banks not serving as third-party servicers do not. As a result, these third-party servicers have been able to brand or market access devices in ways that may (1) confuse students into assuming the device is required as part of enrollment, (2) can prioritize electronic delivery of credit balances to a preferred account before a preexisting bank account, and (3) access personal student information for targeted marketing purposes.

Multiple independent agencies (Consumers Union, GAO, USPIRG, ED's OIG, FDIC etc.) have found that students in relationships with third-party servicers that provide direct payments to students often face higher costs, deceptive business practices, and misleading direct marketing.

Finally, the requirements described under Tier One and Tier Two Arrangements do not apply to accounts only incidentally offered to students. These requirements apply to schools, third-party servicers, and the arrangements those entities voluntarily enter into that impact the delivery of Title IV funds.

TIER ONE AND TIER TWO ARRANGEMENTS

Introduction

NEW

In 2009, due largely to concerns raised by consumer advocates and students related to the marketing practices and financial incentives contained in contractual relationships between institutions and credit card providers, Congress passed, and the President signed, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act). The CARD Act made a number of significant changes to the consumer protections available to college students by authorizing new rules to restrict credit card marketing practices on campus, impose transparency requirements, ban "free" gifts for signing up for an account, and require consumers under the age of 21 to show ability to pay or get a cosigner in order to get a credit card.

On October 30, 2015, the Department published regulations that build upon the protections extended to students under the CARD Act. The new regulations identify two types of agreements between schools and financial services providers—Tier 1 and Tier 2 Arrangements.

Tier 1 arrangements

A Tier 1 (T1) Arrangement is one in which a school located in a state contracts with a third-party servicer to perform one or more of the functions associated with processing direct payments of Title IV funds on behalf of the school, and the school, or third-party servicer makes payments to one of the following:

- One or more financial accounts that are offered to students under the contract
- A financial account where information about the account is communicated directly to students by the third-party servicer, or the school on behalf of or together with the third-party servicer
- A financial account where information about the account is communicated directly to students by an entity contracted with or affiliated with the third-party servicer.

Examples of functions associated with processing direct payments of Title IV funds on behalf of the school include: receiving Title IV funds; posting Title IV funds to student accounts; calculating a student's Title IV credit balance; processing documents for direct payment to students; and disbursing or delivering FSA funds.

Definitions

Access Device means a card, code, or other means of access to a financial account, or any combination thereof, that may be used by a student to initiate electronic fund transfers.

Depository Account means an account at a depository institution described in 12 U.S.C. 461(b)(1)(A), or an account maintained by a foreign institution at a comparable depository institution that meets the requirements of 34 CFR 668.163(a)(1).

EFT (Electronic Funds Transfer) means a transaction initiated electronically instructing the crediting or debiting of a financial account, or an institution's depository account. For purposes of transactions initiated by the Department, the term "EFT" includes all transactions covered by 31 CFR 208.2(f). For purposes of transactions initiated by or on behalf of an institution, the term "EFT" includes, from among the transactions covered by 31 CFR 208.2(f), only Automated Clearinghouse transactions.

Financial Account means a student's or parent's checking or savings account, prepaid card account, or other consumer asset account held directly or indirectly by a financial institution.

Financial institution means a bank, savings association, credit union, or any other person or entity that directly or indirectly holds a financial account belonging to a student, issues to a student an access device associated with a financial account, and agrees with the student to provide EFT services.

Parent means the parent borrower of a Direct PLUS Loan.

Student Ledger Account means a bookkeeping account maintained by an institution to record the financial transactions pertaining to a student's enrollment at the institution.

All T1 and T2 Accounts must satisfy the regulations governing federal government participation in the Automated Clearing House (ACH)

34 CFR 668.164(g)

All T1 and T2 accounts opened through outreach to a school's students and made through ACH credit of Title IV funds are federal payments and as such must be deposited into an account at a financial institution.

The accounts at the financial institution must be in the name of the student.

All payments of Title IV funds deposited to an account that students will access through a prepaid card must

- be held at a financial institution;
- must meet the requirements for pass-through deposit or share insurance such that the funds accessible through the card are insured for the benefit of the recipient by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund in accordance with applicable law; and
- NOT be attached to a line of credit or loan agreement under which repayment from the account is triggered upon delivery of the Title IV payments.

In addition, the financial institution issuing the card must provide the holder of the card with all of the consumer protections, and must comply with all of the requirements that apply to a payroll card account under the rules implementing the Electronic Fund Transfer Act, as amended.

31 CFR 210.5(a) and (b)(5)

Privacy and security in T1 accounts

The Gramm-Leach-Bliley (GLB) Act requires that schools have in place an information security program that ensures the security and confidentiality of customer information, protects against anticipated threats to the security or integrity of such information, and guards against the unauthorized access to or use of such information. (For information on the GLB Act, see *Volume 2.*).

NEW

Schools that participate in T1 Arrangements must ensure that students actively consent to participate in any account offered under that T1 Arrangement and that, in obtaining students' consent, schools must satisfy the standards presented earlier in this chapter under *Schools must provide students a choice.* We remind schools that informing students of the terms and conditions of the each financial account offered are part of that process.

A school must ensure that it obtains a student's consent to open an account under a T1 Arrangement, before an access device, or a representation of an access device, is sent to the student. However, a school may send a student an access device that is a card provided to the student for school activities, such as a student ID card, so long as the school or financial institution obtains the student's consent before validating the access device for use by the student in relation to the financial account.

Before a student selects the way he or she will receive direct payments from a school, the school is prohibited from sharing any personally identifiable information (PII) about a student with a third-party servicer or financial institution except

- directory information;
- a unique student identifier generated by the school that does not include a Social Security number, in whole or in part;
- the disbursement amount;
- a password, PIN code, or other shared secret provided by the school that is used to identify the student; and
- any additional items specified by the Department in a notice published in the Federal Register.

Schools, third-party servicers and financial institutions are jointly responsible for ensuring that any personally identifiable information about students is used solely for activities that support making direct payments to the student and not for direct marketing or any other purpose; and is not shared with any other affiliate or entity except for purposes of making direct payments of Title IV, HEA program funds.

Disclosure Requirements Associated with Tier One Arrangements

No later than September 1, 2016, and thereafter no later than 60 days following the most recently completed award year, a school that offers accounts under T1 Arrangements, must disclose conspicuously on the school's website (and in a format established by the Department) the contract(s) establishing the T1 Arrangement between the school and third-party servicer or financial institution acting on behalf of the third-party servicer, as applicable, except for any portions that, if disclosed, would compromise personal privacy, proprietary information technology, or the security of information technology of physical facilities.

No later than September 1, 2017, and thereafter no later than 60 days following the most recently completed award year, disclose conspicuously on the school's website and in a format established by the Department

- the total consideration for the most recently completed award year, monetary and non-monetary, paid or received by the parties under the terms of the contract and contract data; and
- for any year in which the institution's enrolled students open 30 or more financial accounts under the T1 Arrangement, the number of students who had financial accounts under the contract at any time during the most recently completed award year, and the mean and median of the actual costs incurred by those account holders.

Student access to and costs for T1 accounts NEW

Schools located in a state must ensure that students who choose to participate in accounts offered under T1 Arrangements

1. have convenient access to the funds in the financial account through a surcharge-free national or regional Automated Teller Machine (ATM) network that has ATMs sufficient in number and housed and serviced in a way that guarantees that Title IV funds are reasonably available to students, including at the times the school or its third-party servicer makes direct payments into the financial accounts of those students;
2. do not incur any cost
   - for opening the financial account or initially receiving an access device;
   - conducting a balance inquiry or withdrawal of funds at an ATM in a state that belongs to the surcharge-free regional or national network;
   - when the student conducts point-of-sale transactions in a state (assessed by the institution, third- party servicer, or a financial institution associated with the third-party servicer);

Clarification

Circumstances that are neither T1 nor T2 Arrangements

Examples of circumstances that are neither T1 nor T2 Arrangements and therefore are not be subject to the regulations are

- general marketing of a financial institution that does not specify the kind of account or how it may be opened (i.e., not direct marketing described under §668.164(f)(3));
- sponsorship of on-campus facilities with financial institution branding that does not promote particular accounts;
- a lease permitting the operation of an on-campus branch or on-campus ATMs;
- a list of area financial institutions recommended generally to students for informational purposes rather than being provided as part of a contract with the institution; and
- providing students access to Title IV credit balances through school-issued, stored-value cards with no third-party involvement (See the discussion later in this chapter.)

3. have no credit extended or associated with the financial account, and

4. have no fees charged to the student for any transaction or withdrawal that exceeds the balance in the financial account or on the access device.

Other Responsibilities of Schools that Offer T1 Accounts

A school that offers accounts under T1 Arrangements must ensure that

- financial accounts and access devices are not marketed, portrayed as, or converted into credit cards;
- no credit is extended or associated with the financial account, and no fee is charged to the student for any transaction or withdrawal that exceeds the balance in the financial account or on the access device, except that a transaction or withdrawal that exceeds the balance may be permitted only for an inadvertently authorized overdraft, so long as no fee is charged to the student for such inadvertently authorized overdraft;
- the school, third-party servicer, or third-party servicer's associated financial institution provides a student account holder convenient access to Title IV, HEA program funds in part and in full up to the account balance via domestic withdrawals and transfers without charge, during the student's entire period of enrollment following the date that such Title IV, HEA program funds are deposited or transferred to the financial account;
- the school takes affirmative steps, by way of contractual arrangements with its' third-party servicer as necessary, to ensure all requirements for T1 Arrangements are met;
- ensure that the terms of the accounts offered pursuant to a T1 Arrangement are not inconsistent with the best financial interests of the students opening them.

The Department considers this requirement to be met if:

- a school documents that it conducts reasonable due diligence reviews at least every two years to ascertain whether the fees imposed under the T1 Arrangement are, considered as a whole, consistent with or below prevailing market rates; and
- all contracts for the marketing or offering of a school's T1 Arrangements to its students make provision for termination of the arrangement by the school based on complaints received from students or a determination by the school that the fees assessed under the T1 Arrangement are not consistent with or are higher than prevailing market rates.

When a student who has elected to receive direct payments to a T1 account is no longer enrolled

Except for the limitation on the use and sharing of PII, the requirements applicable to T1 Arrangements no longer apply with respect to a student when that student is no longer enrolled and there are no pending Title IV disbursements at the school.

A school may continue to share information about the enrollment status of its students with the servicer or entity that is party to the arrangement so that the servicer or entity can continue to comply with the applicable regulations.

NEW

Tier 2 Arrangements

A Tier 2 (T2) Arrangement is one in which a school located in a state has a contract with a financial institution, or entity that offers financial accounts through a financial institution, under which financial accounts are offered and marketed directly to students enrolled at the school.

A financial account is marketed directly if

- the school communicates information directly to its students about the financial account and how it may be opened;
- the financial account or access device is cobranded with the school's name, logo, mascot, or other affiliation and is marketed principally to students at the institution; or
- a card or tool that is provided to the student for school purposes, such as a student ID card, is validated, enabling the student to use the device to access a financial account.

Formula for determining the required level of school compliance

A school must comply with all of the requirements that apply to Tier 2 Arrangements if for the three most recently completed award years

1. an average of 500 or more of its students had a Title IV credit balance; or
2. an average of five percent or more of the students enrolled at the institution had a Title IV credit balance as determined through the following formula:

$$\frac{\text{The average number of students with credit balances for the three most recently completed award years}}{\text{The average number of students enrolled at the institution at any time during the three most recently completed award years.}}$$

Schools that fall below this threshold but have at least one student with a Title IV credit balance for the three most recently completed award years, are exempt from certain requirements as described later in this chapter under *Schools that fall below the threshold.*

TIP

Privacy and security in T2 accounts

The Gramm-Leach-Bliley (GLB) Act requires that schools have in place an information security program that ensures the security and confidentiality of customer information, protects against anticipated threats to the security or integrity of such information, and guards against the unauthorized access to or use of such information. (For information on the GLB Act, see *Volume 2.*).

NEW

Schools that participate in T2 Arrangements must ensure that students actively consent to participate in any account offered under a T2 Arrangement. A school must obtain that consent before

- the school provides, or permits a third-party servicer to provide, any personally identifiable information about the student to the financial institution or its agents, other than directory information; and
- an access device, or a representation of an access device, is sent to the student.

  However, a school may send a student an access device that is a card provided to the student for school activities, such as a student ID card, so long as the school or financial institution obtains the student's consent before validating the access device for use by the student in relation to the financial account.

In addition, before the final T2 account is opened, schools must

- list and identify the major features and commonly assessed fees associated with each financial account offered under Tier One and Tier Two Arrangements; and
- provide a URL on which the terms and conditions associated with each account are provided.

NEW

Student access to and costs for T2 accounts

Schools must ensure that students who choose to participate in accounts offered under T2 Arrangements

Limited Applicability of Fee Restrictions

Note that the fee restrictions that apply to Tier 1 accounts do not apply to Tier 2 accounts.

1. have convenient access to the funds in the financial account through a surcharge-free national or regional Automated Teller Machine (ATM) network that has ATMs sufficient in number and housed and serviced in a way that guarantees that Title IV funds are reasonably available to students, including at the times the school or its third-party servicer makes direct payments into the financial accounts of those students; and
2. do not incur any cost for
   - opening the financial account or initially receiving an access device; or
   - conducting a balance inquiry or withdrawal of funds at an ATM in a state that belongs to the surcharge-free regional or national network.

Other responsibilities of schools that offer T2 accounts

A school that offers accounts under T2 Arrangements must ensure that

- the financial accounts are not marketed or portrayed as, or converted into, credit cards;
- the school takes affirmative steps, by way of contractual arrangements with its third-party servicer as necessary, to ensure all requirements for T2 Arrangements are met;
- the terms of all T2 accounts offered are not inconsistent with the best financial interests of the students opening them.

  The Department considers this requirement to be met if—

  - The institution documents that it conducts reasonable due diligence reviews at least every two years to ascertain whether the fees imposed under the T2 Arrangement are, considered as a whole, consistent with or below prevailing market rates; and
  - All contracts for the marketing or offering of accounts pursuant to T2 Arrangements to the institution's students make provision for termination of the arrangement by the institution based on complaints received from students or a determination by the institution under paragraph (f)(4)(viii)(A) of this section that the fees assessed under the T2 Arrangement are not consistent with or are above prevailing market rates.

When a student who has a T2 account is no longer enrolled

TIP

Except for the Disclosure Requirements Associated with Tier Two Arrangements with respect to students enrolled during the award year for which the institution is reporting, the requirements applicable to T2 Arrangements no longer apply with respect to a student when that student is no longer enrolled and there are no pending Title IV disbursements at the school.

A school may continue to share information related to enrollment status with the financial institution or entity that is party to the arrangement.

Schools that fall below the threshold

NEW

A school that had at least one student with a Title IV credit balance for the three most recently completed award years, but had less than the number and percentage of students with credit balances described under *Formula for determining the required level of school compliance* earlier in this chapter is exempt from the following T2 requirements:

- the requirement discussed earlier in this chapter under *Schools must provide students a choice.*
- the web disclosure requirements described under *Disclosure Requirements Associated with Tier Two Arrangements* earlier in this chapter;
- ensuring the terms of all accounts offered under a T2 Arrangement are consistent with the best financial interests of the students opening them; and
- ensuring that students have convenient access to the funds in the financial account through a surcharge-free national or regional Automated Teller Machine (ATM) network that has ATMs sufficient in number and housed and serviced in a way that guarantees that Title IV funds are reasonably available to students, including at the times the school or its third-party servicer makes direct payments into the financial accounts of those students.

! The Department encourages schools that fall below the threshold to comply voluntarily with the web disclosure requirements described under ***Disclosure Requirements Associated with Tier Two Arrangements earlier in this chapter***.

Disclosure Requirements Associated with Tier Two Arrangements

No later than September 1, 2016, and thereafter no later than 60 days following the most recently completed award year, a school that offers accounts under T2 Arrangements, must disclose conspicuously on the school's website (and in a format established by the Department) the contract(s) establishing the T2 Arrangement between the school and third-party servicer or financial institution acting on behalf of the third-party servicer, as applicable, except for any portions that, if disclosed, would compromise personal privacy, proprietary information technology, or the security of information technology of physical facilities.

No later than September 1, 2017, and thereafter no later than 60 days following the most recently completed award year, disclose conspicuously on the school's Web site and in a format established by the Department

- the total consideration for the most recently completed award year, monetary and non-monetary, paid or received by the parties under the terms of the contract; and
- for any year in which the institution's enrolled students open 30 or more financial accounts under the T2 Arrangement, the number of students who had financial accounts under the contract at any time during the most recently completed award year, and the mean and median of the actual costs incurred by those account holders.

Schools with T2 accounts are also required to ensure this data is posted in the centralized database on a URL provided by the Department.

Cobranding of financial accounts that are not T2 accounts

If a school enters into an agreement for the cobranding of a financial account with the school's name, logo, mascot, or other school insignia but the school maintains that the account is not marketed principally to its enrolled students and does not otherwise satisfy the definition of a Tier 2 account, the school must retain the cobranding contract and all other documentation the school believes provides evidence that the account is not marketed directly to its enrolled students.

A school must include in the documentation it maintains all evidence that the cobranded financial account or access device is offered generally to the public.

SCHOOL-ISSUED STORED-VALUE CARDS WITH NO THIRD-PARTY INVOLVEMENT

Historically, there have been instances where schools themselves have provided student ID cards which, in addition to allowing access to controlled buildings, permitting the use of labs and equipment, providing library privileges, etc., are used to hold funds for student use. In some cases, those schools also allow students to have their Title IV credit balances placed on those "school-issued stored-value" cards.

As long as

- there is no financial institution or third-party involved in marketing the school-issued stored-value cards;
- the school itself is holding and is in control of the funds held on those cards;
- the "stored-value cards" are the students' IDs;
- the ID cards are not "branded" with the name of a financial institution or bank; and
- the ATMs through which students access their funds are leased or owned by the school

—then the school-issued cards do not fall under the definition of an account with at third-party servicer.

When a school pays an FSA credit balance to a student by making those funds available through **a school-issued stored-value card over which the school exercises control, and with which there is no third-party involvement**, the school is, in effect, holding a student's FSA credit balance. **Therefore, all of the conditions on holding credit balances apply.**

If a student withdraws his or her authorization for the school to hold the credit balance in a school-issued stored-value card, **the school must deliver any remaining credit balance within 14 days**.

If a student withdraws from school and any of the FSA credit balance in his or her school-issued stored-value card is unclaimed, the school must return to the Department any unclaimed funds within the time frames specified earlier in this volume under *Time frame for returning unclaimed FSA credit balances.*

Overawards and Overpayments

In this chapter, we will discuss a student's and a school's responsibility for resolving overawards and overpayments. This chapter does not cover returning funds when a student withdraws.

Please see Volume 5 for a discussion of returning funds when a student withdraws. (Please see |Volume 3 for a discussion of avoiding overawards during the packaging process.)

OVERAWARDS

An overaward exists when a student's aid package exceeds his or her need. While your school must always take care not to overaward a student when packaging his or her aid, circumstances may change after you have packaged the student's aid that result in an overaward. For instance, the student may receive a scholarship or grant from an outside organization. When an overaward situation arises, you may be required to adjust the federal student aid (FSA) in the student's package in order to eliminate the overaward.

When There Are Different Regulations

When a student's aid package includes assistance from multiple programs and those programs have different overpayment regulations/requirements, a school must apply the most restrictive requirements.

Overawards only become overpayments if a school cannot correct them before funds are disbursed to a student. That is, an overpayment exists when some or all of the funds that make up an overaward have been disbursed to the student. An overaward exists whenever a

- school awards aid either to a student who is ineligible for a specific program or to a student who is ineligible for any FSA program assistance;
- student's award in an individual program exceeds the regulatory maximum, e.g., lifetime limit for Pell, annual or aggregate loan limits, annual limit on Federal Supplementary Educational Opportunity Grant (FSEOG) awards, or a Pell award based on the wrong payment schedule/enrollment status;
- student's aid package exceeds his or her need (including when the student's Expected Family Contribution [EFC] is revised upward after initial packaging);
- student's award exceeds his or her cost of attendance (COA); and
- student is receiving a Pell or Iraq and Afghanistan Service Grant at multiple schools for the same period.

In general, unless a school is liable, a student is liable for any overpayment made to him or her that is greater than $25.00.

Overpayments
FSA debts 34 CFR 668.35
Pell Grants 34 CFR 690.79
DL 34 CFR 685.303(e)

Overpayments and eligibility
HEA Sec. 484(a)(3)
34 CFR 668.22(h), 668.32(g)(4), 668.35(c)&(e)

Recovery of loan disbursements to students ineligible due to immigration status
34 CFR 668.139

Recovery of interim disbursements
34 CFR 668.61

Pell Grants

A Pell Grant is determined by using the Pell Payment Schedule appropriate for the student's enrollment status, as well as the correct EFC and COA. A correctly determined Pell Grant is never adjusted to take into account other forms of aid. Therefore, if a student's aid package exceeds his or her need, you must attempt to eliminate the overaward by reducing other aid your school controls. A Pell Grant awarded to an ineligible student is an overaward, as is a grant based on an enrollment status greater than that for which the student is enrolled.

Iraq and Afghanistan Service Grants

If an Iraq and Afghanistan Service Grant recipient becomes Pell eligible

If an Iraq and Afghanistan Service Grant recipient becomes eligible for a Pell Grant during the award year, then the school must treat the Pell Grant as Estimated Financial Assistance and may need to adjust the student's aid package.

Schools must have a process to identify those Iraq & Afghanistan Service Grant recipients who become Pell Grant eligible during the year.

The following situations are considered Iraq and Afghanistan Service Grant overawards and must be corrected

- an award made to an ineligible student;
- an award based on a Pell Grant Payment Schedule for an enrollment status that is greater than that for which the student is enrolled; and
- an award that by itself exceeds a student's COA.

Iraq and Afghanistan Service Grants, like Pell Grants, are not adjusted to take into account other forms of aid. So, if a student's aid package includes an Iraq and Afghanistan Service Grant and the aid package exceeds his or her need or cost of attendance, but the Iraq and Afghanistan Service Grant was determined correctly and by itself does not exceed the student's need, you must reduce other aid in your effort to eliminate the overaward.

TEACH Grants

When a student has no need-based aid

TEACH Grants are not considered to be need-based aid. However, a student's **TEACH Grant in combination with a student's other non-need-based estimated financial assistance (EFA) may not exceed the student's COA.**

If a student is **not** receiving need-based financial assistance, the EFC is not included in determining whether a student is in an overaward status. **If you discover a situation in which a student who is not receiving any need-based financial assistance has a TEACH Grant that in combination with other non-need based EFA, exceeds the student's COA, the TEACH Grant must be reduced.**

When a student is receiving need-based aid

For a student who is receiving need-based federal student aid, a student's EFC, plus the student's TEACH grant, plus the student's other EFA may not exceed the student's COA.

As with Unsubsidized Direct Loans, PLUS loans, and nonfederal education loans, TEACH Grants may be used to replace a student's EFC. If a TEACH Grant exceeds a student's EFC, the excess TEACH Grant is considered financial assistance for other FSA programs.

If a student's EFC, plus the student's TEACH Grant, plus the student's EFA exceeds the student's COA, the school should first apply the TEACH Grant to finance the EFC. (Remember, any TEACH Grant above the EFC is considered financial assistance for other FSA programs.) If the EFC plus any excess TEACH Grant, plus any other EFA still exceeds the student's COA, the student is in an overaward status that the school must resolve.

Before reducing a student's need-based aid, the school should reevaluate the student's COA to determine whether the student has increased costs that the school did not anticipate when the school originally awarded aid to the student. If the student's costs have increased, and the student's total aid package does not exceed the revised COA, the school is not required to take further action. If the school determines that the student's aid package still exceeds the student's COA, the school must resolve the overaward.

COA may not be exceeded
Federal Register / Vol. 73, No. 121 / June 23, 2008 / page 35483

TEACH Grant maximums
34 CFR 686.21(c)

TEACH may replace EFC
34 CFR 686.21(d)

Reminders

1. If a school chooses not to use the TEACH Grant to finance the EFC, then all of the TEACH Grant is considered EFA for the other FSA programs.
2. If a TEACH Grant overpayment exists, beginning with any unsubsidized loans, the school should first reduce a student's level of borrowing. Once a student's loans have been reduced, or if the student has no loans, it may be necessary for the school to reduce the student's TEACH Grant or other aid.
3. If a school fails to follow required procedures, it must repay any FSA overpayment. If the school followed the required procedures and the FSA overpayment is $25.00 or more, the student must repay the overpayment.

TEACH Grant Overpayments—Examples

Example 1

When a student is not receiving need-based aid

Rule: The TEACH Grant, in combination with other non-need-based EFA, may not exceed COA, and any EFC is ignored.

COA	$9,000.00	TEACH Grant	$4,000.00
EFC (ignore)	1,000.00	Other non-need-based EFA	6,000.00
		Total EFA	$10,000.00

A student receives a $6,000.00 **non-need-based** scholarship after beginning class and after his TEACH Grant has been posted to his account. The student is not receiving any need-based EFA, and therefore the EFC is ignored. The TEACH Grant plus the other non-need-based EFA exceeds the COA by $1,000.00 ($10,000.00 – $9,000.00). The $1,000.00 is a TEACH Grant overpayment the school must resolve.

Example 2

When a student is receiving need-based aid

Rule: The student's EFC plus the TEACH Grant, in combination with any other EFA, may not exceed COA. However, the TEACH Grant may be used to replace the EFC. If a school elects this option, the amount by which the TEACH Grant exceeds the EFC is considered EFA for FSA purposes.

A student receives a $6,000 **need-based** scholarship after beginning class and after his TEACH Grant has been posted to his account. The student is receiving need-based EFA. Therefore, the EFC must be considered. The total of the EFC ($1,000.00), the TEACH Grant ($4,000.00), and other EFA ($6,000.00), is $11,000.00 and exceeds the COA by $2,000.00 ($11,000.00 – $9,000.00). The $2,000.00 is an overpayment the school must resolve.

COA	$9,000.00	TEACH Grant	$4,000.00
		Need-based EFA	6,000.00
		EFC that must be included	1,000.00
			$11,000.00

If the school elects to use $1,000.00 of the TEACH Grant to *replace* the EFC, only $3,000.00 of the TEACH Grant will be included as financial assistance, and the overpayment that must be resolved by the school will be reduced to $1,000.00 (from $2,000.00 because the total aid will now total only $10,000.00).

Campus-Based Programs

If a school learns that a student received financial assistance that was not included in calculating the student's eligibility for aid from the Campus-Based Programs and that assistance resulted in the student's total financial assistance exceeding his or her financial need by more than $300.00, the school must take steps to resolve the overpayment.

Before reducing the student's Campus-Based aid, the school should reevaluate the student's need to determine whether he or she has increased need that was not anticipated when the school initially awarded aid to the student. If the student's need has increased and if the total financial assistance does not exceed the revised need by more than $300.00, the school is not required to take further action.

If the school recalculates the student's need and determines that the student's need has not increased, or that his or her need has increased but that the total financial assistance still exceeds his or her need by more than $300.00, the amount that exceeds the student's need by more than $300.00 is an overpayment. The school must eliminate the amount of the overpayment that exceeds the $300.00 threshold.

Campus-Based overawards
34 CFR 673.5(d)

Campus-Based overaward tolerance

The $300.00 overaward tolerance/threshold for the Campus-Based Programs is allowed only if an overaward occurs after Campus-Based aid has been packaged.

The threshold does not allow a school to deliberately award Campus-Based aid that, in combination with other, exceeds the student's financial need.

FWS Program

Because a student can't be required to repay wages earned, you can only adjust FWS by reducing the hours a student can work in the future and thus the student's future earning. You can continue to employ the student, but the student can't be paid from FWS funds. If you've already adjusted all other federal aid and institutional aid, and there's still an overaward, **you must reimburse the FWS program from your school's funds.**

FSEOG Overpayments

For purposes of FSEOG overpayments, when a school awards FSEOG using the individual recipient or aggregate matching share methods, the FSEOG overpayment amount includes only the federal share. When a school uses the fund-specific method of matching, there is no distinction between federal and other funds. As a result, 100% of the funds disbursed are considered part of the overpayment.

Overaward Tolerance for Direct Loans

In general, there is no tolerance when determining an overaward in the Direct Loan Program. However, if a student's financial aid package contains a Direct Loan and an FWS award, a $300 tolerance can be applied to eliminate the overaward.

If an overpayment occurs for a student who has a Direct Loan and Campus-Based awards, unless the Direct Loan has been fully disbursed, the Direct Loan must be reduced before the Campus-Based awards are adjusted or canceled.

Direct Loans

If you discover that you have budgeted a student to receive more Direct Subsidized Loan funds than the student is eligible to receive, so long as the student has remaining annual and aggregate eligibility for Direct Unsubsidized Loans, you may resolve the overaward by replacing the undisbursed Direct Subsidized Loan funds with Direct Unsubsidized Loan funds.

TIP

Note: The guidance in Dear Colleague Letter GEN-13-02 that prohibits replacing a Direct Subsidized Loan with a Direct Unsubsidized Loan as a means of resolving prior inadvertent overborrowing does not apply to the situation described here.

If you discover that a student has been overawarded and your school has already received and disbursed some or all of the Direct Loan funds, you have a number of options:

- If the package includes an Unsubsidized Direct Loan, a Direct PLUS Loan, or a nonfederal education loan, and the aid package doesn't already apply these loans to finance the EFC, and the school so chooses, the aid package can be adjusted so that all or some part of these loans replaces the EFC, thus reducing or eliminating the overaward.
- If you have not yet made the second or subsequent disbursement of a Direct Loan, the second or subsequent disbursement can be reduced or cancelled.
- If you determine that the loan was made to an ineligible student, the school must return any amount it retained, and for any loan funds disbursed directly to a student, the school must notify the appropriate loan servicer of the loan of funds that are outstanding, so that the Department can issue a 30-day demand letter to the student.

TIP If a school wants to replace a Direct Subsidized Loan with a Direct Unsubsidized Loan, (since COD reporting and interface information is so closely tied to the award type as identified in the award ID) a school must cancel the Direct Subsidized Loan and originate a new Direct Unsubsidized Loan.

If the overaward situation occurs after Direct Loan funds have been fully disbursed, you do not need to adjust it. However, you might have to adjust the aid package to prevent an overaward of Campus-Based funds or the aid package exceeding the student's need.

Although a school isn't required to return Direct Loan, or nonfederal education loan funds that were disbursed to the borrower (either directly or by applying them to the student account) before the overaward situation occurred, the law doesn't prevent your school from returning funds that were applied to the student account if you choose to do so. A borrower who receives a direct payment of loan funds is not required to repay an overawarded amount, unless the overaward was caused by his or her misreporting or withholding information.

A resolved overaward may become an overpayment

TIP

If a school has resolved an overpayment by reducing scheduled future disbursements for a second or subsequent payment period and the student ceases attendance before the end of the current payment period, that portion of the student's award that was an overpayment must be repaid outside of the requirements of 34 CFR 668.22.

If the school is responsible for repaying the overpayment, the school must repay the overpayment **before** completing any required Return calculation as described in *Volume 5*.

If a student is responsible for repaying the overpayment and the student withdrew after the 60 percent point in the payment period or period of attendance, as applicable, the school should try to collect the overpayment from the student, and if it is unable to do so, should refer the student to the Department's Default Resolution Group.

If the student is responsible for repaying the overpayment, and the student withdrew before the 60 percent point in the payment period or period of attendance, as applicable, the school should not take any action until it has completed the required Return calculation.

However, when performing the Return calculation, the school should not include the amount of the overpayment for which the student is responsible as *Aid that was or could have been disbursed* (see *Volume 5*). Then, when the school has completed the Return calculation, it should document the amount of the overpayment and, as applicable, reduce any post-withdrawal disbursement or increase any amount the student must return by the amount of the overpayment owed by the student.

Overaward and Unsubsidized Loan Example

Hector's EFC is 4,000. His cost of attendance is $12,000. He is supposed to receive a subsidized Direct Loan of $5,000 and an unsubsidized Direct Loan of $3,000, which completely meets his need. Before he receives his first loan disbursement, Guerrero University also gives him a $2,000 scholarship. If Hector's entire loan amount of $8,000 had been subsidized, Guerrero would have to send some of the loan back. But because part of the loan amount is unsubsidized, Guerrero simply considers that $2,000 of the unsubsidized loan that applied to Hector's financial need is now being used to replace part of his EFC.

WHEN A STUDENT FAILS TO BEGIN ATTENDANCE

A student is considered not to have begun attendance if a school is unable to document the student's attendance in any class.

Returning funds for students who do not register or fail to begin attendance
34 CFR 668.21
34 CFR 674.16(f)
34 CFR 676.16(d)
34 CFR 685.303(b)(4)
DCL GEN-13-02

Time frame for returning funds for students who fail to begin attendance
34 CFR 668.21(b)

If your school disburses Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, Perkins Loan or FSEOG funds, but the student never begins attending classes, you must return the disbursed funds to the respective programs even if those funds were disbursed directly to the student.[1] If the student begins attending some but not all of his or her classes, you will have to recalculate the student's Pell or Iraq and Afghanistan Service Grant award based on the student's actual enrollment status (see *Volume 3*).

If a school disburses Direct Loan funds but the student does not begin attendance, the school must return all Direct Loan funds that were credited to the student's account at the school for the payment period or period of enrollment. In addition, a school must return the amount of any payments made directly by or on behalf of the student to the school for the payment period or period of enrollment, up to the total amount of the loan funds disbursed.

In addition, a school must return any Direct Loan funds that it disbursed directly to a student if the school knew prior to disbursing the funds directly to the student that the student would not begin attendance (for example, if a student notified the school that he or she would not be attending or if the school expelled the student prior to directly disbursing the funds).

When a Student Withdraws After Starting Classes but Before a School's Census Date

A student begins earning FSA funds on his or her first day of attendance. Therefore, even if a student withdraws before a school's census date, the school must perform a Return calculation described in *Volume 5, Chapter 2*.

A school may not ignore information available to any office at the school indicating that a student failed to begin attendance.

Recalculating Pell eligibility when a student's enrollment status changes before beginning attendance in all classes
34 CFR 690.80(b)(2)(ii)

For any remaining loan funds disbursed directly to a student, the school must notify the appropriate loan servicer of the loan funds that are outstanding, so that the Department can issue a 30-day demand letter to the student. To identify the current servicer of an FSA loan, access NSLDS and select "Aid." Then identify the student and select "Loan History." Under Loan History, the current loan will be listed at the top. Use the field "Servicer" to identify the organization to which you will be returning funds. Click on the servicer name to access the NSLDS Organizational Contact List page. Additional contact information for the loan servicers is available on IFAP under the Help menu (Contact Information / Service Centers for Schools / Loan Servicing Centers for Schools).

1. A school may satisfy this requirement either by redepositing the funds in its federal funds account and disbursing them within three days to another eligible student or by returning them to the appropriate FSA program using the refund function in G5.

Schools must return funds disbursed to students who failed to begin attendance as soon as possible but no later than 30 days after the date that the school becomes aware that a student will not or has not begun attendance.

At a school that is not required to take attendance but that has a census date on which it reports its enrollment levels to a state, local jurisdiction, or outside agency, it is reasonable to expect the school to return funds as soon as possible, but no later than 30 days after the census date.

A school that draws down FSA grant or Direct Loan funds under the advanced payment method must disburse those funds no later than three business days following the date the school receives them. If, after a school draws down FSA grant or Direct Loan funds, but before the school disburses them, the school discovers that it cannot disburse all the funds because one of the students for whom the funds were intended has not begun classes, the school must return those funds within the three-day period unless it can disburse them to another eligible borrower or as described under *Excess Cash* in *Chapter 1*.

After the start of classes, FSA funds should not be disbursed without schools confirming that recipients have begun attendance.

Reporting enrollment changes in NSLDS

If a student who received a Direct Loan disbursement either fails to begin attendance or begins attendance on a less than half-time basis, the school must report the change in the student's enrollment status to the Department using the NSLDS enrollment reporting process.

Upon receiving the revised enrollment status from NSLDS, the student's Federal loan servicer will change the student's loan status as follows:

- In-school status will change to grace period status.
- In-school deferment status will change to repayment status.

34 CFR 685.309(b)
DCL GEN-13-02

When a student begins attendance on a less than half- time basis

If a student who received a Direct Loan disbursement begins attendance for the loan period but does so on a less than half-time basis despite having originally enrolled (registered for classes) on at least a half-time basis, neither the school nor the student is required to return any loan proceeds. However, the school must not make any subsequent disbursements of the loan unless the student resumes enrollment on at least a half-time basis.

When funds are considered to have been returned for a student who fails to begin attendance

The Department considers a school to have returned FSA funds timely if the school does the following:

1. deposits or transfers the funds into its federal funds account no later than 30 days after the date that the school becomes aware that a student will not or has not begun attendance; or
2. initiates an electronic funds transfer (EFT) no later than 30 days after the date that the school becomes aware that a student will not or has not begun attendance.

When a Student's SAR/ISIR Contains a Disqualifying Comment Code

If a student's SAR/ISIR contains a Comment Code that requires resolution (e.g., 100–Perkins Overpayment, 132–Default), the underlying issue must be resolved before any funds may be disbursed to the student.

In addition, if a school disburses Title IV funds to a student with a SAR Comment Code that requires resolution and the student withdraws before the school has resolved the underlying issue, any funds disbursed must be returned to ED.
See *Volume 5* for more information about a student who withdraws.

TREATMENT OF OVERPAYMENTS

Overpayments for which the school is responsible

Please also see the discussion later in this chapter under "Overpayments for which the student is responsible."

Examples of Overpayments Due to School Error

Allen received a Pell at Sarven Technical Institute. Although Sarven had the correct EFC on Allen's ISIR, the school looked at the wrong chart and used a different EFC in the Pell calculation. So, Allen received too much money. Because the overpayment is due to a school error, Sarven is liable for the overpayment.

Owen received an outside scholarship to attend Guerrero University. The bursar's office was notified of the scholarship so that it would apply the payments properly but didn't notify the financial aid office. Owen received a Perkins Loan, but the financial aid office didn't take the scholarship into account when awarding the loan because it didn't know about the scholarship. When the financial aid office later found out about the scholarship, it discovered that Owen received too much aid and had a $600.00 Perkins overpayment. Because the school had information about the scholarship (even though the financial aid office didn't), the overpayment is due to a school error.

Your school is liable for any amount of a Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, Perkins Loan or FSEOG overpayment (including amounts under $25) that occurred because your school failed to follow the requirements in 34 CFR parts 668, 673, 674, 676, 690, or 691, as applicable. If your school makes a Perkins Loan or FSEOG overpayment in any amount for which it is liable, you must immediately restore (to your Perkins loan fund or FSEOG account, as applicable) an amount equal to the overpayment plus any administrative cost allowance claimed on the overpayment. When returning Pell Grant, Iraq and Afghanistan Service Grant, and TEACH Grant overpayments, you must make a downward adjustment to the student's award in COD, and either return the funds through G5 or disburse them to another eligible student. For a description of overpayments for which students are responsible, see the discussion later in this chapter.

A school may attempt to collect from a student funds it has returned. However, this is not an FSA debt because an overpayment for which a school is responsible can never become an FSA debt for a student. Therefore an overpayment for which a school is responsible can never result in a student's losing FSA eligibility and should never be reported to NSLDS or referred to the Department for collection.

Recovery of funds from interim disbursements
34 CFR 668.61

If an overpayment is the result of an interim disbursement of Pell, Perkins Loan, or FSEOG funds (see the *AVG*) to the extent that the overpayment is not recovered by reducing subsequent disbursements to the student for the award year or by a payment made by the student, the school must eliminate the overpayment by reimbursing the appropriate account by either requiring the student to return the overpayment, or making restitution from its own funds by the earlier of 60 days after the applicant's last day of attendance, or the last day of the award year.

If an overpayment is the result of an interim disbursement of FWS Program funds, the school must eliminate the FWS overpayment by adjusting the applicant's other financial aid or reimbursing the FWS Program account from its own funds. If the school cannot correct the overpayment by adjusting the student's other financial assistance, the student must still be paid for all work performed.

Because the interim disbursement was made at the school's discretion, the school is ultimately responsible for repaying it. Moreover, because the student does not owe an FSA overpayment, the student should not be reported to NSLDS or referred to the Department for collection.

Prohibition on receiving funds for enrollment at more than one school and Potential Overawards (POP)

A student may not receive more than 100% of their scheduled award for a Pell Grant during an award year. Moreover, a student may not receive a Pell Grant for concurrent attendance at two or more schools.

Pell Grant payment from more than one school
34 CFR 690.11

If a student has identified himself or herself as a transfer student, or if a school has any information that indicates the student might have previously attended another postsecondary school, the school should request Transfer Monitoring of the student on NSLDS. A school's coordinating official (See *Volume 2.*) is responsible for ensuring that a school does not ignore information the school has about a student's prior or concurrent enrollment.

If a student has not self-identified, information on the student's SAR/ISIR can sometimes alert a school to the fact that a student has already received a Pell Grant during the current award year. Schools should examine the *Pell Payment Data* on the SAR/ISIR generated from the student's most recent transaction to see if the percentage of the scheduled award used for the award year (% Sch Used) is greater than 0, and examine the *As Of* date (MM/DD/CCYY) to see if the information is current. If the SAR/ISIR is the most recent and the percentage of the scheduled award used for the award year is greater than 0, the school should request Transfer Monitoring of that student, and wait until it has received the results of that process before creating a PELL award for that student in COD.

Calculating remaining eligibility
34 CFR 690.65

In their award of Pell funds to a student, schools are required to ensure that they do not originate awards that would result in a student receiving more than 100% of the student's scheduled award for the year.

Concurrent Enrollment

When multiple schools report disbursements for a student and the enrollment dates reported are within 30 calendar days of each other, the COD System identifies a potential concurrent enrollment and sends a warning message to all schools involved.

Warning Edit 69

The edit informs schools that submit second or subsequent disbursement information that Pell disbursements for a student have been received from two or more schools, and the enrollment dates for the student are within 30 days of one another.

COD sends the school that submitted the second or subsequent disbursement information a Response Document that contains Warning Edit 069. COD also sends all the schools with accepted disbursement information in COD for the student and that award year, a Multiple Reporting Record (MRR) alerting the schools to a possible overlap in enrollment.

Iraq and Afghanistan Service Grant at multiple schools

COD will not automatically notify schools if a student is receiving an Iraq and Afghanistan Service Grant at multiple schools. Rather, the Department will monitor Iraq and Afghanistan Service Grants, and inform schools of students who are overawarded or incorrectly awarded.

The Department expects all schools involved to cooperate in resolving the concurrent enrollment issue. To help facilitate resolution, the MRR contains the Pell contact information, as reported by the schools to COD, for the schools involved.

Pell Potential Overaward Process (POP)

Warning Edit 68

The edit informs the school that submitted the disbursement that caused the student to exceed the 100% TEU for the year that

1. Pell disbursements for a student have been received from two or more schools.
2. The student's Total Eligibility Used (TEU) is greater than 100.000%.
3. The POP situation must be resolved within 30 calendar days.

A student may receive disbursements from more than one school during the course of an award year. When more than one school reports disbursements for a student, COD checks to make sure that the student has not received more than 100% of his/her eligibility for a Federal Pell Grant.

If COD receives disbursement information that will cause a student to receive more than 100% of his or her TEU, the student has entered a Potential Overaward (POP) situation. COD will accept the disbursement, and notify the schools involved in the POP in the following three ways:

1. COD sends the school that submitted the disbursement that caused the student to exceed the 100% TEU for the year Warning Edit 068 in the response document.
2. Weekly, COD sends all schools that have accepted and posted disbursements for students in a POP status a Pell POP report that will identify the student and schools involved.
3. COD sends all schools that have accepted and posted disbursements for the student in the award year an MRR containing the Pell contact information for the schools involved.

COD Processing and POPs

1. The COD System accepts Disbursement Information from a maximum of three schools for a student in a POP situation.
2. COD does not prevent the same schools from creating another POP situation for the same student.
3. Schools do not need to request post-deadline processing (Extended Processing) to submit upward adjustment records after the end of the processing year in order to correct a POP situation.
4. The COD System accepts downward adjustments to disbursement or award information at any time.
5. Disbursement information can be submitted via the COD Website for those schools that do not wish, or are not able, to reopen any software they may have used to process the affected award year.

During the 30-day period, the Department expects each school involved in the Potential Overaward to review the student's award and disbursements and perform the proper eligibility calculations. If the schools (working with COD School Relations) do not resolve the POP situation during the 30-day period, COD will reduce all schools' authorization for the student to zero, and the issue will have to be addressed with the Department's involvement.

Schools must work together and with the student involved to resolve the POP before contacting COD School Relations for assistance.

Schools should document any phone calls, emails, and letters that were part of their attempts to resolve the POP with the student, and the other schools involved, and be prepared to provide that documentation to COD School Relations if requested.

During the 30-day period, COD will accept and post disbursements that decrease or increase the amount of the student's year-to-date disbursement. Students will be removed from POP status within 30 days of the date the student was initially placed in the POP if the student's TEU becomes 100% or below based on downward disbursement adjustments submitted by the schools.

If after 30 calendar days the situation has not been resolved, COD generates a negative disbursement that reduces all accepted and posted disbursements to $0.00 for the student in the award year in question at all schools involved.

A school that has attempted to resolve an Overaward Situation with the other schools that have submitted disbursement records for the student and has been unable to arrive at a satisfactory solution should call the COD School Relations Center to request *escalated mediation*.

A school that calls the COD School Relations Center to request escalated mediation should be prepared to provide the name and social security number of the student involved.

The COD School Relations Center will review the POP situation and, if necessary, refer the case to the Department for additional action.

Schools should remember that failure to

- take action when they receive warning notices from COD;
- correct overaward situations;
- ensure that students do not receive Pell awards for concurrent enrollment at two or more schools; and
- prevent repeated POP situations from occurring;

may call into question a school's administrative capability and fiscal responsibility, and might eventually result in ED's taking action to limit, suspend, or terminate a school's participation in the Federal Student Aid programs.

Examples of Overpayments Due to Student Error

When Chavo applied, he didn't have his tax returns, so he estimated his income and said that he wasn't going to file a tax return. After he received his aid from Sarven Technical Institute in June, he told the aid office that he'd underestimated his income and had to file a tax return. When Chavo submitted the corrections, his EFC increased, and Sarven determined that he'd received a Pell overpayment. Sarven canceled his second Pell disbursement, but he still owed $100.00. Sarven allowed Chavo to make an agreement to repay $25.00 a month for four months so that he'd still be eligible for other aid for the rest of the year.

Meurig has to report financial information about his father on the application although he's living with his stepfather. On his 2016–2017 application, Meurig didn't report any assets for his father, and Brust Conservatory used the information from that application to award FSA aid. However, his 2016–2017 application is selected for verification, and during the verification process, Brust discovers that Meurig's father has a business that should have been reported as an asset. Brust asks for tax information for the previous year and determines that Meurig should also have reported the business as an asset on the 2015–2016 application. Meurig's EFC increases when he makes the correction, and he received an overpayment for the 2015–2016 award year. Because he's already received all his aid for the year, he has to either pay the overpayment or negotiate a satisfactory repayment agreement.

Overpayments for which the student is responsible

In some instances, a student rather than the school is responsible for repaying the overpayment.

If a student has received more Pell or Iraq and Afghanistan Service Grant funds than the student was eligible to receive because the student's eligibility for a Pell or Iraq and Afghanistan Service Grant decreased, you can try to eliminate the Pell or Iraq and Afghanistan Service Grant overpayment by adjusting later disbursements for the award year. **You may not reduce a student's correctly awarded and disbursed Pell or Iraq and Afghanistan Service Grant to address overpayments in other programs.**

For TEACH Grant, FSEOG, and Perkins Loan overpayments, you can adjust subsequent disbursements.

If that is not possible, you must promptly attempt to recover the overpayment by notifying the student (by paper or electronically) and requesting full payment. The notice must state that if the student fails to repay the overpayment or to make satisfactory arrangements for repayment, he or she will be ineligible for FSA funds until the overpayment is resolved.

If the student claims that your school made a mistake in determining the overpayment, you must consider any information he or she provides and judge whether the objection is warranted.

If, after notification to the student and consideration of possible objections, an overpayment remains and the student has not repaid or made satisfactory arrangements to repay the overpayment, you must take further action.

For TEACH Grant, FSEOG, Iraq and Afghanistan Service Grant, and Pell Grant funds, you must refer the overpayment to the Department with the required information (see *Referring overpayments to Default Resolution Group* later in this chapter), and you must report to NSLDS the unresolved overpayment. After that, you are not required to make any further attempt to collect the TEACH Grant, FSEOG, Iraq and Afghanistan Service Grant, or Pell Grant overpayment.

For Perkins Loans, you are not required to refer overpayments to Default Resolution Group, but you must report them to NSLDS because the student is required to repay the overpayment to your school's revolving loan fund.

A student is not liable for an overpayment when the original amount of the overpayment is less than $25.00. A student is liable for an overpayment of less than $25.00 when that $25.00 is a remaining balance. That is, when the overpayment amount was originally $25.00 or more but is now less than $25.00 because the student has made payments.

TIP

A student is also liable for overpayments of less than $25.00 when that amount is the result of applying the $300 Campus-Based overaward threshold/tolerance. For example, if a school discovers that after a student's Campus-Based aid was disbursed, the student received additional aid that resulted in the aid the student received exceeding his or her need by $314.00, the $314.00 is an overaward. When the school applies the $300 overaward tolerance, the student only has a Campus-Based overpayment of $14.00. The student is responsible for repaying the $14.00 because the initial amount of the overpayment (before the $300.00 tolerance was applied) was $314.00 (which is in excess of the less than $25.00 *de minimis* amount).

TIP

When a School Takes Action to Restore a Student's Eligibility

If a student (through the school) or a school (with its own funds) satisfies the student's overpayment, the school must update the student's overpayment information in NSLDS as discussed in later in this chapter under *Reporting Overpayments to NSLDS.*

Your school may decide to pay a student's obligation by returning to the appropriate FSA program account the amount overpaid to the student. Once your school makes the appropriate return, the student will no longer owe an FSA debt, but rather a debt to your school that you can collect according to your procedures. The student's eligibility for FSA funds is restored as long as the student meets other FSA eligibility criteria.

A student who receives an overpayment of an FSA program loan, or an FSA program grant, may re-establish eligibility for FSA program assistance by repaying the excess amount or by making arrangements satisfactory to the holder of the overpayment debt to pay the excess amount.

Exceptions to student liability

There are some exceptions to holding a student liable for a Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, Perkins Loan, or FSEOG overpayment.

Though the *de minimis* threshold for overpayments due to withdrawal has increased, the *de minimis* amount for all other overpayments remains less than $25.00.

Generally, a student is liable for any Pell Grant, Iraq and Afghanistan Service Grant, FSEOG, or Perkins Loan overpayment he or she receives unless the school is liable for it. However, as noted previously, the student is not liable for the overpayment if it is less than $25.00 and is not a remaining balance or, in the case of a Perkins Loan or FSEOG, is the result of the application of the $300.00 overaward threshold.

Such overpayments do not affect the student's FSA eligibility. Therefore, your school need not

- attempt recovery of such overpayments,
- report such overpayments to NSLDS, or
- refer such overpayments to the Department for collection.

Clarification

Actions A School Must Take Upon Discovering That It Has Disbursed A Title IV Grant To An Ineligible Student

If a school discovers that because of an error made by a student, the school has disbursed a Federal Pell Grant or FSEOG to an ineligible student (e.g., because the student provided false information on a FAFSA), the school must take the following action.

Immediately after discovering that it has paid an ineligible student a Title IV grant, the school must report the overpayment to NSLDS on the NSLDS Professional Access Web site under the AID tab, "Overpayment List" menu option entering "School" in the Source Field, and "Overpayment" in the Indicator Field.

After making the appropriate change in NSLDS the school must send the student a letter informing the student that he or she must repay the grant overpayment within 30 days or the school will refer the student to the Department's Default Resolution Group for collection and to the Department's Office of the Inspector General for possible legal action.

In the notification to the student, the school must inform the student of the following three items:

1. The student owes an overpayment of Title IV grant funds.
2. The student's eligibility for additional Title IV funds has been suspended.
3. If the student fails to repay the debt in full within 30 days, the student will be referred to the Department's Default Resolution Group for collection and to the Department's Office of the Inspector General for possible legal action.

Remember that referring overpayments for collection is a separate process from reporting overpayments to NSLDS. Reporting is the process of creating within NSLDS a record of a student's overpayment. Referring is the process of turning over a student's debt to Default Resolution Group.

If the student fails to repay the grant overpayment in full within 30 days, the school must refer the grant overpayment to the Default Resolution Group by following the instructions in Chapter 3 under Referring overpayments/Referring overpayments to the Default Resolution Group.

In addition, if the student fails to repay the grant overpayment in full within 30 days, the school must update the student's record in NSLDS by entering "TRF-Transfer" in the Source field and "Overpayment" as the overpayment status in the Indicator Field.

If the student repays the debt in full within 30 days, the school must update the student's record in NSLDS by changing the overpayment status to "Repaid" in the Indicator Field.

Overpayments created by inadvertent overborrowing

Another kind of overpayment occurs when a student inadvertently has received FSA loan funds in excess of annual **or** aggregate loan limits and is no longer eligible for FSA funds.

A school must determine that a borrower's receipt of loan funds in excess of an annual or aggregate loan limit was inadvertent before the borrower may regain Title IV eligibility.

Examples of circumstances that may have resulted in a student inadvertently exceeding an annual or aggregate loan limit include, but are not limited to: school processing errors, missing or incorrect National Student Loan Data System (NSLDS) information (e.g., capitalized interest incorrectly included in a borrower's aggregate outstanding loan balance), or unintentional student error or omission.

Borrowing in excess of annual or aggregate loan limits is not considered to have been inadvertent if there is any evidence that the overborrowing was the result of deliberate action on the part of the school that determined the borrower's eligibility for the loan or on the part of the borrower who received the loan. If the school determines that the overborrowing was the result of deliberate action on the part of another school or the borrower, it must notify its Federal Student Aid School Participation Team and provide the necessary evidence. If the school suspects fraud involving federal student aid, it should call the Inspector General Hotline at 1-800-MIS-USED (1-800-647-8733).

If a student has consolidated the loan(s) that exceeded the annual or aggregate loan limit, he or she is considered to have made satisfactory arrangements to repay the debt, and no additional action on the part of the student is required. This is true regardless of the type of loan (Federal Family Education Loan [FFEL] or Direct Loan) consolidated and no matter the type of consolidated loan the student obtained. Note that a student who lost eligibility because he or she exceeded the undergraduate aggregate maximum loan limit does not automatically regain eligibility if he or she advances to the graduate level. Rather, the student must resolve the previous overpayment in order to regain eligibility for FSA funds.

A student who is not in default on an FSA program loan but who has inadvertently obtained FSA program loan funds in an amount that exceeds the annual or aggregate loan limits is ineligible for any further FSA program assistance until the student (1) repays in full the excess loan amount; or (2) makes arrangements, satisfactory to the holder of the loan, to repay that excess loan amount.

Regaining Title IV eligibility after exceeding loan limits
DCL: GEN-13-02

A student who received subsidized loan funds in excess of the applicable subsidized annual or aggregate loan limit can no longer regain Title IV eligibility by having the excess subsidized loan amount changed to an unsubsidized loan.

See the subsection on Direct Loans under *Overawards* earlier in this chapter for the treatment on correcting an overaward of Direct Subsidized Loan funds in the current award year.

If a student who has inadvertently received loan funds in excess of an annual or aggregate loan limit wishes to receive additional Title IV aid, the school where the student wishes to receive the aid must identify the loan(s) that resulted in the overborrowing, discuss the overborrowing with the student, and resolve any discrepancies in the information that is obtained.

If the loan that caused the inadvertent overborrowing is a Direct Loan or a FFEL Program loan that is held by the Department, the student must contact the federal loan servicer that services the loan to resolve the inadvertent overborrowing. If the loan that caused the inadvertent overborrowing is a FFEL Program loan held by a loan holder other than the Department (a "commercially held" FFEL Program loan), the student must contact the FFEL loan holder or the servicer for the loan to resolve the inadvertent overborrowing.

Repayment of the excess loan amount

If a student who has inadvertently overborrowed wishes to regain Title IV eligibility by repaying the excess loan amount, the student must contact the applicable servicer and comply with the servicer's repayment instructions. The school may assist the student in identifying and contacting the servicer, but the student, not the school, must make the payment of the excess loan funds in accordance with the servicer's instructions. Once the student has repaid the excess loan amount in full, the servicer will send the student confirmation that the excess loan amount has been repaid. The student or servicer must provide a copy of the repayment confirmation to the school. The inadvertent overborrowing is considered to have been resolved as of the date the servicer received the borrower's full payment of the excess loan amount.

Satisfactory repayment arrangements

A student who has inadvertently overborrowed may regain Title IV eligibility by making satisfactory repayment arrangements acceptable to the servicer of the loan. The satisfactory repayment arrangement requirement can be met if the student agrees, in writing, to repay the excess amount according to the terms and conditions of the promissory note that supported the loan. This is called "reaffirmation." The reaffirmation process includes the following five steps:

1. Either the school or the student contacts the servicer and explains that the student has inadvertently overborrowed and wishes to reaffirm the debt.
2. The servicer sends the student a reaffirmation agreement.
3. The student reads, signs, and returns to the servicer the reaffirmation agreement.
4. The servicer sends the student confirmation that the reaffirmation agreement has been accepted. The student or servicer must provide a copy of the reaffirmation confirmation to the school.

Satisfactory Repayment Arrangements

We require a borrower who does not repay the excess loan amount in full to make satisfactory repayment arrangements in order to ensure that the borrower acknowledges a debt in excess of the regulatory maximum.

For defaulted loans, the law and regulations specify what constitutes a satisfactory repayment agreement. For students who have exceeded loan limits or owe an overpayment of an FSA grant, the law and regulations do not specify what makes a repayment agreement satisfactory. The loan holder determines whether the repayment arrangement is satisfactory.

5. The inadvertent overborrowing is considered to have been resolved as of the date the servicer receives the student's signed reaffirmation agreement.

Once you have documented that the inadvertent overborrowing has been resolved (through repayment in full, making satisfactory arrangements to repay the debt, or consolidation of the excess loan amount), you may award additional FSA funds to the student. Keep in mind, however, that the student may have no remaining loan eligibility or may be eligible only for unsubsidized loans.

Because you're responsible for knowing about the student's prior FSA loans before disbursing additional loan funds to the student, inadvertent overborrowing shouldn't occur often. Excess borrowing might occur if a school is unaware of loans a student received at another school. This might happen if the student received the loans under a different name or Social Security number (SSN). (See *Volume 1* for a description of how the NSLDS postscreening and transfer monitoring processes can help prevent these kinds of overpayments.)

A student who inadvertently overborrowed and who has regained Title IV eligibility by either repaying the excess loan amount or by signing a "reaffirmation agreement" may receive additional Direct Loan funds.

A student who regains Title IV eligibility after having exceeded an annual loan limit for an academic year is not eligible to receive additional Direct Loan funds for that same academic year, but could receive other types of Title IV aid for the year. If the student exceeded only the annual subsidized limit and has regained eligibility, the student might be eligible to receive Direct Unsubsidized Loans up to the appropriate annual maximum.

A student who had inadvertently exceeded the combined subsidized/unsubsidized aggregate loan limit may not receive any additional Direct Subsidized Loans or Direct Unsubsidized Loans (though a dependent student's parent or a graduate or professional student could receive Direct PLUS Loans). A student who has regained eligibility might be eligible to receive Direct Loan funds for subsequent academic years if the student has remaining eligibility under the subsidized or unsubsidized aggregate loan limits as long as the new loan does not result in the student's exceeding the combined aggregate limit.

Effective Date for Regaining Title IV Eligibility

When an otherwise eligible student resolves an inadvertent overborrowing issue by one of the methods discussed above, the student regains eligibility for the Pell Grant, Campus-Based, TEACH Grant, and Iraq and Afghanistan Service Grant programs beginning with the payment period in which the issue was resolved and regains Direct Loan Program eligibility retroactive to the beginning of the academic year in which the issue was resolved.

Clarification

When a School Needs to Update Direct Loan Disbursement Data in COD After a Deadline Has Passed

If the COD Data Submission Deadline has not yet passed, but school has confirmed close out needs to submit additional student level data to COD, the school contacts COD Customer Support and asks that the year be reopened.

If a COD Data Submission Deadline has passed, a school uses Request Post Deadline/Extended Processing screen in COD to request relief from the data submission deadline. If the school is notified its request has been granted, the school may submit data to COD through the end of the granted extension period.

If a Direct Loan Award Year has been archived. (*All Direct Loan Award Years prior to 2011–2012 have been archived*.) and a school needs to report a decrease to a student-level disbursement record, the school sends an email to **schoolreconciliation@ed.gov**.

In the email school provides its full school name as it appears in COD, DL ID Number, the Award Year and the number of records it needs to process. The school will receive back an email telling them how to submit the necessary data and how that data should be processed.

Recording student payments and reductions in the Direct Loan Program

If, through its Return calculation, a school determines that a student has received an overpayment of Direct Loan funds, the school should reduce the student's award/disbursements by making a downward adjustment in COD.

Schools can report current year adjustments for awards/disbursements either through their loan processing software or by using the COD website at:

https://cod.ed.gov

Returning Direct Loan funds

If a school is required to return DL funds to comply with a regulatory or statutory requirement—even if more than 120 days have elapsed since the disbursement date—the school must return DL funds through G5. The school returns DL funds to the Department following the same procedures the school follows when making other G5 refunds/returns.

Direct Loan processing for an award year generally remains open in COD for 13 months following the end of the award year (until July 31 of the year following the end of the award year). A school should be able to submit data via batch or web processing through that time unless it has already confirmed closeout for the impacted award year. If a school finds the year is closed in COD before the 13-month period is over, the school should contact COD School Relations for assistance in reopening the award year.

Once the 13-month period is over and COD has closed the year, a school may request Extended Processing through the COD website at **https://cod.ed.gov.**

Toward the end of each award year, the Department publishes an Electronic Announcement containing information on the closeout deadline and instructions on how schools can request Extended Processing for Direct Loans after the closeout deadline.

For more information on returning FSA funds, see *Chapter 4*.

Recording student payments and reductions in the Pell Grant, Iraq and Afghanistan Service Grant, and TEACH Grant programs

For reductions to awards and payments, schools should record reductions and payments by entering a replacement value in the COD system. **The replacement value will be the original value less only the amount the school has returned** (the sum of: [a] that amount the school is responsible for returning + [b] any portion of the grant overpayment that otherwise would be the responsibility of the student but which the school has chosen to return for the student + [c] any portion of the grant overpayment the school has collected from the student). **Do not reduce the award/disbursement by the amount the student must return (unless the student has made a payment to the school).**

Importance of Making Timely Adjustments

Since each disbursement transaction (positive or negative) to a student's Pell Grant in COD affects a student's lifetime eligibility for Pell funds, schools should ensure that adjustments are made in a timely manner.

See *Volume 3* for a discussion of the Pell Lifetime Eligibility.

If a school receives a payment for a current-year overpayment that has not been referred to Default Resolution Group, the school should NOT send the payment to Default Resolution Group. Instead, after you have reduced the student's disbursement in COD, return the unearned funds as follows:

- If your school has made repayment arrangements with a student and received a payment on a current-year overpayment, the school should deposit the funds in its Pell, Iraq and Afghanistan Service Grant, or TEACH Grant account and make the appropriate entry in the COD system.
- If a student makes a payment on any previous year's Pell Grant, Iraq and Afghanistan Service Grant, or TEACH Grant overpayment, a school makes the aforementioned COD system entry using the same software the school used to create the award. The school then returns the funds to the Department using the Electronic Refund function in G5 following the same procedures the school follows when making other G5 refunds or returns.

Removal of Pell Grant Data from COD

TIP

Pell Grant data is usually available on the COD production environment for five years after the end of the award year. Once a closed year's data has been removed from the production environment

- all records for the closed years that are submitted to the COD System will be rejected, and schools will receive COD Edit 996 (Invalid Value);
- data for the closed years will not be available via the COD website, the closed years will not appear in drop-down menus on the COD website.

If, through its Return calculation, a school determines that a student has received an overpayment of FSEOG funds, the school must adjust its institutional ledgers, financial aid records, and the student's account by subtracting the amount the school must return (the FISAP filed for the year will reflect the net award to the student). If a student makes a payment on an FSEOG overpayment made in the current award year, the school should deposit the payment in its **federal funds account** and award the funds to other needy students.

If the school collects an overpayment of an FSEOG for an award made in a **prior award year**, the funds recovered should be returned to the Department using the Electronic Refund function in G5. Payments should be applied to the award year in which the recovered funds were awarded.

REPORTING OVERPAYMENTS TO NSLDS

Reporting Overpayments to NSLDS

DCL GEN-98-14, July 1998

All new Perkins, Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, and FSEOG overpayments and previously reported FSEOG overpayments for which an NSLDS data element has changed must be reported.

Perkins and other data providers must meet all NSLDS reporting requirements as detailed in the appropriate operating manuals.

NSLDS reference materials are available on IFAP in our iLibrary at

ifap.ed.gov.

You must report overpayments or changes to previously submitted information to NSLDS within 30 days of the date you learn of the overpayment or change.

If a grant overpayment is the result of the student's withdrawal and a return to Title IV calculation, you must contact the student within 30 days of determining that the student withdrew (see *Volume 5*).

You only report unresolved overpayments if they're due to student error; don't report overpayments that are a result of school error. Instead, as discussed previously, you must use school funds to repay the overpayment.

Reminder

If you report a Pell Grant overpayment in NSLDS, do not reduce the award/disbursement in the COD System by the amount the student must return (unless the student has made a payment to the school). For additional information, please see the discussion earlier in this chapter under *Recording student payments and reductions in the Pell Grant, Iraq and Afghanistan Service Grant, and TEACH Grant programs* and later in this chapter under *School responsibility after referral and accepting payments on referred overpayments.*

You must use the NSLDS Professional Access Website to report overpayments. To do so, your school must have Internet access, and your Primary Destination Point Administrator (PDPA) must have signed up at least one user for Overpayment Updates for NSLDS online services at **https://fsawebenroll.ed.gov**.

Once the overpayment is reported to NSLDS, the student's future output documents will show that he or she has an overpayment (see "NSLDS Match"). The Financial Aid History section of the SAR and ISIR will have information on the overpayment, including whether the student has made satisfactory repayment arrangements.

REFERRING OVERPAYMENTS

Referring overpayments to Default Resolution Group

If you have tried but not succeeded in collecting a Pell Grant, Iraq and Afghanistan Service Grant, ACG, National SMART Grant, TEACH Grant or FSEOG overpayment for which the student is liable, you must refer the overpayment to FSA's Default Resolution Group. To be referred, the **initial amount** of the overpayment must be at least $25.00.

Schools Must Resolve Student Concerns

If a student claims that a school's overpayment determination is erroneous, the school must consider any information the student provides and determine whether the objection is warranted before referring the case for collection.

Note: For an FSEOG overpayment, when a school uses the individual recipient or aggregate matching methods, the overpayment includes only the federal share. When the school uses the fund-specific method of matching, the overpayment includes both the federal and nonfederal shares. See *Volume 6* for more information.

You would still refer a student debt of less than $25.00 to Default Resolution Group when the amount due is a remaining balance or when the amount is the result of the application of the Campus-Based overaward threshold/tolerance. You must make this referral in addition to reporting the overpayment to NSLDS. If your school elects not to refer an overpayment to Default Resolution Group, then your school is liable for the overpayment. In that case, the school must repay the overpayment from its own funds.

To refer student overpayments for collection, schools should use a format similar to the one found at the end of this chapter and send the data to the address at the bottom of that page. Each referral must be typed or printed and must be submitted on school letterhead.

In order to avoid creating a double record for a single overpayment, the school must populate its Overpayment Referral Form: Dates of Disbursement with the exact same dates the school used when it created the NSLDS record. In addition, a school must ensure that it enters the year the disbursement was made in the award year field.

In addition, when referring the overpayment, you should update the overpayment information previously reported to NSLDS by changing the "Source" field from SCH-SCHOOL to TRF-TRANSFER. Once Default Resolution Group has accepted a referred student overpayment, Default Resolution Group will transmit the information to NSLDS and "ED Region" will replace "School" as the appropriate contact source for information about the overpayment.

On its Overpayment Referral, schools must provide their school's Pell Identification Number. Schools should NOT enter their Routing Identifier.

School responsibility after referral and accepting payments on referred overpayments

A school may continue to accept payments on FSA grant overpayments after those overpayments have been referred to the Department. A school that accepts a check on an overpayment that has been referred to Default Resolution Group must

- note the student's name and SSN on the check;
- indicate that the payment is for an overpayment of an FSA grant; and
- forward the payment to Default Resolution Group at:

National Payment Center
P.O. Box 105028
Atlanta, Georgia 30348-5028

If a school accepts a cash payment from one or more students who owe overpayments and who have been referred to Default Resolution Group, the school should write its own check to the Department and attach a letter indicating that the check is for an FSA grant overpayment. The school must include in its letter a roster that includes, for each student who made a payment, the student's name, social security number, and amount paid.

If you want a payment to be applied to a specific overpayment (by program and award year), you must include a memorandum on school letterhead. The memorandum must include the award year and program award number of the award you want credited, and your D-U-N-S number.

If a school receives a payment for an overpayment **previously referred to** Default Resolution Group and if

- the overpayment was made in the current award year, and
- the payment will retire the student's debt in full,

the school must

- deposit the payment in its appropriate institutionally maintained federal funds account;
- for Federal Pell Grant overpayments, make the appropriate entry in the student's record on the COD system (either on COD or via Common Record); and

- send a letter or fax to Default Resolution Group identifying the student and indicating that the student's overpayment has been completely repaid. This will allow the Department to properly update its records in both the Default Resolution Group system and NSLDS.

The fax number for this purpose and **school use only** is

1-903-454-2248

Note: This process cannot be performed via email.

In the fax or letter, a school must include the

- award year of the overpayment (current award year only);
- student's Social Security number;
- student's last name, first name, and middle initial;
- student's date of birth;
- type of overpayment—Federal Pell Grant, Iraq and Afghanistan Service Grant, FSEOG, or TEACH Grant; and
- the disbursement date the institution used to create the overpayment record in NSLDS.

Payment in full

Anytime a school receives a payment (including the application of an FSA credit balance) that will repay an overpayment in full, the school must also update its original submission to NSLDS by changing the entry on the "Overpayment Update Screen" for the Indicator Field to "Repaid."

If a student whose overpayment case has been accepted by the Department wishes to establish a repayment schedule, the student should contact Default Resolution Group by calling:

1-800-621-3115

A student can contact us by going to: **www.myeddebt.ed.gov, and** selecting the *Borrower* tab, *Contact Us,* and *Secure email.*

Responsibilities of Default Resolution Group

Upon receipt of an overpayment referral, the Department will determine if enough information has been provided to start collection activity; any referral lacking information will be returned to your school to be completed.

Default Resolution Group will then try via letters and telephone to establish a repayment schedule or to secure payment in full. Debt Resolution Services will also update the NSLDS information that you've already reported to show that the Department now holds the overpayment. Any future SARs or ISIRs for the student will show that he or she owes an overpayment and will direct the student to contact Default Resolution Group instead of the school. Finally, Default Resolution Group also communicates Pell Grant overpayment referrals to the COD system. COD will then alert a school of a student's Pell Grant overpayment status if the student submits a FAFSA in the future. A student's Iraq and Afghanistan Service overpayment status will be tracked and reported manually.

Information Required when Referring Student Overpayments to Default Resolution Group

Student Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____ _____

Social Security Number: _____ Date of Birth: _____

If the overpayment includes a TEACH Grant, enter the Award Identifier (ID) used when the award was created in COD.

TEACH Award ID: _____

Parent/Spouse Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____ _____

School Information

If your Pell Reporting ID is different than your Pell Attended ID, please provide both. Otherwise, just report the Pell Attended ID.

Reporting School's Pell ID Number: _____ Attending School's Pell ID Number: _____

If your school does not have a Pell ID, Enter your OPE ID: _____

Name of Contact: _____ Telephone Number: _____

Disbursements and Repayments

	Pell Grant	FSEOG [1]	TEACH Grant
Award year in which overpayment was disbursed:	_____	_____	_____
Total grant disbursed:	_____	_____	_____
Dates of disbursement: **(Must match NSLDS overpayment record)**	_____	_____	_____
Overpayment amount owed by student *	_____	_____	_____
Total grant repaid by student to school, if any:	_____	_____	_____
Date of last payment to school, if any:	_____	_____	_____
Total being referred for collection:	_____	_____	[1] _____

[1] If using individual or aggregate matching, report federal share only. Otherwise report total FSEOG.

* If the overpayment is the result of a withdrawal, provide the date of the withdrawal [/ /]

If the overpayment is **not** the result of a withdrawal, please provide a brief explanation of the reason for the overpayment.

_____

_____

SEND INFORMATION TO ⇛ Student Loan Processing Center-Overpayments
P.O. Box 4157
Greenville, Texas 75403

(903) 454-2248 ⇚ FAX

Returning FSA Funds

Here we provide instructions for returning FSA funds for reasons other than the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment. For information about the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment, see Volume 5.

RETURNING FUNDS

There are a number of reasons why a school may have to return funds to the Department, including

- the return of FSA funds required when a school must correct an overaward or an overpayment, and the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment (The return of funds when a student withdraws or otherwise ceases attendance is discussed in *Volume 5.*);
- having FSA funds on hand with no expectation they can be disbursed to other eligible students within three days (excess cash);
- owing the Department for expenditures disallowed during a program review or audit;
- having earned interest on its federal funds (other than in its Perkins account) in excess of $500.00; and
- holding large Federal Perkins Loan cash balances on hand (COH) on the Fiscal Operations report and Application to Participate (FISAP).

Schools can return money to the Department (including excess interest) using the electronic refund functionality in G5. If a school is required to refund cash as part of a liability assessed in an audit or program review, it must follow the instructions provided by the issuing office. For questions or more information on returning funds through G5, please contact the G5 help desk at 888-336-8930.

Returning Excess Interest

No later than 30 days after the end of that award year, the institution must remit to the Department of Health and Human Services, Payment Management System, Rockville, MD 20852, any interest over $500.

Returning funds by depositing them in a school account

Returning funds in a timely manner is one of the factors examined by the Department in evaluating a school's financial responsibility. In addition to the general requirement for schools to return funds, the Department sets specific time frames for students who do not begin attendance and those who begin attendance but cease attendance before completing the period for which they have received Title IV funds. One way for schools to satisfy the requirement is to deposit the funds in the account in which the school keeps its federal funds.

Recommendation

Except in very unusual circumstances or when returning funds from an audit or program review, schools must return funds electronically using G5.

For additional information on returning funds via G5, refer to the G5 website at **www.g5.gov,** or call the G5 Hotline at **1-888-336-8930** for assistance.

Returning funds by depositing them in a federal funds account

For funds obtained from the Department, a school meets the Return requirement if it deposits or transfers the funds into its federal account no later than 45 days after the school determined that a student withdrew or received an overpayment the school was responsible for returning. (Also see *Volume 5*.)

If a school has not drawn down federal funds or has made disbursements that exceed the amount the school has drawn, the school does not need to deposit funds in its federal account. Of course, the school's accounting records must show that school funds were used to credit the student's account.

Returning Funds FADL and FPRD funds by Check

If a Final Audit Determination Letter (FADL) or Final Program Review Determination (FPRD) Letter requires that you return FSA funds by check, you must

1. make the check payable to the U.S. Department of Education; and
2. include the following with your payment:
   - the amount of the liability
   - school's D-U-N-S number
   - the school's 9 digit tax ID number
   - the program review or Audit Control number.

Return of Title IV funds when a school does not maintain a separate federal bank account

The Department considers a school that maintains FSA funds and general operating funds in the same bank account (commingles) to satisfy the requirement that it return unearned funds on a timely basis if

- the school maintains subsidiary ledgers for each type of funds commingled in that account that clearly show how and when those funds were used and the subsidiary ledgers are reconciled to its general ledger,
- the subsidiary ledger for each FSA program provides a detailed audit trail on a student-by-student basis that reconciles to the amount of FSA program funds received and disbursed by the school, and
- the school updates the relevant subsidiary ledger accounts in its general ledger no later than 45 days after it determines that the student withdrew.

More specifically, the return of an unearned funds transaction should be recorded as a debit to an FSA program fund subsidiary ledger account and a credit to the school's operating fund subsidiary ledger account. The date of the return is the date this transaction is posted to the school's general ledger.

WHEN FUNDS ARE CONSIDERED TO HAVE BEEN RETURNED

The Department considers a school to have returned FSA funds when the school has

- deposited or transferred the funds into its federal funds account; or
- initiated an electronic funds transfer (EFT) to the Department.

RETURNING FUNDS FROM AN AUDIT OR PROGRAM REVIEW

If, as a result of a program review or audit, a school is required to repay FSA funds, a copy of its FADL or FPRD letter is sent to the Bank Change and Receivables Group where an account receivable is established for the school. The Department will then, through its billing agent, bill the school for the disallowed expenditures, accrued interest, and penalties, if any. Payment instructions will be included with the bill.

Clarification

- If the total liabilities owed to the Department are less than $1,000, the school is instructed to make any required adjustments in COD and return funds through G5.
- If the total liabilities owed to the Department are $1000 or more but less than $100,000, the school returns the funds by check to a lock box in St. Louis, Missouri.

  Payment and/or adjustments made via G5 will not be accepted as payment of this liability. Before sending its payment, the school must make any required adjustments in COD as required by the applicable finding(s). Upon receipt of the school's payment, the Department will apply the funds to the appropriate G5 award (if necessary).
- If the total liabilities owed to the Department are $100,000 or more, the school returns the funds through its financial institution via electronic transfer (FEDWIRE).

A school may not reduce amounts reported as net drawdowns on its G5 Activity Reports to account for expenditures disallowed as a result of an audit or program review. Any FSA funds returned for this purpose will not be credited to a school's G5 account.

Unless otherwise directed by the FADL or FPRD letter, a school may not adjust its prior-year FISAPs or Federal Pell Grant/Iraq and Afghanistan Service Grant processed payment information to reflect expenditures disallowed as a result of an audit or program review.

Unless specifically instructed by the Department, a school should always repay funds using the appropriate function in G5.

When funds are considered to have been returned for a student who fails to begin attendance

For a student who does not begin attendance, the deposit or transfer of funds, the EFT, or the issuance of the check must occur no later than 30 days after the date that the school became aware that a student will not or has not begun attendance.

The Department considers a school to have returned FSA funds timely if the school

1. deposits or transfers the funds into its federal funds account no later than 30 days after the date that the school became aware that a student will not or has not begun attendance;
2. initiates an electronic funds transfer (EFT) no later than 30 days after the date that the school became aware that a student will not or has not begun attendance; or
3. issues a check no later than 30 days after the date that the school became aware that a student will not or has not begun attendance.

An institution does not satisfy this requirement if

- the school's records show that the check was issued more than 30 days after the date that the school became aware that the student will not or has not begun attendance; or
- the date on the cancelled check shows that the bank used by the Department endorsed that check more than 45 days after the date that the school became aware that the student will not or has not begun attendance.

Returning DL Funds that Can't Be Disbursed Within Three Days

A school that has drawn down more funds than it can disburse due to changes in a student' status between the drawdown and disbursement date would need to return the funds if they could not disburse them within the allowed time frame.

However, if the school expects student will reestablish eligibility within the allowed time frame, such returns would not need to be offset by reductions in the student's record in COD. The school would only need to modify the expected disbursement date.

Reminder

Direct Loan Funds May Be Reawarded

Direct Loan funds are not student-specific; they are program-year-specific. This means that when all or a portion of an actual disbursement for a student is reduced or cancelled, the loan funds can be disbursed to another eligible student who is receiving a loan for that same Direct Loan program year.

If the funds cannot be disbursed within the regulatory time frames, they must be returned to the Department via G5.

DOWNWARD ADJUSTMENT OF FSA GRANT DISBURSEMENT RECORDS AND DIRECT LOAN DISBURSEMENT RECORDS REQUIRED

Returns of FSA Grants funds (except FSEOG and Iraq and Afghanistan Service Grants), other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in students' records in COD. Likewise, all returns of Direct Loan funds must be offset by downward reductions in students' records in COD.

In addition, when all or a portion of a Direct Loan is cancelled (either because the borrower requested the cancellation within the regulatory time frames or to comply with statutory or regulatory requirements), the school must make the appropriate adjustment to the student records in COD.

All returns of FSA Grants and Direct Loan funds previously disbursed (unclaimed credit balances) should be made through the G5 system.

RETURNING DIRECT LOAN FUNDS

If a school is required to return Direct Loan funds to comply with a regulatory or statutory requirement, even if more than 120 days have elapsed since the disbursement date, the school must return DL funds through G5. The school returns Direct Loan funds to the Department following the same procedures the school follows when making other G5 refunds/returns.

All Direct Loan funds that are not disbursed to student or parent borrowers within three business days from the date that the drawdown is received (or within seven calendar days in certain circumstances) must be returned to the Department in accordance with the cash management regulations at 34 CFR 668.166.

However, Direct Loan funds are not student-specific, but are school-program-, and award-ear-specific. This means the funds can be disbursed to other eligible students who will be receiving Direct Loans for the same award year at the same school if the school can disburse the funds within the three-day limit. If the funds cannot be disbursed within the regulatory timeframes, they must be returned.

To ensure the most accurate and timely processing, a school should refund cash electronically via the G5 Website, unless instructed otherwise. If a school needs assistance in making electronic refunds, it should contact the G5 Hotline using the contact information below.

Schools should not use drawdown adjustments in G5 to make a refund of cash. Also, refunds of cash are school- program- and award-year-specific and refunds of cash should not be netted with a drawdown from another school, program, or award year.

If a school is required to refund cash as part of a liability assessed in an audit or program review, it must follow the instructions provided by the issuing office.

If a school is returning cash as a result of refunds made to a borrower's account, a corresponding downward disbursement adjustment must also be reported to the COD System. For further information regarding making disbursement adjustments, refer to the November 21, 2011, Electronic Announcement posted on the IFAP Website.

Direct Loan disbursements, disbursement adjustments, and refunds of cash should be reported or submitted in whole dollar amounts only. The use of pennies in Direct Loan processing will impact a school's ability to successfully complete its monthly reconciliation because its Net Drawdowns may not match the Net Disbursements reported to the COD System.

For additional information on refunding cash via G5, refer to the G5 Web site or call the G5 Hotline at 888-336-8930 or 202-401-6238 for assistance.

The Department discontinued Paper Check Processing of Direct Loan Refunds of Cash on January 1, 2015

For additional information on refunding cash via G5, refer to the G5 website at **https://www.g5.gov/** or call the G5 Hotline at 888-336-8930 or 202-401-6238 for assistance.

For questions about adjusting student loan amounts, contact the COD School Relations Center at 800-848-0978 or 571-392-3737. You may also email CODSupport@ed.gov.

RETURNING FUNDS AFTER 240 DAYS

In all cases, a school will have to request permission to make a change to the FISAP after December 15 following the close of the award year.

TIP

When a school is holding a credit balance and 240 days have elapsed

See Chapter 2 for instructions on how a school should proceed when it is holding a Title IV credit balance and the school has been unable to find the student in the 240 days allowed.

If FSA Grant funds (other than FSEOG and Iraq and Afghanistan Service Grants) must be returned after 240 days, a school must

- enter the student's revised Pell Grant award in COD;
- return the funds to the Department through G5, if applicable; and
- make the appropriate change to the FISAP.

Note that for Pell funds from a prior award year, a school may not use the funds for an eligible student in the current year.

If FSEOG funds must be returned after 240 days, a school must

- enter the student's revised FSEOG award both in the individual student's account and the school's FSEOG ledger;
- either return the funds to the Department through G5 **OR** carry them forward to the next award year; and
- make the appropriate change to the FISAP.

If Perkins Loan funds from a prior award year must be returned after 240 days, a school must

- reimburse its Perkins Loan fund;
- report those funds as income in Part III, Section A of the FISAP; and
- reduce the student's Perkins Loan balance and make an accounting entry to tie that reduction to the journal entry for the aforementioned reimbursement of its Perkins Loan fund.

The school should not make any changes to the student's Perkins promissory note.

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school's FWS account. If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.

Amending a FISAP After the Close of an Award Year or After the December 15, FISAP Correction Deadline

Reminder: December 15, of the year in which a school submits its FISAP is the deadline for submitting data corrections. The time between the October 1, FISAP submission dead line and the December 15 FISAP correction deadline provides schools an opportunity to review and correct their submitted FISAP data.

If a school needs to amend its current FISAP after the December 15 FISAP correction deadline or a prior-year's FISAP, it must use the *Change Request Process*. The FISAP Change Request Process may not be used to request an

- increase in Campus-Based funding; or
- increase in a school's Administrative Cost Allowance.

To submit a change request, a school logs in to eCB for the appropriate FISAP year and selects the appropriate Campus-Based program from the menu on the left. After the school has made the appropriate changes, updated the totals, and saved the data, the school selects the "Submit" link on the left.

The phrase "Change Request" will be displayed below "Submit." The school must select "Change Request" in order to move to the next prompt. After the school selects "Change Request," the system will prompt the school to explain what changes the school is making and why. The school then must provide

- the FISAP part, section number, and line number(s) on which the changes were made;
- the amount of the change; and
- a description of the conditions that require the revision (e.g., to comply with the requirements of 34 CFR 668.22).

After providing all of the required information, the school clicks the "Submit Button" and then affirms that it wants to "Continue to Submit."

The Campus-Based staff will evaluate the school's submission. If a school's request is denied, the Campus-Based staff will inform the school why its request was denied. If the school's request is approved, the Campus-Based staff will notify the school by sending an email to the individual on record as the school's financial aid director (in Field 19) that the school's FISAP has been unlocked and that the school has five days to submit the revised working copy as the final copy.

For assistance with amending a previous year's FISAP, schools should call the Campus-Based Call Center at

1-877-801-7168.

Clarification

RETURNING FUNDS THROUGH G5 FOR BOTH OPEN AND CLOSED AWARDS

Note on Terminology

Federal Student Aid uses the term "return" to describe the process of sending money back to the program from which the funds were drawn. G5 uses the term "refund" to describe that process.

From time to time, a school will have to return funds from a previous award year. A school that needs to return funds from a previous award year logs into G5 as it would when requesting funds or returning funds from the current award year and selects "**Payments**" from the command bar near the top of the screen.

On the next page (the **Payments screen**), under **Refunds,** select "**Refunds Creation**." On the **Create Refunds screen**, you will see two main sections—a section headed "Your Open Awards," and a section headed "Miscellaneous Awards."

There are four award periods:

1. Performance period (59 months)
2. Liquidation period (1 month)
3. Suspension period (1 month)
4. Closeout period

G5 Help

Hours are Monday through Friday from 8:00 a.m. to 6:00 p.m., EST

Phone	**888-336-8930**
TTY	**855-333-2807**
Local	**202-245-6002**
Email	**edcaps.user@ed.gov**

Awards that are in the performance, liquidation, and suspension periods will appear under "Your Open Awards." When you are returning funds for an award that is open, always return the funds to the program from which the funds were drawn. For the award in question, in the column "**Refund Amount**," enter the amount you want to return. In the next column (**Bank Account**) select from the drop down menu the bank account from which you want the funds drawn.

When you have entered an amount for all the programs to which you wish to return funds, select "**Continue**" to navigate to the **Summary screen**. If you believe the information on the Summary screen is correct, select the "**Submit Refund Request(s)**" button to process the refund (return). If you've completed the process correctly, you'll find yourself on the **Confirmation screen.** From the Confirmation screen, copy and save your Tracking Number. (If a refund has not been properly processed, an error message will be displayed at the top of the Summary screen and you can select the "previous" button at the bottom of the screen to go back and correct your data.)

Once an award year has closed (is no longer in the performance, liquidation, or suspension periods), a school will not be able to return funds to a specific program. However, a school can return funds even when a year is closed. To return funds from an award year that is closed a school uses the "Miscellaneous Awards" section at the bottom of the Create Refunds screen. (Note that because refunds made in the Miscellaneous Awards section are not program specific, if you have to return funds from multiple closed awards you can lump them together in one refund.)

To return funds that originated in what is now a closed award, on the **Create Refunds screen**, scroll down to the section headed "**Miscellaneous Awards**." In the column "**Refund Amount**," enter the amount you want to return. In the next column ("**Bank Account**") select from the drop down menu the account from which you want the funds drawn. In the column "**Refund Type**, " select from the drop down menu, the type of refund you wish to make. For example, if you are returning a Title IV Credit Balance that you have discovered was never delivered to the appropriate student, you would select "Closed Awards." Once you have completed your entries, select "**Continue**" to navigate to the **Summary screen**. If you believe information on the Summary screen is correct, select the "**Submit Refund Request(s)**" button to process the refund (return). If you've completed the process correctly, you'll find yourself on the **Confirmation screen.** From the Confirmation screen, copy and save your Tracking Number. (If a refund has not been properly processed, an error message will be displayed at the top of the Summary screen and you can select the "previous" button at the bottom of the screen to go back and correct your data.)

RETURNING FUNDS FROM FFEL LOANS PURCHASED/SERVICED BY THE DEPARTMENT

The Department has purchased many Federal Family Education Loan (FFEL) Program loans from FFEL loan holders. The Department has contracted with several organizations to provide loan services on these purchased FFEL loans.

If a school is required to return any portion of a FFEL Program loan that has been purchased by the Department, the money would be returned to the appropriate federal servicer for that loan.

To identify the current servicer of an FSA loan, access NSLDS and select "Aid." Then identify the student and select "Loan History." Under Loan History, the current loan will be listed at the top. Use the field "Servicer" to identify the organization to which you will be returning funds. Click on the servicer name to access the NSLDS Organizational Contact List page. Additional contact information for the loan servicers is available on IFAP under the "Help" menu (Contact Information / Service Centers for Schools, / Loan Service Centers for Schools.)

You can find a global list of contact information for services on IFAP (**ifap.ed.gov**) under Electronic Announcements.

Information required when returning loan funds to a servicer by check

If a school cannot use the electronic process preferred by the loan's servicer and must return the funds with a paper check, together with the check for the funds the school is returning, the school must include, **on school letterhead**, the following information:

1. The borrower's name
2. The borrower's Social Security number
3. The loan's unique CommonLine ID
4. The type of loan (subsidized unsubsidized, PLUS, etc.)
5. The period for which the loan was certified
6. The scheduled and actual date of the disbursement
7. The amount of the disbursement
8. The amount being returned
9. The reason the funds are being returned (cancellation, overpayment, withdrawal, or failed to begin class)
10. The school OPE ID
11. The name and phone number of the school official returning the funds

RETURNING FEDERAL PERKINS LOAN PROGRAM FUNDS TO THE DEPARTMENT

The preferred method for returning Perkins funds to the Department is to use the Department's G5 Website (**g5.gov**), which allows you to electronically refund the money directly to the Department using the Miscellaneous Refunds option. Utilizing G5 reduces chances for human error and processing delays.

When returning Excess Liquid Capital, schools must use the Miscellaneous Refunds option and select the appropriate Refund Type to ensure that returned funds are properly identified and applied.

The Electronic Process (G5) to Return Perkins Loan Funds to the Department is as follows:

1. Log into G5 **www.g5.gov**.
2. Click on Payments.
3. Click on Create Refunds.
4. Under Refunds Creation, click on the Miscellaneous Refunds tab and select Continue.
5. On the Create Miscellaneous Refunds tab, enter the required details below and continue to submit
   a) Refund Amount
   b) Bank Account Information to be debited
   c) Select Appropriate Refund Type
      - Perkins Excess Cash—Use this type when returning the Federal Share of the Excess Liquid Capital (ELC)
      - Perkins Liquidation—Use this type when closing out your Perkins Loan Fund and returning the Federal Share at the end of the school's liquidation process

Reminder

Only in exceptional circumstances should schools return Perkins funds by check.

If your school has no recourse other than to pay by check, you must do the following:

1. Make the check payable to the "U.S. Department of Education."
2. Include with the remittance the correct school name and or OPEID number, and DUNS numbers.
3. Include the reason for the remittance on any accompanying paperwork included with the check:
   - Perkins Excess Cash—when returning the Federal Share of the Excess Liquid Capital;
   - Perkins Liquidation—when closing out your Perkins Loan Fund and returning the Federal Share at the end of the school's liquidation process.
4. Mail the check and remittance information to the following address:

   U.S. Department of Education
   P.O. Box 979053
   St. Louis, MO 63197-9000

5. Notify Campus-Based Division that a check was sent by sending an email to perkinsliquid@ed.gov.

If you have further questions or need assistance, contact the G5 Help Desk via email at edcaps.user@ed.gov or by phone at **1-888-336-8930**.

CHAPTER 5

Reconciliation in the Pell Grant and Campus-Based Programs

THE IMPORTANCE OF TITLE IV RECONCILIATION

Reconciliation and fiduciary responsibility

Except for funds received by a school for administrative expenses and for funds used for the Job Location and Development (JLD) Program, funds received by a school under the Federal Student Aid (FSA) programs are held in trust for the intended student beneficiaries. As a trustee of those funds, a school must have procedures in place that ensure FSA funds are used as intended.

The cash management regulations establish rules and procedures that a school must follow in requesting and managing FSA program funds. Under the cash management regulations, a school has a fiduciary responsibility to have a system in place to

- safeguard FSA funds,
- ensure FSA funds are used only for the purposes intended,
- act on the student's behalf to repay a student's FSA education loan debt when the school is unable to pay a credit balance directly to the student, and
- return to the Department any FSA funds that cannot be used as intended.

Failure to have such a system in place calls into question a school's administrative capability, its fiscal responsibility, and its system of internal controls. In short, it calls into question a school's qualifications to participate in the FSA programs.

A key component of the system described is the process of ***reconciliation***. Reconciliation is a process in which financial records are compared and discrepancies resolved. Conducting reconciliation frequently can help ensure that your school is properly exercising its fiduciary responsibilities to safeguard federal funds and ensure that they are used as intended.

Your school should have documented reconciliation procedures that describe who, how, and when your school will reconcile. You should review these procedures regularly to identify issues and make any necessary improvements. Your school must meet all cash management and disbursement reporting requirements. Regular reconciliation can help identify and resolve discrepancies so your school can stay in compliance.

Internal Controls in Automated Systems

Since no one person may have the ability to change data that affect both authorization and disbursement, if award entries made by the financial aid office automatically roll over and populate award fields in the business office, then the separation of functions must take place elsewhere.

For example, if your system automatically awards funds based on a student's budget, then your system must ensure that only employees with a special security standing can change those budgets or otherwise modify a student's award. In addition your system must be able to identify any employee who makes a change to a data element that can affect the level of a student's award (anyone who initiates a budget or award override).

Title IV reconciliation is the process by which a school reviews and compares Title IV aid (grants, loans, and Campus-Based aid) recorded on the Department's systems with the information in the school's internal records. Through reconciliation, disbursement and cash discrepancies are identified and resolved in a timely manner to ensure the school meets all regulatory requirements. Schools must document their reconciliation efforts and retain this documentation for auditing purposes.

If completed on a regular basis, reconciliation can assist schools in determining whether the disbursement reporting and excess cash deadlines noted above are being met, and also whether any additional data needs to be submitted to ensure all school data is reflected correctly in the Department's records.

When a school compares business office records of funds requested, received, disbursed, and returned to financial aid office records of funds awarded to students it is performing ***internal reconciliation***. When the school compares its reconciled internal records to the Department's records of funds received and returned, and of grants or loans originated and disbursed to students at the school, it is performing ***external reconciliation***. When it performs external reconciliation, a school is ensuring that the Department's records reconcile with the school's records, both at the cumulative and individual student levels.

At a minimum, your school should reconcile its FSA financial records monthly. However, the more frequently your school performs reconciliation, the more likely you will be able to identify issues and resolve them before they become part of a systemic problem. Frequent reconciliation is an important internal control procedure that can make a significant contribution to increasing the overall program integrity of the FSA programs at your school. In addition, schools that have systems in place to compare and identify discrepancies between their internal records and data from Department reports will find that the required monthly reconciliation is much easier and makes closing out a year less time consuming.

Speak with your school's administrative software systems specialists about creating a program that compares COD student level data to:

- student Title IV award information maintained separately by the financial aid office;
- Title IV funds posted to each student's account; and
- and reports exceptions found during the comparison process.

The following are conditions that might cause the type of discrepancies you can identify by using COD reports in your school's reconciliation process:

- A recipient's disbursement data appears on the school's records for an award amount less than the amount shown in the COD system.
- A recipient's data appears on the school's records for an award amount greater than the amount shown in the COD system.
- A recipient's disbursement data appears on the school's records but does not appear in the COD system.

Note: The Department has reviewed the operation of schools where the schools' administrative systems generate reports whenever data in the schools' business and financial aid offices do not agree (sometimes as often as daily). The schools' Directors of Financial Aid and its Business Officers meet whenever the reports are generated to resolve discrepancies. We found that at these schools, the annual internal closeout takes hours rather than days and that time required for reconciliation with the Department's data is equally reduced.

Who is responsible for reconciliation

Because each office has access to and expertise with data needed to facilitate the process, cooperation between the business and financial aid offices is essential if reconciliation of FSA funds is to be successful. For example, the financial aid office will likely be the source of information sent to and reports received from the COD system, whereas the business office is generally responsible for G5 and student accounts.

While it is possible and even advisable for financial aid and business office staff to be able to view information in each other's systems, there is no substitute for the direct involvement of professionals in each office in the reconciliation process.

Reconciliation and a school's coordinating official

Coordinating official
34 CFR 668.16(b)(1)

Department regulations require that every participating school designate a capable individual to coordinate aid from the FSA programs with all other aid received by students attending the school. The coordinating official is responsible for ensuring that the school has a system for identifying and resolving discrepancies in FSA-related information no matter where it occurs at the school. Note that resolution includes determining what information is correct **and** correcting the inaccurate data. Since the resolution of discrepancies in data is the essence of reconciliation, your school's coordinating official should be part of the reconciliation process. (See *Volume 2* for more information about the requirement for schools to have coordinating officials.)

Important

Reconciliation is a process that a school must perform in operating the FSA programs. It is also a tool that a school should use to ensure that its management of the FSA programs is optimal. Most importantly, reconciliation is a shared responsibility. That is, the business office and the financial aid office are equally responsible for performing the periodic reconciliation that is required to make certain that a school is managing the FSA programs as they should be managed. This responsibility involves much more than the mere sharing of reports. It requires joint action by the financial aid and business office to identify discrepancies and to correct them in a timely manner.

The Department does not specify the office in which your school's coordinating official must work. Neither do we specify the type of system your school must have to reconcile its data internally and externally. The Department does require that your school have a coordinating official and that your school performs reconciliation. (See *Volume 2* for more information on the requirement to have a coordinating official and other key requirements of administrative capability.)

Recommended general reconciliation practices

A key factor in facilitating reconciliation is staying on top of the process. The Department encourages schools to

- define responsibilities of key individuals and offices;
- document your reconciliation procedures;
- build in regular communication between your business office, financial aid office, and school's technical staff;
- compare internal student accounts and business office/bursar records with financial aid office records and resolve any discrepancies;
- balance all subsidiary accounts to the general ledger;
- ensure that all drawdowns and refunds of cash are accounted for and applied to the correct program year;
- ensure that all batches have been sent to and accepted by the COD system, all disbursements and adjustments are accurately reflected on the COD system, and all responses are imported into the school's system;
- ensure that all unbooked loans are booked or inactivated (reduced to $0) for Direct Loans;
- resolve all outstanding rejected records;
- return all refunds of cash via G5; and
- request any remaining funds owed to the school based on actual disbursements accepted by the COD System.

Contact Information

For disbursement reporting, excess cash, or reconciliation questions specific to the Federal Pell Grant or Direct Loan Programs, contact the COD School Relations Center at 1-800-474-7268 for Grants and 1-800-848-0978 for Direct Loans. You may also email CODSupport@ed.gov.

For reconciliation questions specific to the Federal Work-Study, Federal Supplemental Educational Opportunity Grant, or Federal Perkins Loan programs, contact the Campus-Based Call Center at 1-877-801-7168. You may also email CBFOB@ed.gov.

Each school is assigned a COD reconciliation coordinator who can assist you with specific reconciliation questions. They can be reached by calling the number above. If reconciliation issues arise that require your school's immediate attention, your school's COD Reconciliation Coordinator may contact you.

Internal Reconciliation

Discrepancies that occur between the financial aid and business offices are usually caused by a lapse in communication. Note that these discrepancies often do not show up in a comparison of the financial aid office's records to COD, or in the comparison of drawdowns/returns between the business office and G5 payment system. For instance

- the financial aid office notifies the business office that the student is eligible for payment on a certain date, but the disbursement record is rejected by COD. If the financial aid office doesn't tell the business office to cancel the disbursement, the business office draws down funds and makes a disbursement to the student that is not supported in COD or in the financial aid office's records.
- the business office cancels a disbursement and/or makes a refund of cash to the G5 system without informing the aid office. Thus, the original amount will still be included as a disbursement but will not be reflected in the net Cash Receipts.

We recommended that before you compare your school's records to the Department's records, you ensure the financial aid office and the business office agree on the amount of funds that should have been drawn down from G5 to cover the funds disbursed to students. Therefore, the first step in the reconciliation process should be to confirm that business office records of actual disbursements posted to student accounts are consistent with financial aid office records of student award and scheduled disbursement amounts.

Discrepancies can be avoided by establishing daily or weekly communication touchpoints between the two offices or by scheduling a data comparison between the two office's systems. Resolving differences in internal reconciliation will lead to a smoother external reconciliation with the Department's official data.

Internal reconciliation should also include steps to reconcile cash transactions such as drawdowns and refunds of cash. Your school should ensure that bank statements correctly reflect all funds drawn or returned and that this information matches the school's ledgers and other internal records. Your school should confirm that any returns of Title IV aid calculated by the financial aid office are reflected correctly in the business office student account records and that any funds not necessary for immediate use have been returned to the Department.

So, you could begin the internal reconciliation process by comparing a monthly financial aid office roster of scheduled disbursements to a monthly business office cash detail report that reflects funds drawn down and funds disbursed for the month. If you discover discrepancies, you must resolve them.

TIP

Reconciliation and Third-Party Servicers

If your school uses a third-party servicer, your school is ultimately responsible to ensure that all regulatory requirements are being met and that your school is reconciling on a regular basis. You should request and retain documentation of your reconciliation efforts. Also, a part of your reconciliation should include ensuring that your school internal records match what is at the servicer as well as what is in the COD System.

In addition, you should also compare business office and financial aid office records of adjustments (refunds of cash) made during the month. Often, returns of cash due to withdrawals performed by the financial aid office aren't applied by the business office. Just as often, adjustments made by the business office aren't noted in the financial aid office. Either of these omissions can cause an internal discrepancy that will affect a school's Ending Cash Balance and should be resolved before a school begins its external reconciliation process.

Remember, no matter the method you choose to perform internal reconciliation, the Department advises you to complete that process before you begin external reconciliation.

Final Reconciliation

If a school is meeting all disbursement/adjustment reporting, excess cash, and reconciliation requirements, a final reconciliation should begin no later than the last award or payment period end date at the school for a given program and year. A school should be able to reconcile to a zero ending cash balance soon after its final disbursements and should not carry an ending cash balance (positive or negative) for an extended period.

External Reconciliation

During internal reconciliation, the school will have resolved any differences between records in the financial aid office and those in the business office. In external reconciliation, a school will reconcile its records to the Department's records.

RECONCILIATION IN THE PELL GRANT PROGRAM

Though there is no regulatory requirement for reconciling your school's Pell Grant Program operations on a monthly basis, it is almost impossible to satisfy other program requirements without performing monthly reconciliation of your school's Pell Grant Program participation.

For example, a school must submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records no later than the deadline dates as published in the Federal Register notice (see sidebar) after making a Pell Grant or Iraq and Afghanistan Service Grant disbursement or becoming aware of the need to adjust a student's previously reported disbursement for those programs. A school's failure to submit disbursement records within the required time frame may result in an audit or program review finding.

To be proactive, on a monthly basis, your school should compare

- the records of Pell Grant awards and scheduled disbursement to students made in the financial aid office to awards on individual student accounts in the business office;
- the record of disbursements in the school's Pell Grant Program ledger to the record of Pell Grants disbursed to students in the business office;
- the individual and program records of all adjustments (positive and negative) made during the period; and
- on an individual and program basis, the record of Pell Grants disbursed to students in COD to the records of Pell Grant disbursements in the business office.

Time Frame for Submitting Disbursements

A school must submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records and Direct Loan disbursement records, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement.

The Department considers that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed on the date that the school (a) credits those funds to a student's account in the school's general ledger or any subledger of the general ledger, or (b) pays those funds to a student directly. We consider that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed even if a school uses its own funds in advance of receiving program funds from the Department.

A school's failure to submit disbursement records within the required time frame may result in the Department rejecting all or part of the reported disbursement. In addition, such failure may result in an audit or program review finding. In addition, the Department may initiate an adverse action, such as a fine or other penalty for such failure.

Federal Register Volume 81, Number 64 (Monday, April 4, 2016)

Monthly reconciliation for the Pell Grant Program should include verifying that individually and cumulatively the following:

- Records of student awards and pending disbursements calculated and maintained by the financial aid office match the records of pending disbursement data received or maintained by the business office;
- Business office records of actual disbursements posted to student accounts are consistent with financial aid office records of student eligibility and applicable award and disbursement amounts;
- Records of disbursements in the general ledger match those in subsidiary ledgers (e.g. student ledgers and accounts);
- The actual disbursements posted to students' accounts internally match the actual disbursements accepted in the COD system (including any adjustments to actual disbursements); and
- Cumulative school and COD records of Pell Grant disbursements match Net Draws (Drawdowns—Refunds of Cash) in G5 for the award year in the Pell Grant Program.

Reconciling school-level data

Whether you maintain your records electronically or on paper, comparing the records of Pell Grant awards made to students by the financial aid office to the records of Pell Grant disbursements recorded in individual student accounts is not a complex task. If awards recorded by the aid office automatically populate the business office records, the data should always agree.

If your school's processes are automated, your systems' staff can create a program that compares the relevant data elements and generates an exception report that identifies discrepancies between business office and financial aid office data. Reconciliation of school level data functions is an internal control check mechanism. By reviewing the exception report on a daily basis, the bursar ensures that the school's internal records agree and he or she also confirms that the school's system for communicating data between offices is functioning correctly.

Pell Grant Reconciliation Defined

Pell Grant Reconciliation is the process by which a school reviews and compares Pell Grant data recorded on the Department of Education's (the Department's) systems with the information in the school's internal records. This process should be performed on a regular basis and is recommended at least monthly.

Internal Reconciliation

This is the reconciliation of disbursement transactions (actual disbursements and adjustments) and related cash transactions (Drawdowns, Drawdown Adjustments, Refunds of Cash, and Returns) between your Business Office records and Financial Aid system. If discrepancies are found, your school should document these and resolve them in a timely manner.

External Reconciliation

This is the reconciliation of internal disbursement and cash balances from the Business Office and Financial Aid Office with disbursement and cash balances from the COD System. At a minimum, this reconciliation should be completed at least monthly to ensure that data is correct in all systems and that cash management and disbursement reporting timelines are being met. If you have completed your internal reconciliation first, your school will have fewer discrepancies to resolve when you perform this external reconciliation. The Department offers various tools to assist you with external reconciliation.

Reconciling school-level data with COD Pell Grant data

Your school should reconcile all cash (Drawdowns and Refunds of Cash) and disbursement records (Actual Disbursements and Adjustments) with information in COD on an ongoing basis (external reconciliation). This will greatly minimize the number of post deadline adjustments and help identify and resolve issues as they arise. There are many tools specific to the Pell Grant program available to assist you in your reconciliation efforts.

In reconciling school level Pell Grant records of individual awards to students with individual student records maintained in COD, you can use the following tools:

- Pell Grant Reconciliation Report

  The Pell Grant Reconciliation Report is a one-record student summary of processed records and can be helpful to your school as it completes both the year-end and ongoing reconciliation processes. This report can be downloaded, printed, or imported into a spreadsheet for comparison with your school's data. This report provides the total year-to-date (YTD) disbursement amount per student as it is in COD.

- Pell Grant Electronic Statement of Account (ESOA)

  The ESOA summarizes the status of a school's current funding level (CFL) versus the net drawdown for that award year. In addition, the ESOA provides (for the current processing day only) the YTD Unduplicated Recipient Count, the YTD Total Accepted and Posted Disbursements, the YTD Total ACA paid to schools, and the net drawdown payments in G5 up to the current processing day. That is, it provides the sum of school initiated drawdowns, direct payments for Obligate/Pay accounts, adjustments (+/–) less refunds, and returns.

- Pending Disbursement List Report

  The Pending Disbursement List Report contains disbursements not yet funded in COD. This "list by student" reports anticipated disbursements received and accepted, but not yet made, in a school's Pell Grant Program.

- Pell Grant YTD Record

  A Pell Grant YTD Record can be requested for an individual student or for all Pell Grant recipients at your school. A YTD Record contains more detailed award and disbursement data than the Pell Grant Reconciliation Report. It contains information at the individual transaction level. The YTD Record can be used to replace a corrupt database or to reconcile records with accepted data on COD.

TIP

Resources

The COD School Relations staff at

1-800-474-7268 and at

CODSupport@ed.gov

is available to help users within COD reports in the reconciliation process.

Note that the email address for COD School Relations is new.

COD reports

The Common Origination and Disbursement (COD) Technical Reference, Volume VI, Section 8—Reports can be found at **https://ifap.ed.gov/ifap/publications.jsp.**

Click on ***COD Technical Reference*** and choose the appropriate Award Year.

The YTD Record shows the award information that COD is using for each student. You can view each individual disbursement as well as the total disbursed to a student for the year. The YTD Summary will show the total number of recipients at your school, and the number of awards, and the disbursements accepted, rejected, or corrected. The detailed information in a YTD Record can help your school resolve discrepancies between school and COD data.

You can also use the following COD Website screens:

- Funding Information Screen

  The Funding Information Screen shows totals such as Current Funding Level, Available Balance, Net Drawdowns, Net Accepted and Posted Disbursements and Cash > Net Accepted and Posted Disbursements. These totals can be used to compare against your internal totals from both your Business Office and Financial Aid Office. If discrepancies are found, the detail should be compared and any discrepancies resolved.

- Cash Activity Screen

  The Cash Activity Screen shows all individual Drawdown, Refund of Cash, and Drawdown Adjustment transactions received in COD from G5. This information can be used to reconcile to internal bank statements and cash transactions.

- Action Queue Screen

  The Action Queue Screen lists all pending disbursements. It can be used to determine if pending disbursements need to be canceled (reduced to zero) or made into actual disbursements. (It is updated daily.)

All schools must finalize reconciliation of cash and reporting of Pell Grant and Iraq and Afghanistan Service Grant disbursements and disbursement adjustments by the annual deadline of September 30 of the award year (i.e., for 2016–2017, the deadline will be September 30, 2017). Any adjustments to disbursements after that date may require a request for extended processing. Both Pell Grant and Iraq and Afghanistan Service Grant are closed five years after the end of processing for the award year (e.g., for 2016-2017, the award year will close September 30, 2022). Therefore, no disbursement or disbursement adjustments may be made in those programs after that time. Any funds that need to be returned after the five-year period must be returned directly to the Treasury. If you need assistance returning funds after the five year closing date, please contact G5 customer service at **1-888-336-8930**.

Sample Electronic Statement of Account (ESOA)

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Report Date: MM/DD/CCYY    U.S. Department of Education                PAGE:  1
Report Time:   HH:MM:SS 2015-2016 FEDERAL PELL GRANT PROGRAM
                         ELECTRONIC STATEMENT OF ACCOUNT
*******************************************************************************

PELL SCHOOL NUMBER                                                   001005
COMMON SCHOOL IDENTIFIER                                            12345678
SCHOOL NAME                                        ALABAMA STATE UNIVERSITY
STATE                                                                   AL
GRANTEE DUNS NUMBER                                                040672685
GAPS AWARD NUMBER                                          P063P   20041031

   Transaction Date                                          MM/DD/CCYY

   Previous Pell Grant Obligation                       $999,999,999.99
   Current Pell Grant Obligation                        $999,999,999.99
   Adjustment (Increase + or Decrease -)                $999,999,999.99+

   Previous Pell Grant Payments                         $999,999,999.99
   Current Pell Grant Payments                          $999,999,999.99
   Adjustment (Increase +)                              $999,999,999.99+

   GAPS Drawdowns/Payments                              $999,999,999.99
   Date of Last Activity in GAPS                             MM/DD/CCYY

   YTD Total Unduplicated Recipients                             999,999
   YTD Pell Accepted and Posted Disbursement Amount     $999,999,999.99
   YTD Administrative Cost Allowance                    $999,999,999.99

   As of Document ID/Batch ID           2015-12-31T06:12:34.4599999999


Payments apply only to "Obligate/Pay" accounts.
```

Sample ESOA – Detailed Information

```
Report Date: MM/DD/CCYY    U.S. Department of Education                PAGE:  2
Report Time:   HH:MM:SS 2015-2016 FEDERAL PELL GRANT PROGRAM
                         ELECTRONIC STATEMENT OF ACCOUNT
*******************************************************************************

ESOA DETAIL DOCUMENT INFORMATION

TRANSACTION                          ADJUST
DATE          ADJUST AMOUNT          PROCESS DATE   DOCUMENT/BATCH ID
------------  ----------------       ------------   -------------------------------
MM/DD/CCYY    $999,999,999.99-       MM/DD/CCYY     2015-12-31T06:12:34.4599999999

MM/DD/CCYY    $999,999,999.99+       MM/DD/CCYY     2015-12-31T06:12:34.4699999999

MM/DD/CCYY    $999,999,999.99-       MM/DD/CCYY     2015-12-31T06:12:34.4799999999

MM/DD/CCYY    $999,999,999.99+       MM/DD/CCYY     2015-12-31T06:12:34.4899999999

MM/DD/CCYY    $999,999,999.99-       MM/DD/CCYY     2015-12-31T06:12:34.4999999999

MM/DD/CCYY    $999,999,999.99+       MM/DD/CCYY     2015-12-31T06:12:34.5099999999

MM/DD/CCYY    $999,999,999.99-       MM/DD/CCYY     2015-12-31T06:12:34.5199999999
```

Final Reconciliation of a Pell Grant Award Year

In addition to regular monthly reconciliation of Pell Grant data, a final reconciliation should be performed as soon as possible after final scheduled disbursements have been made for the award year. This final reconciliation should ensure that all data is correct, and that Total Net Drawdowns equal Net Accepted and Posted Disbursements in the COD System (Cash > NAPD balances should equal $0.00). This process must be performed within the applicable data submission deadline (defined below), as well as immediately following processing of any additional data by the school (for example, eligible late disbursements or disbursement adjustments made within regulatory timeframes, but which occur after the data submission deadline). There are two deadlines which impact this process.

Completing Final Reconciliation

If a school is meeting all disbursement/adjustment reporting, excess cash, and reconciliation requirements, final reconciliation should begin no later than the last award or payment period end date at the school for a given program and year. A school should be able to reconcile to a zero ending cash balance soon after its final disbursements and should not carry an ending cash balance (positive or negative) for an extended period.

Data Submission Deadline

The data submission deadline is published annually in a Federal Register Notice. It is generally the end of September following the end of the award year. For example, the 2015–2016 Award Year will close on September 30, 2016. After this date, the COD System will not accept upward awards or disbursement adjustments without prior approval for an extension to the established data submission deadlines (downward adjustments will continue to be accepted). If your school needs to request an extension to the data submission deadline, this request may be submitted via the COD Website at https://cod.ed.gov.

Additional Information

For additional information on Pell Grant Program Reconciliation, contact the COD School Relations Center at 800/474-7268. You may also email CODSupport@ed.gov.

Funding Cancellation Deadline

Pell Grant funding availability is canceled five years after the data submission deadline for the award year. For example, for the 2015–2016 Federal Pell Grant Award Year (July 1, 2015–June 30, 2016), the funding cancellation date is September 30, 2016 [2011 + 5 = 2016]. After that time, schools will be unable to draw down or adjust further funds via G5 (although refunds of cash will still be accepted), and the COD System will be completely closed to any further award or disbursement processing for that award year. As such, schools must complete all final reconciliation activities well before this final deadline and in accordance with disbursement reporting timelines and the data submission deadline defined above.

Final reconciliation should be performed as soon as possible after your school's final scheduled disbursements have been made for the award year. This process must be performed within the applicable data submission deadline, and immediately following processing of any additional data received by the school (e.g., disbursement adjustments made within regulatory timeframes, but which occur after the data submission deadline and returns of unclaimed credit balance checks).

RECONCILIATION, RECORDS, AND INTERNAL CONTROLS IN THE CAMPUS-BASED PROGRAMS

Monthly Reconciliation Required

A school is required to reconcile its Campus-Based records no less frequently than once a month.

Schools may be required to provide records of their monthly reconciliations during the required annual audit or during a program review.

Perkins 34 CFR 674.19(d)(1)
FWS 34 CFR 675.19(b)(2)(iv)
FSEOG 34 CFR 676.19(b)(2)

FISAP
Campus-Based Programs 34 CFR 673.3
Perkins Loan Program 34 CFR 674.19(d)(2)
FWS 34 CFR 675.19(b)(3)
FSEOG 34 CFR 676.19(b)(3)

A school is required to reconcile its Campus-Based program and financial records at least monthly. In addition, you perform annual reconciliation of your school's annual participation in the Campus-Based programs when you complete the *Fiscal Operations Report* (FISOP). The FISOP is parts III, IV, V, and VI of the *Fiscal Operations Report and Application to Participate* (FISAP).

Note: If you participated in any Campus-Based programs in an award year, you must report on your activities for those programs by completing the appropriate portions of the FISAP by the following October.

Your school must reconcile, at least monthly, your Campus-Based draws recorded in G5 to the funds received in the bank account your school has designated to receive electronic transfers and account for any discrepancies.

In addition, your school must have a system that, on at least a monthly basis, reconciles your drawdowns for the award year in the individual Campus-Based Programs plus any funds provided by your school or received from other sources to the amounts expended in the three programs.

Reconciliation and the Federal Perkins Loan Program

Your school must have a system that, on at least a monthly basis, reconciles and accounts for any discrepancies in

- the cash on hand in your Perkins fund at the start of the period;
- federal funds received and deposited in your Perkins fund during the period;
- school funds deposited in the Perkins fund during the period,
- payments of principal, interest, late charges, and collection charges received during the period;
- other additions to the Perkins fund during the period, to loans made to students during the period;
- expenses paid from the fund during the period (including ACA);
- accounts on which incorrect information is recorded in NSLDS; and
- cash on hand in the fund at the end of the period.

Reconciliation and the Federal Supplemental Educational Opportunity Grant Program

Your school must have a system that, on at least a monthly basis, reconciles the federal funds drawn down during the period for FSEOG awards, plus funds transferred (or carried) in from the other Campus-Based Programs during the period, plus any nonfederal funds (both institutional and noninstitutional) made available for grants to students during the period, plus any other resources designated as FSEOG awards to students during the period to FSEOG awards made to students during the period, plus ACA, and accounts for any discrepancies.

Reconciliation and the Federal Work-Study Program

Your school should reconcile monthly the amount drawn down and received to the amounts disbursed to students or returned to the Department, and explain all discrepancies.

Your school must have a system that, on at least a monthly basis, reconciles the federal funds drawn down during the period for FWS awards, plus funds transferred (or carried) in from the other Campus-Based programs during the period, plus any nonfederal (both institutional and noninstitutional) funds made available for FWS payments to students during the period **to** FWS funds paid to students during the period, plus ACA, plus Job Location and Development expenditures, and accounts for any discrepancies.

In addition, you should examine your FWS Program and fiscal records at the start of the award year and monthly thereafter.

- Do you have a method for verifying that a student's rate of pay in your payroll system matches the rate of pay on which the award was calculated, and if the rate assigned to the position and the experience level of the student matches the levels required by the school's policies and procedures?
- Do you have a system that records the maximum a student may earn in FWS wages and alerts you if a student approaches that amount?
- Do you periodically evaluate your rate of expenditures to determine if you are spending funds at the same rate, if you are spending less, or if you are spending more than the amount you budgeted for FWS expenditures?
- Are your matching funds consistently deposited at the same time you received your federal share?

In the FWS Program, your requests for funds should always be for a payroll for which data has been entered. The only time your need for funds should be greater or less than your draw is when anticipated payments from an off-campus employer are early or late. Excepting those occasions, do you often find yourself requesting additional funds or returning unused funds?

- Do you have a process in place to ensure that students are actually working the hours reported—that timesheets are accurate?
- Do you frequently audit payrolls to test whether hours recorded in the payroll system match the hours reported on student timesheets?
- Do you reconcile the expenditure of funds in the community service part or your FWS program to the reports submitted by employers?

CONTACT INFORMATION FOR RECONCILIATION

For disbursement reporting, excess cash, or reconciliation questions specific to the Federal Pell Grant, TEACH Grant, or Direct Loan programs, contact the COD School Relations Center at 800/474-7268 for Grants and 800/848-0978 for Direct Loans. You may also e-mail CODSupport@ed.gov.

For reconciliation questions specific to the FWS, FSEOG, or Federal Perkins Loan programs, please contact the Campus-Based Call Center at 877-801-7168. You may also email CBFOB@ed.gov

CHAPTER 6

Reconciliation in the Direct Loan Program

OVERVIEW OF DIRECT LOAN RECONCILIATION

A school that participates in the Direct Loan Program is required to reconcile cash (the funds it has received (from the G5 system) to pay its students) with disbursements (the actual disbursement records) it has submitted to the Common Origination and Disbursement (COD) system. Schools are required to reconcile monthly.

Direct Loan monthly reconciliation required
34 CFR 685.300(b)(5)

All Direct Loan schools are also required to complete a year-end closeout which is a final reconciliation of their Direct Loan accounts. This should be done as soon as possible after the end of the school's latest award period (loan period) end date, but no later than the program year closeout date. As a reminder, all cash management, disbursement reporting, and monthly reconciliation regulatory requirements supersede the closeout deadline so a school should be able to reconcile to a zero Ending Cash Balance and close out soon after its final disbursements and should not wait until the closeout deadline. The Direct Loan Program year closeout date occurs on the last processing day of July in the year following the award year. For example, the program year closeout date for 2015–16 will be July 31, 2017.

Ending Cash Balance = A school's Net Drawdowns/Payments in (G5) minus the Total Net Booked Disbursements in COD

The starting point for reconciliation is the Ending Cash Balance (ECB) on the School Account Statement (SAS) that COD sends to the school each month. The SAS is the Department's official record of your school's cash and disbursement transactions. The ECB is simply the difference between the net drawdowns/payments your school has received from the G5 payment system, and the actual disbursement information you've reported to COD (and COD has accepted) for individual students and parents (known as Total Net Booked Disbursements).

Ideally, the net drawdown/payments your school has received in the past month will be fully substantiated by the total net disbursements your school has reported (including any subsequent adjustments). Therefore, your school's monthly ECB should be as close to zero as possible keeping timing variances in mind.

Booked vs. Unbooked Disbursements

For a disbursement to be considered booked, it must consist of the following three components.

1. It must be a part of an accepted loan origination record (as submitted to COD by the school);
2. It must have an accepted Master Promissory Note associated with it (linked MPN); and
3. It must be reflected as an actual disbursement in COD (the Disbursement Release Indicator = "True" and the date of disbursement must have occurred).

Once these three things occur, the loan is booked and sent to the loan servicer assigned to the borrower, and the student is liable in accordance with the terms and conditions stated in the Master Promissory Note.

Unbooked disbursements include any future dated transactions with disbursement dates falling after the end of the report.

When the ECB for a month is greater or less than zero, you must be able to account for any differences between the net totals for Booked Disbursements and Drawdowns/Payments. The SAS provides you with the information that the Department has recorded for your actual disbursements to students and cash transactions (payments/drawdowns). You can use this information as a starting point in identifying the underlying reasons for the ECB.

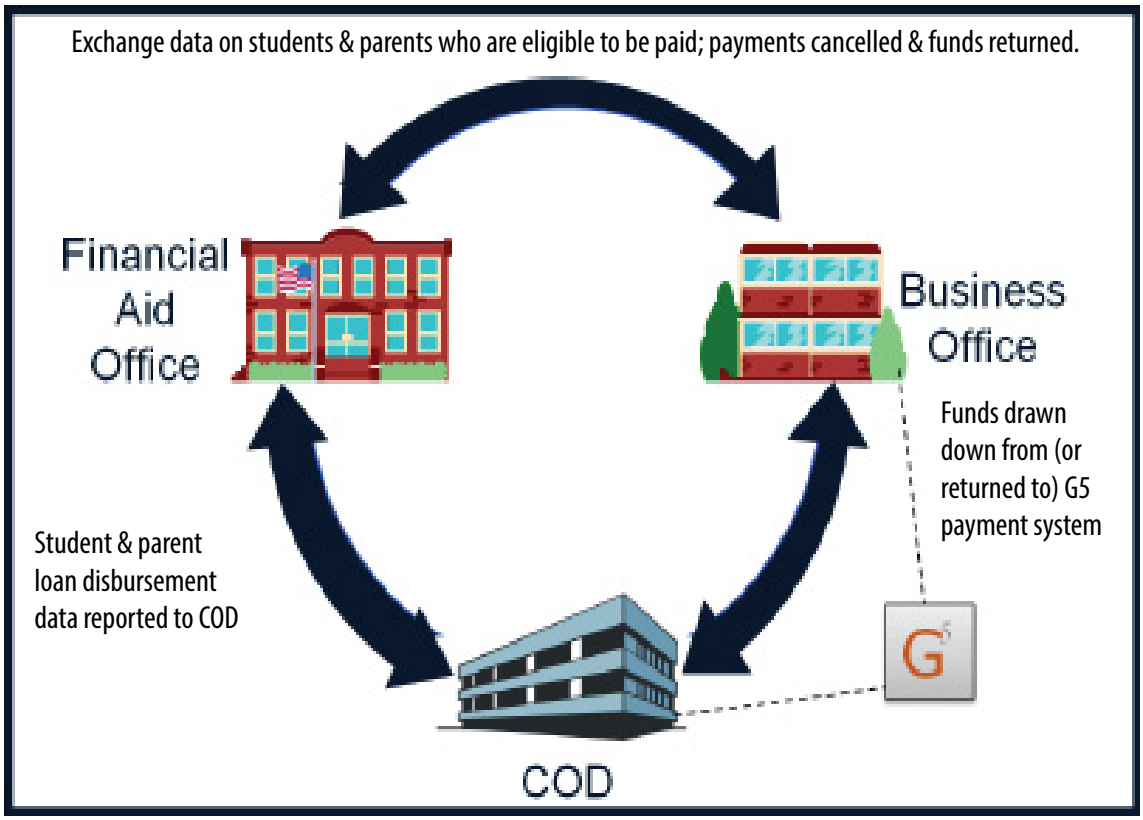
Sometimes the difference between Total Net Booked Disbursements and Net Drawdowns/Payments is just a matter of end-of-month timing—funds were delivered to the school's account at the end of one month and the disbursements were reported to COD at the beginning of the next month (or vice versa). If there are legitimate reasons for a positive or negative ECB from month to month, you may not need to correct or update any of the information your school has provided to the COD or G5 systems. Just document the reasons for the differences and you are done reconciling for that month.

During your review, you may also find omissions or errors in your school's transactions with COD and G5. For instance, you may find that some disbursement data for your students was submitted to, but not accepted by, COD or that G5 transactions were entered for the wrong award year. In these cases, you will need to resubmit corrected disbursement records to COD or correct earlier transactions on the G5 system. Ensuring that your school records match exactly to the data in COD is an example of external reconciliation.

It is also possible that the discrepancy results from inconsistencies between the information in the school's financial aid system and the information kept by its business office—these will need to be resolved by comparing and correcting your school's records. This is an example of internal reconciliation. In order to have a common set of figures to reconcile against COD schools should complete an internal reconciliation before beginning the required external monthly reconciliation.

Reconciling ED and School Records

The SAS (sent by COD) includes both disbursement data and cash transactions from COD. This data in ED systems must be reconciled with data in your school's financial aid office and business office.



Sources of Discrepancies

- Timing issues—funds are drawn down and disbursed in a different month from the month student/parent records are sent to COD.
- Drawdowns or returns attributed to the wrong award year.
- Disbursement batches not yet sent to COD (or sent to COD but not acknowledged).
- Rejected disbursements that have not been resolved.
- Disbursements reported to COD but unbooked because of future disbursement date.
- Cash drawn in or cash returned to the incorrect award year.
- Downward disbursement adjustments made and accepted in COD but funds are not returned or used for other eligible borrowers within regulatory timeframes or vice versa.
- Disbursements reported to COD by the aid office but not reported by the Aid Office to the business office for payment.
- Disbursements made by the business office but not supported by disbursement records in the financial aid office system and COD (*would show up in internal reconciliation*).

Possible Sources of Discrepancies Between Financial Aid and Business Office Records

- financial aid office calculates Return of Aid (R2T4) but doesn't notify business office.
- financial aid office schedules disbursement with business office but does not create "actual disbursement" record to send to COD. (Or, "actual disbursement" record sent by the financial aid office is rejected by COD.)
- business office cancels disbursement but does not inform financial aid office.
- business office makes refund of cash to G5 system but does not inform financial aid office.

Excess cash
34 CFR 668.166

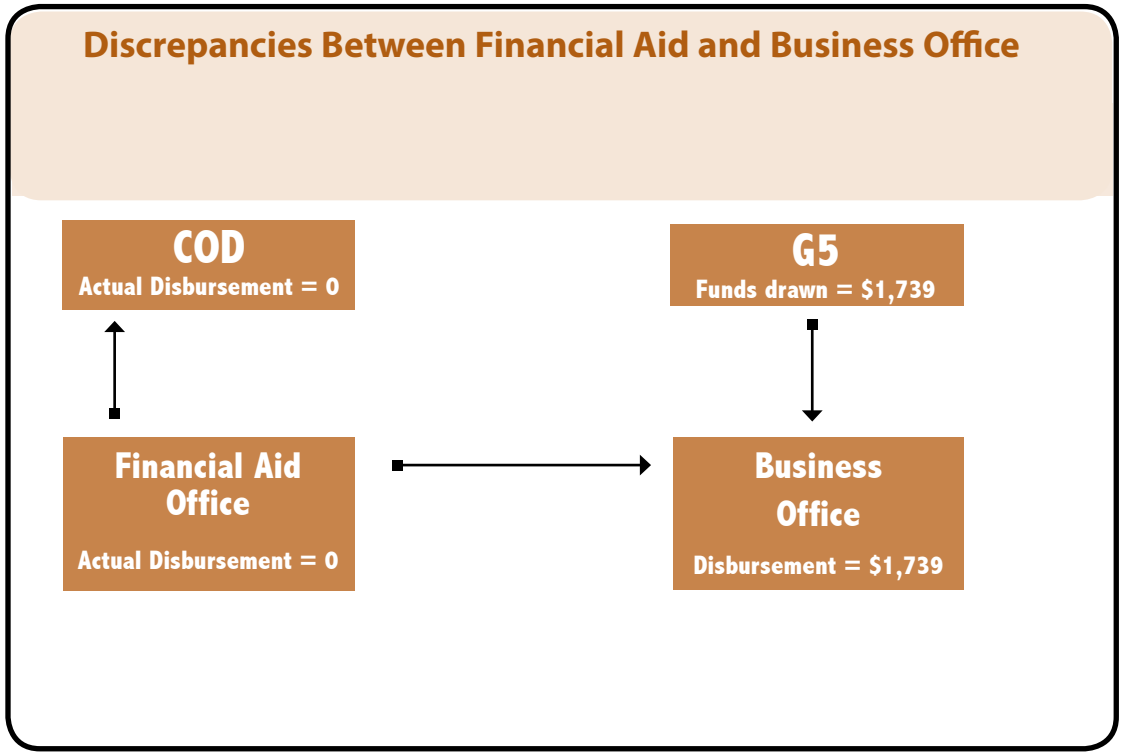
Requesting Funds
34 CFR 668.162

INTERNAL RECONCILIATION FOR DIRECT LOANS

Internal reconciliation is the process where the business and financial aid offices compare their Direct Loan records to ensure that they match, both in disbursement date and disbursement amount. The frequency and methods used for internal reconciliation are based on school decision and need but should occur at least monthly and before the required monthly reconciliation to the Direct Loan SAS.

The business office should review its Direct Loan account bank statement to ensure that funds drawn and returned are in the appropriate year. In addition the business office will need to regularly monitor the account to comply with cash management regulations, i.e., making sure that funds are drawn for immediate need and any funds that cannot be used within cash management guidelines are returned promptly.

To be in compliance with reporting disbursement and disbursement adjustments within 15 days, the business and financial aid offices will need to communicate frequently, making sure that their systems are in sync. It is very important that the date funds are credited to a student's account in the institution's general ledger or any subledger of the general ledger, or paid to a student directly is the disbursement date the financial aid office reports to COD. This date is reported to the Direct Loan servicers and is the time when interest begins to accrue on the loan funds.



Discrepancies that occur between the financial aid and business offices are usually caused by a lapse in communication. Note that these discrepancies often do not show up in a comparison of the financial aid office's records to COD, or in the comparison of drawdowns/returns between the business office and G5 payment system. For instance

- The financial aid office notifies the business office that the student is eligible for payment on a certain date, but the disbursement record is rejected by COD. If the financial aid office doesn't tell the business office to cancel the disbursement, the business office draws down funds and makes a disbursement to the student that is not supported in COD or in the financial aid office's records.
- The business office cancels a disbursement and/or makes a refund of cash to the G5 system without informing the aid office. Thus, the original amount will still be included in the net Booked Disbursements on the SAS but will not be reflected in the net Cash Receipts.

Discrepancies can be avoided by setting daily or weekly communication touchpoints between the two offices or by scheduling a data comparison between the two office systems. Resolving differences in internal reconciliation will lead to a smoother external reconciliation with the Department's official data as reflected in the SAS.

Reporting Disbursements Within 15 Days

An institution must submit Pell Grant, Iraq and Afghanistan Service Grant, Direct Loan, and TEACH Grant disbursement records, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported disbursement. In accordance with 34 CFR 668.164(a), Title IV funds are disbursed on the date that the institution: (a) Credits those funds to a student's account in the institution's general ledger or any subledger of the general ledger, or (b) pays those funds to a student directly. Title IV funds are disbursed even if an institution uses its own funds in advance of receiving program funds from the Secretary. An institution's failure to submit disbursement records within the required timeframe may result in the Secretary rejecting all or part of the reported disbursement. Such failure may also result in an audit or program review finding or the initiation of an adverse action, such as a fine or other penalty for such failure, in accordance with subpart G of the General Provisions regulations in 34 CFR part 668.

Federal Register Volume 79, Number 133, Friday, July 11, 2014, Pages 40084–40092

TIP

Reconciliation and Third-Party Servicers

If your school uses a third-party servicer, your school is ultimately responsible to ensure that all regulatory requirements are being met and that your school is reconciling on a regular basis. You should request and retain documentation of your reconciliation efforts. Also, a part of your reconciliation should include ensuring that your school internal records match what is at the servicer as well as what is in the COD System.

Steps in Monthly Reconciliation

Monthly Reconciliation Process

► Compare financial aid office records with business office disbursements.
Look fo:

- Refunds of cash made by business office to G5 but not recorded in the financial aid office system.
- Disbursements made by business office, but not recorded in the financial aid office system or not sent to COD and accepted.
- Instances when the financial aid office calculated a Return of Aid and reported a downward adjustment to COD, but the information was not recorded in the business office system and the funds were not returned to G5.

► Reconcile with SAS data from ED
Upon receiving the monthly SAS, first compare the cash summary information to your internal records. If the sub-totals and ECB match or any discrepancies can be explained and documented, you are done. If not, then proceed to the next step of comparing SAS cash detail with student account records in the business office (or elsewhere). Look for

- End-of-month submissions that were processed by COD in the next month.
- Cash transactions attributed to wrong award year.
- Funds drawn down from one award year but "recycled" to make disbursements for loans in a different award year.

► Compare SAS Loan/Disbursement Detail with financial aid office records.
(The "Loan Compare" function in DL Tools can be used to import school data and compare it to the SAS Loan Disbursement Detail.) Look for

- Disbursement batches not yet sent to COD (or sent to COD but not acknowledged).
- Rejected disbursements that have not been resolved.
- Disbursements reported to COD but unbooked because of future disbursement date.
- Remember, you must document reasons for any discrepancies in your ECB.

EXTERNAL RECONCILIATION

After completing internal reconciliation between the business and financial aid office records, a school can begin its required monthly reconciliation process, comparing school data to the SAS.

Documenting monthly reconciliation

A school has completed its monthly reconciliation when all differences between the SAS and the school's internal records (Direct Loan System, financial aid office, and business office system) have been resolved or documented. Schools should clearly outline their method of documentation in both business office and financial aid office procedures.

The Department does not mandate or prescribe any particular method of documentation, which allows your school to determine the type and method that best suits your internal processes. Your school must maintain documented results of its monthly reconciliation to provide to auditors and reviewers at their request but does not need to send any proof of this reconciliation to the Department.

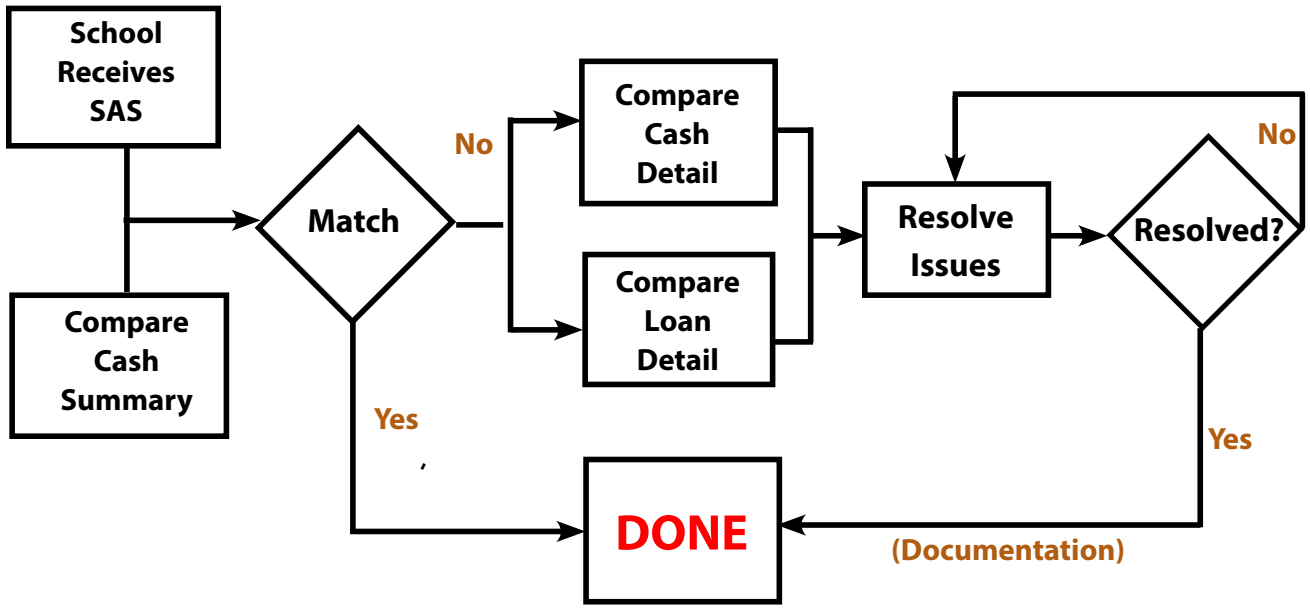
Each month you should

- Identify any discrepancies due to timing and track them to make sure that the missing transactions appear in the next month's SAS.
- Identify any discrepancies due to misreporting or internal miscommunication and take necessary corrective actions to ensure they will not recur in the following month.
- Document all reconciliation efforts for future reference. In addition to resolving cash balance issues in a timely manner, careful monthly reconciliation will help you to complete year-end closeout much more efficiently.

Key Components of Monthly Reconciliation

- All discrepancies have been identified, resolved, and documented.
- Timing issues are tracked for reconciliation in next month's SAS.
- Historical records of issues are kept for later review or to update new or returning staff members.

The External Reconciliation Process



TIP

For more information on COD Reports, refer to the latest *COD Technical Reference*, Volume VI, Section 8, available at **www.fsadownload.ed.gov.**

For more information on COD web screens, refer to the COD website help text or download the free COD Computer Based Training from **ifap.ed.gov** under "Tools for Schools."

NEW

In January of 2014, the Department announced the posting of three report readers. The readers provide a simplified way of importing the COD report files into an Excel spreadsheet for school reconciliation purposes.

A school that does not already have a process in place for using these reports to regularly reconcile its Pell Grant and Direct Loan data should consider downloading the readers for this purpose.

Note that to use the readers, a school must receive the **fixed-length format** of the reports.

There are report readers for the following reports:

- Pell Grant Reconciliation File
- Pell Grant YTD File
- SAS Disbursement Detail on Demand File

The readers, along with instructions on how to use them, are posted on the Common Origination and Disbursement (COD) website at **cod.ed.gov/cod/LoginPage** under the COD Resources link.

If you have questions about the readers or need additional assistance with using them, contact the COD School Relations Center at 800/848-0978 for Direct Loans or 800/474-7268 for Pell Grants. You may also email CODSupport@ed.gov.

TOOLS AND REPORTS FOR DIRECT LOAN RECONCILIATION

The Department provides several applications to assist your school in completing its Direct Loan reconciliation responsibilities. Among them are COD Reports and Direct Loan Tools.

COD Reports and websites

COD provides a variety of reports and web screens (available at **cod.ed.gov**) to help you in your Direct Loan reconciliation. Detailed information including message classes, record layouts, and delivery methods for all Direct Loan reports can be found in the COD Technical Reference, Volume VI, Section 8.

COD Reports

Highlighted here are a few reports and COD web screens useful to reconciliation:

- ***School Account Statement*** (SAS)—The Department issues an award-year specific School Account Statement (SAS), similar to a bank statement, on a monthly basis to schools participating in the Direct Loan Program. The SAS contains the Department's official Ending Cash Balance for the school and award year, as well as a record of all detailed transactions (cash and actual disbursement data) processed in the COD System during the reported period. Your school can use the summary and detail-level information contained in the SAS to reconcile to its internal records. More information on the SAS can be found in the COD Technical Reference.
    - SAS Disbursement Detail on Demand—ad-hoc report that allows schools to get SAS Disbursement Detail data independent of the school's monthly SAS file. This report can be requested via the New Report Request page on the COD web site.
    - SAS Disbursement Detail on Demand Report Reader and Instructions—formats the fixed length SAS Disbursement Detail on Demand Report into an Excel spreadsheet. Found under the COD Resources link at the bottom of any COD Web site page.
- ***Direct Loan Booking Warning Report***—This report can help your school identify awards that are missing a piece needed for booking a loan. It is composed of two sections. The first lists origination records missing either a promissory note or an actual disbursement. The second section lists promissory notes missing origination and disbursement records.

- ***Pending Disbursement Listing***—This report provides a list of all pending disbursements reported by your school and can help you to identify future funding needs, identify pending disbursements that should be reported as actual, and identify awards or disbursements that need to be made deactivated (reduced to zero).
- ***Inactive Loans Report***—This report provides a list of all loans made inactive (reduced to zero) during the reported period and can help you confirm that the correct loans have been inactivated.
- ***Direct Loan Actual Disbursement List***—This weekly report displays actual disbursements from the previous Saturday (seven days before the report generation date) through the following Friday (one day before the report generation date). Actual disbursements appear on the report based on their post date, indicating when each actual disbursement or adjustment is posted on the COD System. The report includes booked, unbooked, and future dated actual disbursements and adjustments, provided they are created within the reporting period.

COD Websites

- ***School Summary Information***—Provides an overview of your school's current funding level (CFL) as well as cash greater than accepted and posted disbursements over 30 days. It is a great tool to use every time you log into COD to confirm that your school is reporting disbursements in a timely manner to substantiate the funds drawn.
- ***School Funding Information***—Lists your school's current Available Balance, Net Drawdowns, Net Accepted and Posted Disbursements and Cash > Net Accepted and Posted Disbursement balances as well as last CFL changes. We recommend that schools make reviewing the balances for each program and award year on this page a regular part of their processes.
- ***School Summary Financial Information***—Provides close to real time balance information for your school, formatted similarly to the year-to-date Cash Summary section of the SAS.
- ***Cash Activity Webpage***—Provides up-to-date drawdown and refund of cash detail activity for your school as well as days remaining for on-time reporting. This information is sent to the COD System from G5, and can be used to reconcile to internal bank statements and cash transactions.

Using DL Tools for Reconciliation

Many schools have found that DL Tools software helps them in the reconciliation process, even if they are not using EDExpress.

DL Tools can be used to import and format information from the SAS.
DL Tools can produce formatted reports for

- Cash Summary
- SAS Cash Detail
- SAS Loan and Disbursement Detail

In addition, DL Tools can be used to compare the information from the SAS to the school's data. We'll talk more about these features under Cash Detail and Loan Disbursement Detail.

DL Tools runs on Windows-based PCs and can be downloaded free at **www.fsadownload.ed.gov**.

NOTE: Comparison reports are designed to be run using the SAS Reports with YTD detail, not monthly detail. You can change your report options (YTD detail, for example) by accessing the COD website at **www.cod.ed.gov/** (see section in this document titled, "School Account Statement Options"). (Note that fixed-length formatting is required in "Compare." We find that schools that have changed their preference to, for instance, "comma delimited," don't realize that formats other than fixed length won't work for Compare Reports.

For more information on the DL Tools Software, refer to the COD Technical Reference, Volume IV.

There is also training available on DL Tools on IFAP/Tools for Schools/EDExpress Online Training and in the COD Computer-Based Training (CBT) modules under "Tools for Schools/COD CBT."

Using DL Tools to Evaluate Your Average Processing Time

If your school uses EDExpress, you can use the Disbursement Measurement Tool (in DL Tools) to calculate:

- average time from actual disbursement date to sending the actual disbursements in a batch to COD.
- average time from actual disbursement date to booking the loan.

These average times can be compared to the recommended tolerances you have established as your quality control standard.

DL Tools for Cash Management

You can use the "Cash Management" feature in DL Tools to keep a record of Cash Receipts (drawdowns) and Refunds of Cash for Direct Loans.

However, if you use this feature, you must take care to ensure that EVERY transaction is recorded in the Cash Management Tool. Thus, if your business office tracks transactions in other software, you may want to rely on that software to record cash transactions, rather than making duplicate entries.

If you are using the Cash Management feature of DL Tools, you can also run the following reports for all program years:

- Internal Ending Cash Balance Report
- Cash Detail Comparison.

- ***Action Queue Search***—This COD Webpage allows you to search for current pending disbursement activity for your school. You can use the action queue as an ad hoc pending disbursement list by setting your own begin and end date parameters into the future. You can also use the action queue as a reconciliation tool by setting the begin search date to the beginning of the award year with the end date at the current date to view any pending disbursements that either should have been disbursed or reduced to zero. Note that this search can also be used for, (1) anticipating funding needs and, (2) identifying disbursements/loan periods that should be updated per GEN-13-13/150% requirements.

Direct Loan Tools

The Direct Loan Tools software application is designed to work with your own mainframe or middle-range application, or hand-in-hand with EDExpress, to ensure that your Direct Loan records reconcile with the COD system. With a few simple keystrokes you can compare the SAS file you receive monthly from the COD System with your own database to identify discrepancies that need to be addressed.

Direct Loan (DL) Tools for Windows is a supplemental software product for Direct Loan participants. You can download software and related user documentation from the U.S. Department of Education's Federal Student Aid Download (FSAdownload) website located at **www.fsadownload.ed.gov.**

You can use DL Tools during your reconciliation process to

- print the SAS in a readable format;
- track Cash Receipts (drawdowns) and Refunds of Cash; and
- compare the SAS to loans and actual disbursements recorded in either EDExpress or an external file (your school's system), and/or compare the SAS to the DL Tools Cash database (records of receipts and Refunds of Cash).

Reports available to schools using DL Tools include

- SAS Cash Summary
- SAS Cash Detail
- SAS Loan and Disbursement Detail
- Internal Ending Cash Balance Report
- Cash Detail Comparison
- Loan Detail Comparison
- Disbursement Detail Comparison
- Disbursement Measurement Tool

THE SCHOOL ACCOUNT STATEMENT

Each month, the COD system sends a SAS to your SAIG Mailbox that should be used for your external reconciliation. This report is generated by COD during the first weekend of the month with data through the end of the previous month (for example, the first weekend in September, COD generates a report for August and sends it to your school). The SAS reflects all cash transactions performed in G5 as reported to COD and all loan and disbursement detail reported by your school and accepted in COD.

The SAS is a monthly statement, similar to a bank statement, that summarizes a school's processing activity for each month. Your school can now request a School Account Statement (SAS) Disbursement Detail on Demand report on an as needed basis for more frequent reconciliation.

The SAS should be your school's primary tool for reconciliation and program year closeout, and should be compared to both financial aid and business office records. The SAS provides the Department's official ending cash balance as of the end date of the report, based on data submitted by the school. As such, all schools are required to receive the SAS on a monthly basis until they have officially closed out a program year.

Your school is required to reconcile the information on the SAS to its internal records on a monthly basis.

Note that your school will receive a separate SAS for each award year that it participates in Direct Loans until that award year is closed out as directed by ED. Since a school often has multiple award years open at the same time, it may receive more than one SAS for a given month.

To successfully "close out" your Direct Loan account at the end of an award year, you must have an ECB of zero and Total Net Unbooked Disbursements of zero, as reflected on your school's SAS.

The SAS is broken down into the following four sections:

- Cash Summary
- Disbursement Summary (by loan type)
- Cash Detail Report
- Loan or Disbursement Detail Report.

TIP

Using the SAS

Three sections of the School Account Statement (SAS) are particularly useful for purposes of reconciliation:

- Cash Summary → compare to summary school data in both business office and financial aid system.
- Cash Detail→ compare to business office records
- Loan Disbursement Detail→ compare to financial aid system

Setting Options for the Format and Content of the SAS

Schools can set their SAS format and content options on the COD website by selecting—School/Report Selection/Modify SAS Options.

SAS format choices are Fixed Length (the default), Comma-Delimited **Without** Headers, Comma-Delimited **With** Headers, or Pipe-Delimited. If you plan to use DL Tools to format your report and/or run a comparison to school records, you must select Fixed Length format. If you plan to open your SAS in Excel, you should select Comma-delimited **Without** Headers for data only report, or Comma-delimited WITH headers for a more formatted report. Note that the YTD report is what's needed to run the Compare.

SAS content options include:

- Names of borrowers
- Monthly or YTD or both for cash and loan detail (if you choose both, you will receive two separate reports but both have the same message class)
- Disbursement summary by loan type
- Disbursement detail or loan level detail (YTD) or both.

You will always receive both YTD and monthly data on your Cash Summary regardless of which options you choose. For more information on available SAS Options, including message classes, see the *COD Technical Reference, Volume VI, Chapter 8* at **www.fsadownload.ed.gov.**

Cash Summary

This section of the SAS provides the Department's official ECB for the school for the reported period. The ECB is the difference between Net Drawdown of Cash and Net Booked Disbursements. The Cash Summary contains both a monthly and a year-to-date summary of cash and loan data processed at COD for that program year. This section can be compared to summary information on the school's internal systems. The comparison may then identify areas where further research is needed.

Ultimately, if a school's Net Drawdowns/Payments are equal to its total Net Booked Disbursements, its ECB will equal zero.

Disbursement Summary by Loan Type

The Disbursement Summary by Loan Type section of the SAS provides monthly and YTD summary information by loan type for the reported period. It can be used to monitor loan volume at the summary level.

Cash Detail

The Cash Detail section of the SAS provides detail on cash transactions processed in COD during the reported period. This includes drawdowns, drawdown adjustments, or refunds of cash. If the monthly option is chosen, this section will only include cash transactions processed in COD during that month. If the YTD option is chosen, the section will include cash transactions processed at COD from the start of the program year through the end date of the report. If you choose the monthly option, this section will not include any cash transactions requested or sent during the month, but not processed on COD until after the last day of that month.

Loan Detail/Loan Disbursement Activity Level

The *Loan Detail/Loan Disbursement Activity Level* section of the SAS contains loan detail transactions at either the loan level or the individual disbursement transaction level, depending on school options. If loan detail is requested at the loan level, the SAS will contain one record per loan, with YTD disbursement information. If loan detail is requested at the disbursement activity level, the SAS will contain all actual disbursement and disbursement adjustment activity that occurred during the preceding month or year-to-date (depending on the options selected by the school) as reported by the school and accepted by COD.

This portion of the report is helpful because it allows schools to match individual (student by student) COD accepted disbursements and adjustments against the individual disbursements and adjustments reflected in the school's financial aid system. By identifying discrepancies between disbursements in COD and your financial aid system, you will be able to resolve the differences.

In the following sections, we'll explain how to compare the summary and detail reports to your school data to identify any underlying discrepancies that may be affecting the ECB.

WORKING WITH THE SAS

Once your school receives the SAS, the first step in monthly reconciliation is to compare the Cash Summary data to the corresponding totals in your school's financial aid and business office systems. Ideally, your ECB will be zero, suggesting that there are no discrepancies to be explained. However, there could be rare instances where positive and negative discrepancies are canceling each other out, so you need to look at the rest of the Cash Summary to make sure that it matches your school's data.

In addition to the ECB, the Cash Summary shows

- *Net Drawdowns/Payments*, which reflects *Cash Receipts* (funds drawn through G5) minus *Refunds of Cash* (funds returned through G5 or to COD by check), and
- *Total Net Booked Disbursements*, which reflects *Booked Disbursements* plus or minus *Booked Adjustments*.

Many differences between your drawdowns from G5 and the disbursements reported to COD can be explained by timing issues. For instance, if your school draws down $25,000 to pay students at the end of September but does not send in actual disbursement records for those students until the beginning of October (within the 15-day reporting requirement), the SAS for the month of September will include $25,000 in cash receipts from the G5 system that are not matched by booked disbursements in COD.

TIP

Keep in mind that loan disbursement records sent to COD near the end of the month may not be processed and acknowledged until the beginning of the next month.

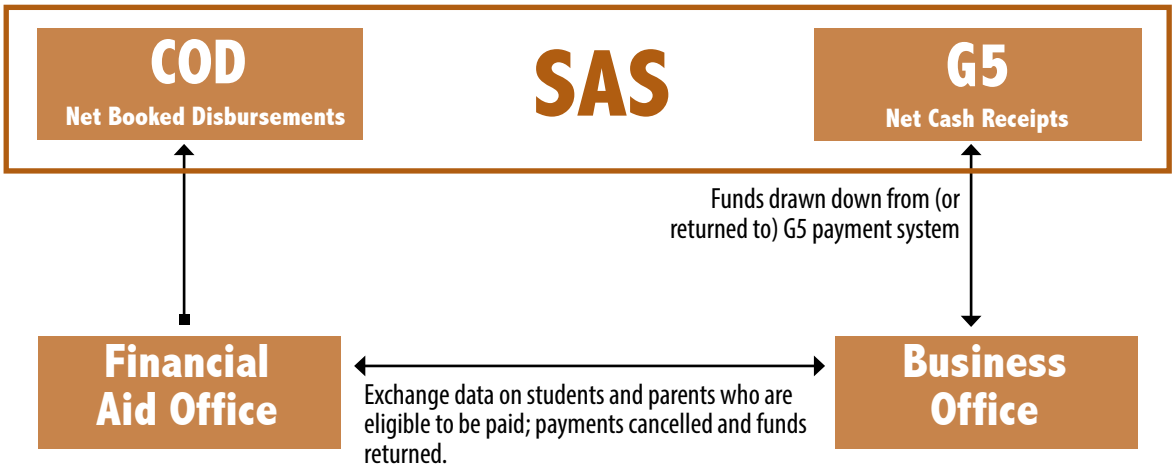
If you can identify such discrepancies and account for any remaining cash balance (positive or negative) at the Cash Summary level, then you've successfully completed reconciliation for the month. Remember that a school must document its reconciliation process and the results of each monthly reconciliation.

However, in many cases, you may need to compare the SAS and school data at a more detailed level, using two other sections of the SAS

- the SAS Cash Detail for cash receipts and refunds of cash; and
- the SAS Loan or Disbursement Detail for actual disbursement and adjustment data accepted in COD.

Reconciling Department and School Records

The SAS (sent by COD) includes both disbursement data and cash transactions at COD (but received from G5). This data in ED systems must be reconciled with data in your school's financial aid office and business office.



Discrepancies can occur for a variety of reasons, such as

- Timing issues—funds are drawn down and disbursed in a different month from the month student/parent records are sent to COD.
- Misreporting of drawdowns or returns of aid—for instance, drawdowns or returns attributed to the wrong award year.
- Actual disbursements or adjustments that have not been processed in COD—including records batched but not sent by the financial aid office, and unresolved rejects.
- Actual disbursements reported to COD by the aid office but not to the business office for payment.
- Payments made or not made by the business office that are not reported to the financial aid office.

Example of SAS Cash Summary

The information in the Cash Summary is fairly general—you will usually need to examine the detail information in the SAS and in your school's records to be able to identify the source of any discrepancies shown in the Summary. The example shown below is a monthly Cash Summary.

End Date: 09/30/2012
School Code: G09009

1	Beginning Balance		$0
	Cash Receipts	$33,074	
	Refunds of Cash	–$1,350	
2	Net Drawdowns/Payments		$31,724
	Booked Disbursements	$25,721	
	Booked Adjustments	–$1,250	
3	Total Net Booked Disbursements		$24,471
ECB	Ending Cash Balance		$7,253
4	Unbooked Disbursements Actual:	$1,264	
	Unbooked Adjustments:	–$0	
	Total Net Unbooked Disbursements		$1,264
5	Cash > Accepted and Posted Disbursements:		$5,989

Analysis of Sample SAS Cash Summary

1. The Beginning Cash Balance is zero at the start of the award year. Otherwise it is equal to the previous month's ending cash balance.
2. The SAS shows that the school drew down $33,074 from the G5 payment system and returned $1,350 in cash during September. If these amounts differ from the school's summary data, the **SAS Cash Detail** should be compared to the business office's records of cash transactions.
3. The SAS shows $25,721 in Booked Disbursements reported to COD and a net of $1,250 in adjustments that reduces the total disbursements.

ECB Because the school drew down more money from G5 in September than the amount of loan disbursements it reported to COD, the Ending Cash Balance has grown to $7,253.

4. In this sample, one or more Unbooked Disbursements—possibly the result of future-dated disbursement records—are contributing to the positive Ending Cash Balance. If the $1,264 in disbursements is booked in October, they will reduce the Ending Cash Balance. Comparing the Loan Disbursement Detail on the SAS with the financial aid office's records may show unbooked disbursements that were not reported to COD (and thus don't appear on the SAS).
5. The remainder (Cash > Accepted and Posted Disbursements) is the difference between Net Drawdowns/Payments and all actual disbursements accepted at COD, both booked and unbooked. It may be explained by timing issues between school actions and the date transactions are recorded in COD, differences between financial aid office and business office records, or rejected disbursement records at COD that have yet to be resolved.

Example of SAS Cash Detail

The Cash Detail shows each exchange of funds with the G5 (formerly known as GAPS) system as reported to COD. (Either cash received by the school or a Refund of Cash to G5.) The amounts listed in the Cash Detail often represent amounts for multiple loans that have been reported separately to the COD system.

Trans Type	Trans Date	Trans Amount	COD Process Date	G5 Control/ Check Number
Receipt	09/06/2012	$12,800	09/06/2012	2005091212345 1
Receipt	09/12/2012	$12,024	09/12/2012	2005091267890
Refund	09/15/2012	$1350 2	09/22/2012	10000001011001
Receipt	09/26/2012	$8,250	09/25/2012	2005091234567

3 Total Cash Receipt Records	3
Total Refunds of Cash Records	1
Total SAS Cash Detail Records	4
4 Total Cash Receipt Amount	$33,074
Total Refunds of Cash Amount	$725

Analysis of Sample SAS Cash Detail:

1. The transactions listed in the Cash Detail include **G5 control numbers** for drawdowns and refunds. It will also show the check number if the school made a refund (return of cash) directly to COD (not recommended).
2. From the Cash Detail, we see that the $725 total **Refund of Cash** was made in a single transaction. Given the amount, it is possible that it represents the cancellation of a single loan disbursement, but one would have to examine the business office records to confirm this. (If the loan had already been reported to COD when it was cancelled, the Loan Disbursement Detail on the SAS should also show a subsequent adjustment to reduce the loan amount.)
3. These three lines show the total number of drawdowns (cash receipts) by the school for the month vs. the total number of refunds sent back by the school during the same timeframe.
4. These two lines show the total amount drawn down for the month (cash receipts) and the total amount returned.

A comparison with the school's business office records may identify missing transactions. For instance, if the school intended to make a Refund of Cash for this award year but attributed it to the wrong award year, the amount of that transaction would not be reflected on the SAS for this award year, and the Total Refunds amount shown on the statement would be too low. (Conversely, the Total Refunds amount on the SAS for the other award year would be too high.)

LOAN DISBURSEMENT DETAIL

In contrast to the bank transactions shown on the Cash Detail, the Loan Disbursement Detail is meant to be compared with the individual loan records in your financial aid office system. This detailed report includes all actual disbursement information and adjustments that have been accepted by COD during that month based on the date the individual transaction books at COD (Disbursement Booked Date).

The default option for the SAS is the Monthly Disbursement Detail. If you plan to use DL Tools to compare the SAS data with your school records, you should request this information in the form of the Year-to-Date Disbursement Detail (note that this will significantly increase the size of the report as the award year progresses). SAS options can be changed on the COD website.

DL Tools and the Loan Compare Report

You can use DL Tools to compare the SAS loan and disbursement detail recorded in your financial aid office's system. For more information on DL Tools and the comparison reports available see the ***COD Technical Reference, Volume IV*** or view the DL Tools web-based training available on IFAP/Tools for Schools/EDExpress Online Training and in the COD Computer-Based Training (CBT) modules under "Tools for Schools/COD CBT."

Timing issues and the School Account Statement

As noted earlier, timing issues could be a recurring source of discrepancies. Disbursement and adjustment transactions appear on the SAS for the month in which the COD system receives or acknowledges the transaction. An actual disbursement that is transmitted to COD in late September may not be acknowledged by the COD system until October and therefore will appear on the October SAS, which will arrive at the school in early November.

The same kind of discrepancy can occur when the business office draws down and disburses loan funds to the student in late September, but the financial aid office doesn't send the actual disbursement records for those loans until the beginning of October. If such discrepancies are common at your school, you may want to look at ways to make sure that actual disbursement records are sent to COD sooner.

In either case, the disbursement amount may show up on the September SAS as part of a drawdown from G5 but not on the loan detail for September. You will need to check to make sure that the disbursement was accepted by COD, and document the discrepancy. You should also check to make sure that the disbursement is included when you receive the SAS Loan Detail for October.

Example of SAS Loan Detail (Disbursement Detail)

Report Date: 09/01/2013 U.S. DEPARTMENT OF EDUCATION PAGE: 1
Report Time: 12:01:01 DIRECT LOAN TOOLS—2013–2014

SAS Loan Detail

Sort by: Loan ID

THIS DOCUMENT CONTAINS SENSITIVE INFORMATION PROTECTED BY THE PRIVACY ACT
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Date Range: 08/01/2013 to 08/31/2013

School Code: G99999 Booked Status: Booked and Unbooked

End Date: 08/31/2013 Loan Type: All

Student's Name PLUS Borrower's Name Loan ID	Record Type	Gross Amount	Fee Amount	Int. Rebate Amount	Net Amount
Servicer Name					
Disb #	Seq #	Type	Disb Date	Gross Amt	Net Amt
BLUE, BILL G					
999990002S13G99999001 ❶	Booked	$750	$7	$0	$743
DEPT OF ED PHEAA					
❷ 1	1	D	08/15/2013	$750	$743
ILLINOIS, ILENE					
999990065U13G99999001 ❸	Booked	$500	$5	$0	$495
DIRECT LOAN SERVICING CENTER					
1	1	D	08/15/2013	$600	$595
❹ 1	2	A	08/15/2013	$500	$495
OHIO, OLIVIA M					
999990070S13G99999001	Unbooked	$1,250	$12	$0	$1,238
DIRECT LOAN SERVICING CENTER					
1	1	D	08/15/2013	$1,250	$1,238

See the page that follows for an explanation of this SAS Loan Detail.

Analysis of Sample Loan Disbursement Detail

The SAS Loan Disbursement Detail shows the ***actual*** disbursements that have been accepted by the COD system. This example shows first disbursements of Direct Subsidized loans to Bill Blue and Olivia Ohio, and the first disbursement (with an adjustment) of a Direct Unsubsidized loan to Ilene Illinois.

1. The first line of the loan listing shows if the loan is booked or unbooked, the gross amount, fee, interest rebate, (interest rebates do not appear for loans first disbursed after July 1, 2012), and the net amount of the loan.
2. The second line shows the date of the disbursement or adjustment and the gross and net amounts of the disbursement.
3. The letter S, U, or P in the ninth position of the Loan ID indicates whether it is a Subsidized, Unsubsidized, or PLUS Loan.
4. For Ilene Illinois' Direct Unsubsidized Loan, we see that the disbursed amount has been adjusted (disbursement 1, sequence 2). Note that the adjusted amount is the amount of the disbursement *after* the change has been recorded. The adjustment itself is a reduction of $100.00.

Next Steps .....

What's NOT on the SAS Loan Disbursement Detail is as important as the loans that are listed. Note that rejected disbursements will not appear on the SAS.

✔ **Compare the loan disbursements on this Detail to the data in your financial aid office system.**

If you are using DL Tools software, the Loan Detail Compare report will identify loans that appear in your school's database but not on the SAS, and vice versa. In addition, most software packages can generate reports showing the current status of all award records, MPNs, and actual disbursements in your database.

- Look for actual disbursements that are in your school's database but have not been transmitted to COD (or were rejected by COD).
- Look for any actual disbursements that were entered directly on the COD website, but not in the financial aid office software database.

✔ **Check for unbooked loans**

If you not are using DL Tools software, you can identify many unbooked loans by reviewing the 30-Day Warning Report sent by COD.

Look for any loans that are missing a necessary component (loan origination record, MPN, or first disbursement) to book the loan.

✔ **Check the disbursement information in your school's business office records**.

Via internal reconciliation, compare the disbursement records in the business office (credits and payments to students) to the *actual disbursements* listed in the financial aid office system.

- Look for any disbursements made by the business office that are not substantiated by an actual disbursement record submitted to COD (and accepted) in the same month.
- Look for any actual disbursements reported to COD but not made by the business office within the same month.

BEST PRACTICES FOR RECONCILIATION

Best practices—establishing preventive procedures

Back up your data!

Before you begin reconciliation, be sure to back up all Direct Loan and other data files that may be affected by reconciliation.

Month end reconciliation can be a simple process for schools that maintain good daily processing practices and cash management procedures. During the month, your school's financial aid and business offices should ensure:

- all funds received have been substantiated with actual accepted disbursements in COD by regularly checking your financial aid database for any unsent or rejected batches and disbursements;
- any downward adjustments have been accompanied by either a refund of cash or a disbursement of funds to another eligible student in the same award year (within cash management regulations);
- any excess funds have been returned to the Department as a refund of cash:
- all funds requested are for disbursements to be made within the period of immediate need (three business days) and that funds are disbursed within that period or returned to the Department; and
- all awards and disbursements are reported within the 15-day reporting period allowed by regulation.

Best practices—preparing for monthly reconciliation

You can minimize discrepancies by making sure that all COD transactions have been completed and your internal records are up-to-date prior to the end of each month.

- Export all batches that are ready to be processed by COD at least two business days before the end of the month.
- Import the acknowledgements. Alternatively, you could run a query or report to identify unsent batches and rejects and use that to see what needs to be cleaned up.
- Run reports within your financial aid software to identify and resolve records (MPN, origination, and disbursement) that are not in an accepted (A) status.
- Review the batch activity list for any unconfirmed batches, and import any missing acknowledgments.

Reconcile internally with the business office or bursar's office so that you have the same cash balance to compare to the balance shown on the SAS. For its part, the business office can

- review drawdown and refund activity in your school's federal bank account and reconcile any discrepancies. Make sure that draws and refunds are posted to the correct award year.

- communicate with the financial aid office when it has drawn cash or returned funds within the last three business days of the month. (These transactions may not be recorded on the most recent SAS, creating a timing issue and discrepancy in the Net Drawdown/Payments.)
- return any refunds or excess cash using the electronic process through G5.

Sample Internal Report Comparing Financial Aid and Business Office Data for Loan Disbursements

Loan ID	Trans Code	Description	Disb Num	Trans Date	Bus Office Net Disb Amt	FA Office Net Disb Amt	Difference	Recon Flag	Explanation
444556666P13G09009001	DB	PLUS Loan Disb	1	9/05/2012	$2,407.00	$2,407.00	0.00	R	
222334444U13G09009001	DB	Staff UnSub Disb	1	9/12/2012	$1,739.00		$1,739.00	R	Still "anticipated" in FA Ofc Sys (1)
222335555U13G09009001	DB	Staff UnSub Disb	1	9/19/2012	$1,413.00		$1,413.00	R	Still "anticipated" in FA Ofc Sys
222334444S13G09009001	DB	Staff Sub Disb	1	9/21/2012	$950.00		$950.00	R	Change made on COD; Not on FA Ofc Sys

(1) These two disbursements were made by the business office but were not substantiated in COD because the financial aid office has not submitted an Actual Disbursement record to COD. As shown on the previous page, this discrepancy will not show up in a comparison of school data with the SAS's Loan Disbursement Detail or Cash Detail. The discrepancy can only be identified by a comparison of loan-level data between the financial aid office's system and the business office. On the next page, we show how these two transactions would appear as $3,152 in excess cash on the Reconciliation worksheet.

Direct Loan year-end closeout

Direct Loan schools must complete a final reconciliation and program year closeout. Program year closeout should occur within a month or two of your final disbursements but no later than the program year closeout deadline, which is the last processing day in July of the year following the end of the award year. If schools are fulfilling their monthly reconciliation requirements, year-end closeout is really only one more month of reconciliation.

Note: Exceptions to the last processing day of the program year may be made on a case-by-case basis if the school's processing period extends beyond the closeout deadline. Schools falling within this category must request extended processing on line, or by contacting the COD School Relations Center.

Sample Report Comparing SAS and School Totals and Documenting Differences

This spreadsheet is one way to compare the totals from your school's system to the information on the School Account Statement, and document the reasons for any differences. A version of this form is available at the end of Appendix B. Copies of this and a like spreadsheet are available by writing fsa.customer.support@ed.gov.

Reconciliation Worksheet

School Systems to COD School Account Statement

As of Date: 9/30/10

Note: Enter numeric data into shaded cells

	COLUMN 1 SCHOOL'S FINAID & BUSINESS SYSTEMS		COLUMN 2 SCHOOL ACCOUNT STATEMENT (SAS)		COLUMN 3 DIFFERENCE:		REASONS - DIFFERENCE IN ECB
Beginning Balance		$0		$0		$0	
Cash Receipts	$33,074		$33,074		$0		
Refunds of Cash	$2,075		$1,350		$725		
Net Drawdowns/Payments		$30,999		$31,724		-$725	4 $725 refund entered on G5 on Sept29; not included on Sept. SAS.
Booked Disbursements	$25,721		$25,721		$0		
Booked Adjustments	$0		$1,250		-$1,250		
Total Net Booked Disbs		$25,721		$24,471		$1,250	5 $1,250 (net) in adjustments done via COD Web site; not entered in Fin Aid Ofc system at school.
Ending Cash Balance		1 $5,278		$7,253		-$1,975	Difference in ECB is explained by discrepancies noted above.
							REASONS - DIFF. IN UNBOOKED
Unbooked Disbursements	$2,126		$1,264		$862		
Unbooked Adjustments	$0		$0		$0		
Total Net Unbooked Disbs		2 $2,126		$1,264		$862	6 $862 disbursement not yet sent to COD (unbooked).
							REASONS - EXCESS CASH
Excess Cash (Cash > Net Accepted & Posted Disbursements)		3 $3,152		7 $5,989		-$2,837	Col 1: Total comprises 2 disbursements by the BusOfc not recorded as Act. Disb. in FinAid system or reported to COD. Col 3: Explained by $1,975 and $862 discrepancies noted above.

1 According to the school's records, its Net Drawdowns/ Payments are $5,278 more than it has substantiated in Net Booked Disbursements.

2 The school's Ending Cash Balance includes $2,126 in Total Net Unbooked Disbursements.

3 The remainder (school's ECB – Net Unbooked Disbursements) is $3,152. **Internal reconciliation** may help explain the $3,152 of excess cash attributable to the month of September. Once you have determined the cause, you must either report actual disbursements, or return undisbursed cash.

SAS.

7 Excess Cash

(Col. 1) and the SAS (Col. 2).

4 A comparison of the **Cash Detail** on the SAS with the business office's records identifies a refund to G5 that was initiated at the end of September but not recorded by G5 until October.

5 6 A comparison of the **Loan Disbursement Detail** on the SAS with the school's financial aid system shows an online award adjustments not recorded in the financial aid system and an unbooked disbursement that has not yet been reported to COD.

Conclusions In this example, the school has been able to document all of the discrepancies that are shown on the worksheet. The ECB on the SAS is explained by:

5,989	excess cash (7)
– 725	refunds processed after 9/30
– 1250	adjustments made on Web only
– 862	unreported disbursements
$3,152	Cash to be returned or disbursements to be posted and reported

As a reminder, all cash management, disbursement reporting, and monthly reconciliation regulatory requirements supersede the closeout deadline. If a school is meeting these regulatory requirements, the final closeout stage should begin no later than the last award end date at the school for a given program and year. In other words, a school should be able to reconcile to a zero Ending Cash Balance and close out soon after its final disbursements and should not wait until the closeout deadline.

To be considered successfully closed out, a school must

- have an ECB of $0 and total Net Unbooked Disbursements of $0 internally and as reflected on the SAS, and
- complete the Balance Confirmation form on the COD website.

You will be notified of the closeout requirements through Electronic Announcements and COD system-generated closeout correspondence. As part of the closeout process, COD will send ongoing notices via Zero Balance Confirmation or Remaining Balance Confirmation emails. In addition, COD will distribute a Notification/Warning Letter via email to schools in May. This letter will go to the financial aid administrator and president at each school that has not confirmed closeout on the COD website (including any schools with a zero balance). It will serve as a reminder to finish processing and confirm closeout before the final deadline. After the closeout deadline, schools with remaining positive balances will be billed.

Once you have successfully confirmed closeout via the Balance Confirmation page in COD, the Financial Aid Administrator and President school will receive a Program Year Closeout Letter to keep for your records.

A school must be aware of its closeout status even if its Direct Loan processing is handled by the school's third-party servicer. We encourage each school to communicate regularly with its third-party servicer to ensure closeout is completed. It is the school's responsibility to ensure that it finishes processing and confirms closeout on time.

Completing Year-End Closeout

We encourage you to complete the following simple steps while reviewing your school's internal records and the SAS:

- Ensure that all drawdowns and refunds of cash are accounted for and applied to the correct program year;
- Ensure that all disbursements and adjustments are accurate and have been reported to and accepted by the COD system;
- Ensure that all batches have been sent to and accepted by the COD system;
- Ensure that all unbooked loans are resolved;
- Resolve all outstanding rejected records; and
- Return all refunds of cash to the G5 payment system.

SUMMARY

A key factor to an easy Direct Loan reconciliation and closeout is staying on top of the process.

1. Complete monthly reconciliation. This should include

    - Internal reconciliation—compare internal student accounts and Business Office/Bursar records with Financial Aid Office records.

- External reconciliation—compare internal records to your Direct Loan School Account Statement sent via your SAIG mailbox.
- Resolution of any discrepancies and documentation of any outstanding timing issues.

2. Ensure that all drawdowns and refunds of cash are accounted for and applied to the correct program and award year.
3. Ensure that all batches have been sent to and accepted by the COD System, all disbursements and adjustments are accurately reflected on the COD System, and all responses are imported into the school's system.
4. Ensure that all unbooked loans are booked or inactivated (reduced to $0).
5. Resolve all outstanding rejected records.
6. Return all refunds of cash. Effective January 1, 2015, all refunds for Direct Loans must be returned via G5.
7. Request any remaining funds owed to the school based on actual disbursements accepted by the COD System.

There are numerous tools available to assist schools in reconciliation and closeout efforts. These tools are as follows:

- School Account Statement (SAS)
- SAS Disbursement Detail on Demand (requested via the Batch/Report Requests/New Report Requests links on the COD Website).
- School Monitoring Report
- Direct Loan Booking Warning Report
- Pending Disbursement Listing
- Actual Disbursement List
- G5 Web Site and Reports
- COD Web site (particularly the School Summary Financial Information, Funding Information, Cash Activity, Refunds of Cash, and Action Queue screens)
- DL Tools software/SAS Compare Program
- Customer Service Representative/Reconciliation Specialist Assistance

Additional Information About Direct Loan Reconciliation and Direct Loan Closeout

Each year the Department publishes electronic announcements to assist schools with Direct Loan Reconciliation and Direct Loan Closeout.

The most recent of these are

- Reconciliation

ifap.ed.gov/eannouncements/121715WilliamDFordFederalDirectLoanProgramReconciliation.html

- Closeout

https://ifap.ed.gov/eannouncements/020516DLCloseoutInfofor20142015ProgramYear.html

Additional Resources for Reconciliation

Additional resources for reconciliation include:

- 2015-2016 COD Technical Reference, Volume IV-Direct Loan Tools

http://ifap.ed.gov/codtechref/attachments/1516CODTechRefVol4.pdf

- 2015-2016 COD Technical Reference, Volume VI, Section 8-Reports

https://ifap.ed.gov/codtechref/attachments/1516CODTechRefVol6Sec8Reports.pdf

- IFAP Announcements

http://ifap.ed.gov/ifap/

- COD Reconciliation Coordinators—contact via the main COD Customer Service number at 800/848-0978

Accounting Systems

APPENDIX A

This appendix is a general guide; it is not intended to replace accounting standards established by the American Institute of Certified Public Accountants (AICPA), Financial Accounting Standards Board (FASB), Governmental Accounting Standards Board (GASB), or the concept of generally accepted accounting principles (GAAP).

Requirements for Accounting and Internal Controls Systems at Schools Participating in the Title IV, Federal Student Assistance Programs

Participating schools must account for the receipt and expenditure of Title IV, HEA program funds in accordance with GAAP.

On a current basis, schools must establish and maintain the following:

1. **Financial records that reflect each HEA, Title IV program transaction.**
2. **General ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from all other institutional financial activity.**
3. **Accounting and internal controls system that**
   - **identifies the cash balance of the funds of each Title IV, HEA program that are included in the institution's bank or investment account as readily as if those program funds were maintained in a separate account; and**
   - **identifies the earnings on Title IV, HEA program funds maintained in the institution's bank or investment account.**

34 CFR 668.24(b)(2) & 34 CFR 668.163(d)

The Department does not specify the type of system a school must use. However, the accounting and internal control system must be able to provide individuals examining the financial records of a school's participation in the federal student aid programs with the type of information described below.

A school's chart of accounts must identify all general ledger and subsidiary ledger accounts relevant to the Federal Student Aid Programs. In addition, a school's accounts, journals, and records must follow federal cash from the moment the funds are drawn through G5 to when funds are disbursed to students, including when cash is

- deposited into institutional bank accounts;
- transferred between bank accounts;
- posted to general and subsidiary ledgers;
- posted to the individual student account ledgers; and
- if applicable, disbursed directly to students.

Note: An institution is not required to have a specific or minimum number of bank accounts. However, an institution's general and subsidiary ledgers must clearly identify the amount of Title IV, HEA funds, by program, in each account, including interest payments attributable to certain programs, such that a clear audit trail exists.

ACCOUNTING RECORDS

An effective institutional financial aid program requires a cooperative effort among all school offices involved in delivering financial aid to students. Separate reporting and recordkeeping responsibilities required of each office, as well as shared responsibilities, are detailed in the *Federal Student Aid Handbook, Volume 2.*

The business office is responsible for most financial accounting and recordkeeping (except for the detailed records and files on individual financial aid recipients that must be kept in the financial aid office). The remainder of this chapter is designed to help the business office satisfy its accounting responsibilities efficiently and with a minimum of effort.

Bookkeeping and recordkeeping

Bookkeeping and recordkeeping systems should be designed to:

- enable timely internal and external financial reporting;
- meet documentation requirements;
- ensure proper filing of applications; and
- create accurate reports.

FUND ACCOUNTING SYSTEMS AND THE FSA PROGRAMS

A fund accounting system is required whenever an entity is responsible to a third party for ensuring that funds are used as intended by the third party. Such funds must be restricted for use in accordance with the third-party's requirements and separate fund accounts must be established for each third-party program from which the entity is receiving funds. Fund accounting is the method of segregating assets into categories according to the individual program requirements placed on their use by the third party.

Fund accounting contrasts with the more widely known system used in corporate accounting in one fundamental way—entities receiving third-party funds may not exceed their budgets. Additionally, the concepts of encumbrance and budgeting obligations found in fund accounting are not found in corporate accounting.

Fund accounting is characterized by the following:

- A fund is a separate accounting entity with a self-balancing set of accounts consisting of assets, liabilities, and fund balances.
- Separate accounts are maintained for each fund to ensure observance of limitations and restrictions placed on the use of the resources of each fund.
- For reporting purposes, funds with similar characteristics are combined into fund groups.
- Expenditures are recorded in each fund and measured against budgets, thereby providing finite limits within which funded entities within the school must operate in carrying out their mission.

When designing an accounting system, the chart of accounts, books of original entry, billing and reporting requirements, and other FSA requirements must all be considered.

For example, the numerous ledger accounts suggested in the chart of accounts that appears later in this chapter for the Perkins Loan Program were created to assist schools in preparing year-end reports that must be filed with the Department. The school can simply copy the information from its ledgers to the electronic FISAP format supplied by the Department.

When designing a chart of accounts, institutions also need to consider their fund-accounting needs, particularly with respect to restricted funds or funds that are initially restricted. The chart of accounts should accurately reflect the school's current organization and programs, and it should have the flexibility to accommodate any future changes in the organization.

Audit trails

Your accounting records and systems for FSA funds must provide a *clear audit trail* that makes it possible to trace all federal cash from drawdown to its final destination.

An audit trail, whether in a manual system, an automated system, or a combination of systems, includes the accounting record of a transaction and all the documentation that supports each transaction.

In accounting records, when data is recorded, a reference should also be recorded to identify the source of the data. The reference can be in the form of a date, a name, an address, or a number such as a journal page number, ledger account number, or check number. These references, used throughout the accounting cycle, form an *audit trail* that makes it possible to trace the details of a transaction from the source document to the financial statements and accounting records.

A vital part of an audit trail is *cross-referencing*. Cross-referencing is the recording of identifying numbers pointing both ways in offsetting or supporting accounting entries. For example, in your FSEOG cash account, for a deposit received from G5, you would record an entry that pointed to the journal page on which you recorded the names of students for whom this particular cash draw was intended to provide the federal share. Likewise, on the aforementioned journal page, you would record an identifier that pointed to the appropriate draw in your FSEOG cash account.

Chart of Accounts

As an aid in discussing records and accounting techniques for financial aid programs, the Summary Chart of Accounts later in this appendix lists accounts considered necessary for institutions to account properly for FSA program funds. These accounts may be set up in either a manual or automated accounting system. Either system will need the basic suggested ledger accounts to meet the Department's minimum program and fiscal requirements, as well as the institution's external reporting requirements, such as basic financial statements and fund statements. Such a system will serve to meet the accounting needs of the school, the Department, and other federal agencies. Additional accounts may be added as deemed necessary by the school. These accounts should be reviewed at least annually to determine if additions or deletions are necessary to meet changes in federal regulations.

The chart of accounts is a primary internal control mechanism delineating the framework of the accounts. This chart has two components: (1) a fund number and (2) an account number that usually follows a standard account-code structure (a definition, by name, of the

account code). A uniform numbering scheme is used here to assist in identifying the parts of the financial statements on which ledger accounts are located. The numbers assigned to these ledger accounts are arbitrarily assigned, but in sequential order, and these specific numbers are not required to put these ledgers in place in institutional accounting systems.

In all cases, the first digit of an account number identifies an element of the financial statements, as follows:

1 - Asset Account

2 - Asset Reduction Account

3 - Liability Account

4 - Capital Account (or Program Balance)

5 - Capital Reduction Account

6 - Income Account (or Revenue Account)

7 - Expense Account

The accounting record for each federal student aid program is self-balancing and must be separated completely from the accounting records of all other federal student aid programs and from the accounting record for the general operating fund of the school. Within each program, the sum of ledger accounts with debit balances equals the sum of ledger accounts with credit balances.

In the following Summary Chart of Accounts, award authorizations are not shown. It is recommended that they be booked as a memo journal entry or budget item. Then, as award authorizations are adjusted, appropriate adjustments to budget figures would be entered. This process helps ensure that drawdown amounts do not exceed authorization levels.

Note: The G5 account shown in the Summary Chart of Accounts, account # 1 - 2 (Accounts Receivable, G5) is used only if a school does not use the reimbursement payment method for drawing down FSA funds. The accounting for the reimbursement method will not be covered here. However, account # 1-2 should be booked as any other account receivable. Each respective subsidiary ledger would also book the receivable.

Reconciling Subsidiary Records to Account Balances

All accounts should be backed up by subsidiary ledger detail. Although a trial balance can be used to ensure that accounts balance in the aggregate, it does not guarantee that there is sufficient evidence that subsidiary records exist to support the totals in each account.

Errors can occur when corrections or changes are made to control accounts without corresponding adjustments being made to subsidiary records. Reconciliations between accounts and subsidiary record detail should be performed at least monthly and should be conducted on a more frequent basis during periods of high transaction volume. As mentioned earlier, most FSA programs require monthly reconciliations.

Examples of Information a School's Accounting System Must Be Able to Provide

- Documentation that for any drawdown of federal cash the funds were deposited in account in which the funds were clearly identified as ***federal***
- Documentation, if applicable, that for any drawdown the funds were transferred to the appropriate subsidiary ledgers, or if, intended for students, posted to the students' accounts within the three days permitted
- Documentation that if the posting of federal cash to a student account created an FSA credit balance that the funds were made available to the student with the 14 days allowed by regulation (see *Volume 5* for a discussion of FSA credit balances)
- If the school holds FSA credit balances for students, documentation that there is a ledger that identifies all such credit balances and that there is sufficient cash in the school's bank account to cover all such credit balances
- Documentation that for each Return of Title IV Funds required under 34 CFR 668.22, within the time frame allowed by regulation, cash has been transferred from the student's account to the school's federal funds account and then has either been returned to the Department or reallocated and disbursed to other eligible students
- Through its accounting system a clear audit trail to account for all Title IV, HEA funds throughout the cash management cycle
- For the Campus-Based Programs documentation that all nonfederal matching funds (when the matches are made with cash) were deposited before or at the same time that federal funds were received
- For the Federal Work-Study Program, for schools without a waiver or exception, documentation that the school expended at least 7% of its FWS allocation in making payments to students employed in community service jobs for the year
- For the Federal Supplemental Opportunity Grant Program, documentation that the awards made to students equal the federal share, plus the institutional share minus any ACA taken by the school, plus or minus any funds transferred or carried forward/back

Examples of Information a School's Accounting System Must Be Able to Provide, Continued

- For the Federal Work-Study Program, documentation that the total gross compensation paid to students reported on the school's Fiscal Operations Report is supported by the school's payroll records including accounting records of any amount paid to students in noncash institutional matching
- For a school receiving funds through the Heightened Cash Management 2 (HCM2) or Reimbursement Payment (Funding Controls) Methods, documentation that before submitting a request for federal cash for a student, the school made the disbursement(s) with its own funds to the student's account and identified the disbursement(s) appropriately (e.g., as a Federal Pell Grant)
- For a school receiving funds through the HCM2 or Reimbursement Payment Methods, documentation that if disbursing its own funds (labeled Title IV funds) to a student's account created a Title IV Credit Balance, that the school made that credit balance available to the student within the 14 days required by regulation
- For any student who receives Title IV funds, a student subsidiary account /student ledger that clearly identifies the date and amount of each transaction, and the balance after each
- Subsidiary financial aid ledgers that are year specific (though federal funds from different award years may be maintained in the same bank account)

Student Subsidiary Accounts/Student Ledgers

The Department considers student subsidiary accounts, also known as student ledgers, part of a school's accounting system. Student ledgers and subsidiary accounts must follow the same rules as other sub accounts.

Summary Chart of Accounts

G5 Accounts (FSA Funds Only, Not Including Direct Loans)

To help in calculating excess cash and interest earnings on FSA funds (Federal Pell Grant, FSEOG, FWS, and Federal Perkins Programs) and, in accordance with cash management regulations issued on December 1, 1994, separate G5 accounts should be established for FSA funds and for non-FSA funds.

1 - Asset Accounts

1 - 1 Cash Control, G5

1 - 2 Accounts Receivable, G5

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Income Accounts - None

7 - Expense Accounts - None

National Finance Center (NFC) Accounts

NFC accounts are needed to reflect amounts of FSA program funds disallowed after the program authorization account has been closed (removed from G5).

1 - Asset Accounts

1 - 1 Cash Unremitted to NFC

1 - 2 Due from School

3 - Liability Accounts

3 - 1 Accounts Payable, NFC

4 - Capital Accounts - None

6 - Income Accounts - None

7 - Expense Accounts - None

Federal Pell Grant Accounts

1 - Asset Accounts

1 - 1 Cash, Federal Pell Grants

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Revenue Accounts

6 - 1 Transfer from G5 - Federal Pell Grants for Students

6 - 2 Federal Reimbursement of Pell Grant Administrative Cost Allowance (ACA)

7 - Expense Accounts

7 - 1 Student Grants Paid - Federal Pell Grant

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution

Federal Supplemental Educational Opportunity Grant (FSEOG) Accounts

1 - Asset Accounts

1 - 1 Cash, FSEOG

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Income Accounts

6 - 1 Transfer from G5 - FSEOG

6 - 2 Institution's Cash Contribution

6 - 3 Institution's Noncash Contribution (Memo Account)

7 - Expense Accounts

7 - 1 Student Grants Paid - FSEOG

7 - 2 Student Grants - FSEOG from Noncash Contribution (Memo Account)

7 - 3 Administrative Cost Allowance (ACA) Paid to Institution (if applicable)

Federal Work-Study (FWS) Accounts

1 - Asset Accounts

- 1 - 1 Cash, Federal Work-Study
- 1 - 2 Accounts Receivable, Off-Campus Entities

3 - Liability Accounts

- 3 - 1 Federal Income Taxes Withheld
- 3 - 2 Social Security Taxes Withheld
- 3 - 3 State Income Taxes Withheld
- 3 - 4 Other Withholding
- 3 - 5 Accrued Wages Payable
- 3 - 6 Employer's Payroll Taxes Payable

4 - Capital Accounts - None

6 - Income Accounts

- 6 - 1 Transfer from G5 - Federal Work-Study
- 6 - 2 Institution's Cash Contribution
- 6 - 3 Institution's Noncash Contribution (Memo Account)
- 6 - 4 Off-Campus Employer's Contribution, Public/Private Nonprofit Entities
- 6 - 5 Off-Campus Employer's Contribution, Private For-Profit Entities

7 - Expense Accounts

- 7 - 1 Student Wages - On-Campus
- 7 - 2 Student Wages - On-Campus, Noncash Contribution for Nonfederal Share (Memo Account)
- 7 - 3 Student Wages - Off-Campus, Public/Private Nonprofit Entities
- 7 - 4 Student Wages - Off-Campus, Private For-Profit Entities
- 7 - 5 Regular Job Location and Development (JLD) Expenses Paid to Institution
- 7 - 6 Administrative Cost Allowance (ACA) Paid to Institution

Federal Perkins Loan Accounts

1 - Asset Accounts

1 - 1 Cash, Federal Perkins Loans

1 - 2 Funds Advanced to Students*

***If the school tracks funds advanced to students who are out of school, this information may be placed as a footnote to the subsidiary ledger.**

2 - Asset Reduction Accounts

2 - 1 Loan Principal Collected

2 - 2 Defaulted Loan Principal - Assigned to Federal Government

2 - 3 Loan Principal Canceled - Teaching Service (10% Rate), Loans Made Prior to 7/1/72

2 - 4 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made Prior to 7/1/72

2 - 5 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made Prior to 7/1/72

2 - 6 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made 7/1/72 and After

2 - 7 Loan Principal Canceled - Teaching Service (20% Rate), Loans Made 7/1/72 and After

2 - 8 Loan Principal Canceled - Teaching Service (30% Rate), Loans Made 7/1/72 and After

2 - 9 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (15% Rate), Loans Made 7/23/92 and After

2 - 10 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (20% Rate), Loans Made 7/23/92 and After

2 - 11 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (30% Rate), Loans Made 7/23/92 and After

2 - 12 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made 7/1/72 and After

2 - 13 Loan Principal Canceled - Death

2 - 14 Loan Principal Canceled - Disability

2 - 15 Loan Principal Canceled - Bankruptcy

2 - 16 Loan Principal Canceled - Peace Corps or VISTA (15% Rate)

2 - 17 Loan Principal Canceled - Peace Corps or VISTA (20% Rate)

2 - 18 Loan Principal Canceled - Head Start (15% Rate)

2 - 19 Loan Principal Canceled - Volunteer Service (15% Rate)

2 - 20 Loan Principal Canceled - Volunteer Service (20% Rate)

2 - 21 Loan Principal Canceled - Law Enforcement and Corrections Officer Service (15% Rate)

2 - 22 Loan Principal Canceled - Law Enforcement and Corrections Officer Service (20% Rate)

2 - 23 Loan Principal Canceled - Nurse/Medical Technician (15% Rate)

2 - 24 Loan Principal Canceled - Nurse/Medical Technician (20% Rate)

2 - 25 Loan Principal Canceled - Nurse/Medical Technician (30% Rate)

2 - 26 Loan Principal Canceled - Child/Family and Early Intervention Service (15% Rate)

2 - 27 Loan Principal Canceled - Child/Family and Early Intervention Service (20% Rate)

2 - 28 Loan Principal Canceled - Child/Family and Early Intervention Service (30% Rate)

2 - 29 Loan Principal Canceled for Loans Discharged Due to Closed Schools

2 - 30 Loan Principal Adjustments - Other

3 - Liability Accounts - None

4 - Capital Accounts

4 - 1 Federal Fund Balance

4 - 2 Institutional Fund Balance

6 - Income Accounts

6 - 1 Funds Transferred from G5 - Perkins - FCC

6 - 2 Funds Transferred from Institution - Perkins - ICC

6 - 3 Interest Earned on Loans

6 - 4 Other Earnings - Late Charges on Loans Made 7/1/87 and After

6 - 5 Other Earnings - Miscellaneous

6 - 6 Reimbursement of Amounts Canceled on Loans Made 7/1/72 and After

6 - 7 Repayments to Federal Government

6 - 8 Repayments to Institution

7 - Expense Accounts

7 - 1 Litigation Expenses

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution

7 - 3 Other Collection Expenses

7 - 4 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made Prior to 7/1/72

7 - 5 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made 7/1/72 and After

7 - 6 Cost of Loan Principal and Interest Canceled - Military Service, Loans Made Prior to 7/1/72

7 - 7 Cost of Loan Principal and Interest Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education), Loans Made 7/23/92 and After

7 - 8 Cost of Loan Principal and Interest Canceled - Military Service, Loans Made 7/1/72 and After

7 - 9 Cost of Loan Principal and Interest Canceled - Death

7 - 10 Cost of Loan Principal and Interest Canceled - Disability

7 - 11 Cost of Loan Principal and Interest Canceled - Bankruptcy

7 - 12 Cost of Loan Principal and Interest Canceled - Peace Corps or VISTA

7 - 13 Cost of Loan Principal and Interest Canceled - Head Start

7 - 14 Cost of Loan Principal and Interest Canceled - Volunteer Service

7 - 15 Cost of Loan Principal and Interest Canceled - Law Enforcement and Corrections Officer Service

7 - 16 Cost of Loan Principal and Interest Canceled - Nurse/Medical Technician

7 - 17 Cost of Loan Principal and Interest Canceled - Child/Family and Early Intervention Service

7 - 18 Cost of Defaulted Loan Principal and Interest Assigned to Federal Government

7 - 19 Other Costs or Losses

William D. Ford Federal Direct Loan (Direct Loan) Accounts

1 - Asset Accounts

1 - 1 Cash, Direct Loans

1 - 2 Accounts Receivable, G5

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Income Accounts

6 - 1 Income from G5 - Direct Loans

7 - Expense Accounts

7 - 1 Funds Advanced to Borrowers

Federal TEACH Grant Accounts

1 - Asset Accounts

1 - 1 Cash, Federal TEACH Grants

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Revenue Accounts

6 - 1 Transfer from G5 - Federal TEACH Grants for Students

7 - Expense Accounts

7 - 1 Student Grants Paid - Federal TEACH Grant

Iraq and Afghanistan Service Grant Accounts

1 - Asset Accounts

1 - 1 Cash, Iraq and Afghanistan Service Grants

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Revenue Accounts

6 - 1 Transfer from G5 - Iraq and Afghanistan Service Grants for Students

7 - Expense Accounts

7 - 1 Student Grants Paid - Iraq and Afghanistan Service Grants

G5 FSA Accounts

A different accounting treatment is needed if a school has been placed on the reimbursement payment method for drawing down FSA funds.

1 - 1 Cash Control, G5: This account may be a debit or credit balance account depending on the timing of drawdowns and disbursements. It is established to identify the balance of federal cash disbursed to a school through G5. The system described here segregates federal cash by using separate accounts for G5 FSA-funded programs. These separate G5 accounts allow reconciliation of funds sent and/or available through G5. Separate checking accounts need not be maintained for each program as long as school records indicate precisely where cash was used.

Debit this account for:

- All cash received from G5 for all FSA programs, except Pell Grant ACA reimbursement or Perkins Loan cancellation reimbursements (contra account # 1 - 2).
- All unexpended cash on programs when accountability has been transferred to NFC (contra account # 1 - 2).

Credit this account with:

- All cash transferred to programs.
- Excess cash billings paid to National Finance Center (NFC) (contra account # 1 - 2).

1 - 2 Accounts Receivable, G5: This account can be a debit or credit balance account depending on the timing of disbursements and drawdowns. It represents all amounts due from all open-status G5-funded programs.[1] The debit balance may exist between the time funds are requested from G5 and the time they are received.

Debit this account for:

- Amount of awards disbursed to students and recorded as income transferred from G5 in each respective FSA program account.

Credit this account for:

- Cash received from G5 (contra account # 1 - 1).
- Any unexpended program balances after accountability has been transferred to NFC (contra account # 1 - 1)

1. A different accounting treatment is needed if a school has been placed on the reimbursement payment method for drawing down FSA funds.

National Finance Center (NFC) Accounts

1 - 1 Cash Unremitted to NFC: This account is used to reflect that a portion of cash is no longer under G5 accountability; the accountability has been transferred to the National Finance Center (NFC).

This cash is segregated when a grant's final closing amount is in dispute. Accounting for the funds here reflects a transfer of accountability from G5. If more than one program is in dispute, separate subsidiary accounts should be set up for each program. Disallowed expenditures on open, current-year G5 accounts are recorded by reclassifying those expenditures from the specific program account to institutional accounts and then reinstating that same amount from the FSA program account to the G5 account.

Debit this account for:

- Cash received from the school for disallowed expenditure (contra account # 1 - 2).
- Interest earnings on FSA funds that exceed the regulatory threshold (contra account # 3 - 1).

Credit this account with:

- Amounts remitted to NFC (contra account # 3 - 1).

1 - 2 Due from School: This debit balance account reflects amounts due from the school as a result of disallowed expenditures on closed accounts not under G5 accountability.

Debit this account for:

- Billings from NFC for expenditures disallowed by program review or audit, excess cash, and the like (contra account # 3 - 1).

Credit this account for:

- Cash received from the school (contra account # 1 - 1).

3 - 1 Accounts Payable, NFC: This account is normally a credit

balance account that reflects any liabilities to NFC as a result of cash accountability separated from G5 as described earlier or disallowed expenditures on programs not under G5 accountability or excess interest earnings returnable to ED through NFC.

Debit this account for:

- Amounts remitted to NFC (contra account # 1 - 1).

Credit this account with:

- Billings from NFC (contra account # 1 - 2).
- Interest earnings returnable to NFC (contra account # 1 - 1).

Federal Pell Grant Accounts

1 - 1 Cash, Federal Pell Grants: All receipts and disbursements of cash related to the Pell Grant Program are recorded in this account. Typically, this account would show a zero balance after each period's entries are posted, as the transfer of funds from G5 should equal only the amount of grants to be paid immediately to students.

Debit this account for:

- Transfers from G5 account (contra account # 6 - 1).
- Recoveries from recipients (contra account # 7 - 1).

Credit this account with:

- Payments to students (contra account # 7 - 1).

6 - 1 Transfer from G5 - Federal Pell Grants for Students: This credit balance account controls the transfer of cash from the G5 account "Cash Control, G5" to the Pell Grant account "Cash, Federal Pell Grants." Such cash transfers should be made only in the precise amounts needed immediately to pay grants to students.

Debit this account for:

- Closing entry at end of accounting fiscal year, the total amount of cash transferred from G5 account to meet disbursement needs for the period (contra account # 7 - 1).

Credit this account with:

- Cash transferred from G5 account to meet current disbursement needs (contra account # 1 - 1).

6 - 2 Federal Reimbursement of Pell Grant Administrative Cost Allowance (ACA): This credit balance account is used to deposit the reimbursements received by electronic funds transfer (EFT) from ED for Pell ACA.

Debit this account for:

- Closing entry at end of accounting fiscal year for the amount of Pell ACA reimbursements (contra account # 7 - 2).

Credit this account with:

- ACA payments received via EFT from ED (contra account # 1 - 1).

7 - 1 Student Grants Paid - Federal Pell Grant: This debit balance account is maintained to record payments made to students for Pell Grants.

Debit this account for:

- Grant payments made to students (contra account # 1 - 1).

Credit this account with:

- Recoveries from recipients (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year for the total amount of grant payments made to students for the accounting period (contra account # 6 - 1).

7 - 2 *Administrative Cost Allowance (ACA) Paid to Institution:* This debit balance account is maintained to record payments made to the school for administrative costs. This amount cannot exceed the amount set by regulations.

Debit this account for:

- ACA paid to the school (contra account # 1 - 1).

Credit this account with:

- Closing entry at the end of the accounting period (contra account # 6 - 2).

ACCOUNT DETAILS

Federal Supplemental Educational Opportunity Grant (FSEOG) Accounts

1 - 1 Cash, FSEOG: All receipts and disbursements of cash related to the FSEOG Program are recorded in this account. Typically, this account shows a zero balance after each period's entries are posted, as the transfer of funds from G5 should be only for the amount of grants to be paid to students immediately and for administrative expenses.

Debit this account for:

- Transfers from G5 account (contra account # 6 - 1).
- Cash contributions of the school (contra account # 6 - 2).

Credit this account with:

- Payments to students (contra account # 7 - 1).
- Payments to school for administrative cost allowance (contra account # 7 - 3).

6 - 1 Transfer from G5 - FSEOG: This revenue account is maintained to control the transfer of cash from the G5 account "Cash Control, G5" to the FSEOG account "Cash, FSEOG." Such transfers of cash should be made only in the precise amounts needed to pay awards and ACA (if applicable) on a current basis.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra accounts # 7 - 1, 7 - 3).

Credit this account with:

- Amounts of cash transferred from the G5 account to meet the federal share of current FSEOG grants (contra account # 1 - 1).

6 - 2 Institution's Cash Contribution: This credit balance account is maintained to record cash contributions made by the school to provide (together with any noncash contribution) the nonfederal share of FSEOG grants.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra account # 7 - 1).

Credit this account with:

- Amounts of cash provided by the school to pay its share of current FSEOG awards (contra account # 1 - 1).

6 - 3 Institution's Noncash Contribution (Memo Account): This credit balance account is maintained to record noncash contributions made by the school to provide (together with any cash contribution) the required nonfederal share of FSEOG awards.

Debit this account for:

- Closing entry, the cash value of all tuition rebates or similar credits to student accounts as the nonfederal share of FSEOG awards at end of accounting fiscal year (contra account # 7 - 2).

Credit this account with:

- Noncash contributions provided from institutional resources to pay the nonfederal share of current FSEOG grants, including payments made directly to students from institutional funds (contra account # 7 - 2).

7 - 1 Student Grants Paid - FSEOG: This expense account is maintained to help prepare required FSEOG Program reports. If the school transfers cash to provide the required percent of the federal share, then this account would record both the federal and nonfederal shares of FSEOG awards. The debit balance in this account combined with account # 7 - 2, before closing, should agree with the sum of the individual award amounts shown in student records as FSEOG grants for the current year.

Debit this account for:

- Payments to students for FSEOG awards (contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 6 - 1).

7 - 2 Student Grants - FSEOG From Noncash Contributions (Memo Account): This expense account is used if the school makes noncash contributions and pays students a portion of their FSEOG awards directly from institutional resources.

Debit this account for:

- Payments to students for FSEOG awards from institutional resources (contra account # 6 - 3).

Credit this account for:

- Closing entry at end of accounting fiscal year (contra account # 6 - 3).

7 - 3 Administrative Cost Allowance (ACA) Paid to Institution (if applicable): This expense account is used to record ACA as it is paid to the school. Such payments are limited by regulations and may not be made from FSEOG funds unless students received FSEOG funds during the period.

Debit this account for:

- Payments to school for administrative expenses (contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 6 - 1).

Federal Work-Study (FWS) Accounts

1 - 1 Cash, Federal Work-Study: All receipts and disbursements of cash related to the Federal Work-Study (FWS) Program are recorded in this account. Any debit balance remaining after payroll payment should consist solely of institutional and/or off-campus employer funds, as federal funds should be transferred from the G5 Cash Control Account (G5 account # 1-1) only in the precise amount needed for the federal share of current disbursements.

Debit this account for:

- Federal contributions transferred from G5 account (contra account # 6 - 1).
- Cash contributions of the school (contra account # 6 - 2).
- Cash payments of off-campus employers (contra account # 1 - 2).
- Cash paid into fund by the school for later payment of employer's share of payroll taxes (contra account # 3 - 6).
- Cash contributions paid by the school for off-campus employers that have not paid their nonfederal share (contra account # 1 - 2).

Credit this account with:

- Federal share of on-campus compensation and federal and nonfederal shares of off-campus compensation to students (contra accounts # 3 - 5, 7 - 3, 7 - 4).
- Administrative expenses paid to the school (contra account # 7 - 6).
- Refund of contribution to the school (contra account # 6 - 2).
- Refund of contribution to off-campus employers (contra account # 1 - 2).

- Payment for compensation withheld (contra accounts # 3 - 1, 3 - 2, 3 - 3, 3 - 4).
- Payment of employer's payroll taxes (contra account # 3 - 6).
- Job Location and Development Program expenses paid to the school (contra account # 7 - 5).

1 - 2 Accounts Receivable, Off-Campus Entities: This account is used to record the amounts due from off-campus employers for the nonfederal share of student wages. Separate subsidiary accounts should be set up for each off-campus entity.

Debit this account for:

- Amounts to be provided by off-campus employers to pay the required percent of the nonfederal share of wages of students employed off campus (contra accounts # 6 - 4, 6 - 5).
- Refunds to off-campus employers of excess cash contributions (contra account # 1 - 1).

Credit this account for:

- Cash paid by off-campus employers (contra account # 1 - 1).
- Cash paid by the school for off-campus employers that have not paid their nonfederal share (contra account # 1 - 1).

3 - 1 Federal Income Taxes Withheld

3 - 2 Social Security Taxes Withheld*

3 - 3 State Income Taxes Withheld

3 - 4 Other Withholding

If withholding is necessary, these accounts are used to record the tax amounts withheld from the pay of students employed under the FWS Program.

*Students working in FWS jobs do not need to pay FICA if they are employed on campus.

Debit these accounts for:

- Taxes paid to the appropriate agency for federal income taxes, Social Security taxes (when applicable), state income taxes, and other taxes (contra account # 1 - 1).

Credit these accounts with:

- Amounts withheld from students' pay for payment of federal income taxes, Social Security taxes (when applicable), state income taxes, and other taxes (contra accounts # 7 - 1, 7 - 3, and 7 - 4).

3 - 5 Accrued Wages Payable: This account is used to accumulate student wages earned but not paid by the end of a report period. This is necessary because the FWS portion of the FISAP report requires compensation earned during the reporting period to be reported, regardless of when it is paid. The drawdown of cash from the G5 Cash Control Account is on a cash basis, and funds are not drawn down until accrued wages have actually been disbursed (paid).

Debit this account for:

- Amounts of gross compensation earned in the previous reporting period and paid during the current period (contra account # 1 - 1).

Credit this account with:

- Gross compensation earned, but not yet paid at the end of the reporting period (contra accounts # 7 - 1, 7 - 2, 7 - 3, 7 - 4).

3 - 6 Employer's Payroll Taxes Payable: This credit balance account is maintained to record the amount of payments due by the school for the employer's share of payroll taxes on accounts of students employed under the FWS Program. Federal Work-Study funds may not be used to pay any portion of such taxes. At some schools, the employer's share of payroll taxes is handled directly from the general fund, and off-campus employers' payments for their share of payroll taxes are reimbursed to the general fund rather than transferring the amount into the FWS fund. In this case, account # 3 - 6 would not be needed in the FWS set of accounts.

Debit this account for:

- Amounts of payroll taxes paid (contra account # 1 - 1).

Credit this account with:

- Amounts of payroll taxes payable from cash amounts transferred by the school or off-campus employers to pay their share of payroll taxes (contra account # 1 - 1).

6 - 1 Transfer from G5 - Federal Work-Study: This credit balance account controls the transfer of cash from the G5 account, "Cash Control, G5" to the FWS account, "Cash, Federal Work-Study." Such transfers of cash should be made only in the precise amounts needed for the federal share of current payroll, plus administrative expenses and Job Location and Development Program expenses. No transfer of cash should occur until the federal share of the currently payable payroll has been calculated.

Debit this account for:

- The federal share of wages earned (contra accounts # 7- 1, 7 - 3, 7 - 4).
- Administrative expenses paid to the school (contra account # 7 - 6).
- Job Location and Development Program expenses paid to the school (contra account # 7 - 5).

Credit this account with:

- Amounts of cash transferred from the G5 account "Cash Control, G5" to meet current disbursement needs (contra account # 1 - 1).

6 - 2 Institution's Cash Contribution: This credit balance account is used only if the school transfers cash to provide the required percent of the nonfederal share of student wages on campus, then pays both the federal share and nonfederal shares of campus wages from these accounts.

Debit this account for:

- Refund to the school of excess cash advances (contra account # 1 - 1).
- Closing entry, the nonfederal share (that is, the share for which FWS funds are not available) of cash wages paid to students employed on campus (contra account # 7 - 1).

Credit this account with:

- Amounts of cash provided by the school to pay its share of on-campus student wages (contra account # 1 - 1).

6 - 3 Institution's Noncash Contribution (Memo Account): This credit balance account records the amount of wages "paid" to students by the school through tuition rebates and other such noncash means, as well as amounts paid directly to students from institutional funds.

Debit this account for:

- Closing entry, the cash value of all tuition rebates or similar credits to student accounts made by the school during the reporting period as its share of on-campus student wages (contra account # 7 - 2).

Credit this account with:

- Each pay period, the cash value of all tuition rebates or similar credits to student accounts as its share of on-campus student wages (contra account # 7 - 2).

6 - 4 Off-Campus Employer's Contribution, Public/Private Nonprofit Entities

6 - 5 Off-Campus Employer's Contribution, Private For-Profit Entities

These credit balance accounts are maintained to record contributions due from off-campus employers to provide the required percent (or more) of the nonfederal share of student wages earned off campus.

Debit these accounts for:

- Closing entry, nonfederal share (that is, the share for which Federal Work-Study funds are not available) of wages paid to students employed off campus (contra accounts # 7 - 3, 7 - 4).

Credit these accounts with:

- Amounts to be provided by off-campus employers to pay the required percent of the nonfederal share of wages of students employed off campus (contra account # 1 - 2).

Note: A student may be exempt from tax withholding while enrolled. However, if the student is employed between terms or in the summer, when the student is not enrolled, withholding must be made.

7 - 1 Student Wages - On-Campus: This expense account is maintained to record the federal share of FWS wages. If the school transfers cash to provide the required percent of the federal share, then this account would record both the federal and nonfederal shares of wages. This account may be further subdivided into categories such as instruction, research, public service, and so on, to facilitate nonfederal functional reporting.

Debit this account for:

- The federal share of wages earned by students in on-campus employment from the first day to the last day of the reporting period (posted from payroll vouchers, adjusted as necessary for accruals) (contra accounts # 1 - 1, 3 - 1, 3 - 2, 3 - 3, 3 - 4, 3 - 5).

Credit this account with:

- Closing entry for the federal share of wages earned on campus (contra account # 6 - 1).

7 - 2 Student Wages - On-Campus, Noncash Contribution for Nonfederal Share (Memo Account): This expense account is maintained to record the nonfederal share of student wages paid from the institution's tuition rebates or similar credits.

Debit this account for:

- The nonfederal share of wages "paid" to students through tuition rebates and other noncash means (contra account # 6 - 3).

Credit this account for:

- Closing entry for, the nonfederal share of wages earned on campus (contra account # 6 - 3).

7 - 3 Student Wages - Off-Campus, Public/Private Nonprofit Entities

7 - 4 Student Wages - Off-Campus, Private For-Profit Entities

These expense accounts are maintained to help prepare required Federal Work-Study Program reports.

Debit these accounts for:

- Gross amount of wages earned by students in off-campus employment from the first day to the last day of the reporting period (posted from payroll vouchers, adjusted as necessary for accruals) (contra accounts # 3 - 1, 3 - 2, 3 - 3, 3 - 4, and 3 - 5).

Credit these accounts with:

- Closing entry for the nonfederal share of wages earned off campus (contra accounts # 6 - 4, 6 - 5).

7 - 5 Regular Job Location and Development (JLD) Expenses Paid to Institution: This expense account is maintained to record payments made to the school for JLD Program expenses. This amount cannot exceed the lesser of $50,000 or 10 percent of the institution's FWS authorization for the award year to locate and develop off-campus jobs, including community-service jobs. Jobs located or developed under the program may be for either a for-profit or nonprofit employer. A school is not allowed to use its JLD allocation to locate on-campus service jobs. The federal funds that a school sets aside from its FWS allocation to be used for JLD activities may be used to pay up to 80% of allowable costs. The school must provide the remaining 20% of allowable costs, either in cash or services.

Debit this account for:

- Amounts paid to the school (contra account # 1 - 1).

Credit this account with:

- Closing entry at the end of the accounting period, the amounts paid to the school during the reporting period (contra account # 6 - 1).

7 - 6 Administrative Cost Allowance (ACA) Paid to Institution: This expense account is maintained to record payments made to the school in reimbursement for administrative expenses. Such payments to the school have totals limited by regulations, and they may not be made from FWS funds unless students earned FWS wages during the award year.

Debit this account for:

- Payments to school for administrative expenses (contra account # 1 - 1).

Credit this account with:

- Closing entry at the end of the accounting period, the total amount paid to the school during the reporting period (contra account # 6 - 1).

Federal Perkins Loan Accounts

1 - 1 Cash, Federal Perkins Loans: This is a debit balance account that shows the total cash available.

Debit this account for:

- Federal Capital Contributions (FCCs) as transferred from G5 cash (contra account # 6 - 1).
- Institutional Capital Contributions (ICCs) as transferred from institutional cash (contra account # 6 - 2).
- Refunds of amounts advanced to students (contra account # 1 - 2).
- Collections of loan principal from borrowers (contra account # 2 - 1).
- Collections of loan interest from borrowers (contra account # 6 - 3).
- Collections of late charges assessed (contra account # 6 - 4).
- Collections of penalty charges assessed (contra account # 6 - 5).
- Other income (contra account # 6 - 5).
- Reimbursements from the U.S. government on loan cancellations (contra account # 6-6).
- Repayments from borrowers for litigation expenses (contra account # 7 - 1).
- Collections of borrower - paid collection costs from gross-remittance collection agencies (contra account # 7-3).

Credit this account with:

- Advances to students (contra account # 1 - 2).
- Overpayments refunded to borrowers (contra account # 2 - 1).
- Reversals of payments made by returned check (contra accounts # 2 - 1, 6 - 3, 6 - 4, 6 - 5, 7 - 3).
- Repayments of capital to the U.S. government (contra account # 6 - 7).
- Repayments of capital to the school (contra account # 6 - 8).
- Withdrawals of late charges payable to the school (contra account # 6 - 4).
- Withdrawals to pay litigation expenses (contra account # 7 - 1).
- Withdrawals for administrative cost allowance (contra account # 7 - 2).
- Withdrawals to pay collection costs to gross-remittance collection agencies (contra account # 7 - 3).
- Withdrawals to pay other collection expenses (contra account # 7 - 3).

1 - 2 Funds Advanced to Students: This debit balance account is a control account for advances to borrowers. The total of the amounts shown as advances on individual student master records for all students should be reconciled to the balance in this account at the end of each month.

Debit this account for:

- The amount advanced to borrowers (contra account # 1 - 1).

Credit this account with:

- Any return of advances made (contra account # 1 - 1).

2 - 1 Loan Principal Collected: This is a credit balance account maintained to show the total amount of loan principal collected since the beginning of the program.

Debit this account for:

- The principal amount of returned checks (contra account # 1 - 1).
- Overpayments refunded to borrowers (contra account # 1 - 1).

Credit this account with:

- The amount of cash collections related to loan principal (contra account # 1 - 1).
- Reclassification of the amount of interest paid that is subsequently canceled (contra account # 2 - 1).

2 - 2 Defaulted Loan Principal - Assigned to Federal Government: This credit balance account is maintained to show the cumulative amount of defaulted loan principal assigned to and accepted by the U.S. government.

Debit this account for:

- No entries, except for correcting errors.

Credit this account with:

- The amount of loan principal assigned to and accepted by the U.S. government on loans in default (contra account # 7 - 18).

2 - 3 Loan Principal Canceled - Teaching Service (10% Rate), Loans Made Prior to 7/1/72

2 - 4 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made Prior to 7/1/72

2 - 5 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made Prior to 7/1/72

Accounts # 2 - 3, 2 - 4, and 2 - 5 may be merged and maintained as one account titled "Loan Principal Canceled - Loans Made Prior to 7/1/72."

2 - 6 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made 7/1/72 and After

2 - 7 Loan Principal Canceled - Teaching Service (20% Rate), Loans Made 7/1/72 and After

2 - 8 Loan Principal Canceled - Teaching Service (30% Rate), Loans Made 7/1/72 and After

2 - 9 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (15% Rate), Loans Made 7/23/92 and After

2 - 10 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (20% Rate), Loans Made 7/23/92 and After

2 - 11 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (30% Rate), Loans Made 7/23/92 and After

2 - 12 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made 7/1/72 and After

2 - 13 Loan Principal Canceled - Death

2 - 14 Loan Principal Canceled - Disability

Accounts # 2-13 and 2-14 may be merged and maintained as one account titled "Loan Principal Canceled - Death or Disability."

All other canceled-loan entries are similar and are not shown here. Refer to the chart of accounts for the other cancellation accounts.

These separate cancellation accounts are maintained to show the cumulative amounts of loan principal canceled under the provisions of the law.

Debit these accounts for:

- No entries, except for correcting errors.

Credit these accounts with:

- Amounts of each appropriate category of loan principal canceled under the provisions of the law (contra accounts # 7 - 4 through 7 - 17).

2 - 29 Loan Principal Adjustments - Other: This is a credit balance account maintained to show the cumulative total amount of loan principal lost because of other reasons (such as write-offs) as specified by the Department. Each credit entry to this account should be adequately labeled to identify the reason for the adjustment.

Debit this account for:

- No entries, except for correcting errors.

Credit this account with:

- Amount of loan principal lost because of other approved reasons (write-offs) (contra account # 7 - 19).

4 - 1 Federal Fund Balance: This is a credit balance account maintained to show the federal share of the fund balance. This account should always show a credit balance for the federal share of income and expenses since the school began participating in the program.

Credit this account with:

- Closing entry at end of accounting fiscal year (federal share of contra accounts # 6 - 1, 6 - 3 through 6 - 7, 7 - 1 through 7 - 19).

4 - 2 Institutional Fund Balance: This credit balance account is maintained to show the institutional share of the fund balance. This account should always show a credit balance for the institutional share of income and expenses since the school began participating in the program.

Credit this account with:

- Closing entry at end of accounting fiscal year (institutional share of contra accounts # 6 - 2 through 6 - 6, 6 - 8 through 7 - 19).

6 - 1 Funds Transferred from G5 - Perkins - FCC: This credit balance account is maintained to track the total FCC transferred to the Perkins Loan fund from the G5 cash control account.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra account # 4 - 1).

Credit this account with:

- Transfer from G5 - FCC (contra account # 1 - 1).

6 - 2 Funds Transferred from Institution - Perkins - ICC: This credit balance account is maintained to track the total ICC transferred to the Perkins Loan fund from the school.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra account # 4-2).

Credit this account with:

- Mandatory transfers of the institution's matching share of the Perkins Loan allocation. This is one-third (33 1/3%) of the FCC amount or one-quarter (25 percent) of the combined FCC plus ICC (contra account # 1- 1).

6 - 3 Interest Earned on Loans: This credit balance account is maintained to show the total interest that has been collected or has been canceled because of teaching service, military service, death, or any other authorized cancellation. It also includes interest from loans assigned to ED.

Debit this account for:

- The interest amount of returned checks and correction of errors (contra account # 1 - 1).
- Reclassification of the interest amount paid that is subsequently canceled (contra account # 2 - 1).
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

Credit this account with:

- The amount of loan interest collected (contra account # 1 - 1).
- The amount of loan interest canceled for teaching service (contra accounts # 7 - 4, 7 - 5).
- The amount of loan interest canceled for teaching service (where the field of expertise is: math, science, foreign language, bilingual education), on loans made 7/23/92 and after (contra account # 7 - 7).
- The amount of loan interest canceled for military service (contra accounts # 7 - 6, 7 - 8).
- The amount of loan interest canceled for death (contra account # 7 - 9).
- The amount of loan interest canceled for disability (contra account # 7 - 10).
- The amount of loan interest canceled for bankruptcy (contra account # 7 - 11).

- The amount of loan interest canceled for Peace Corps or VISTA (contra account # 7 - 12).
- The amount of loan interest canceled for Head Start (contra account # 7 - 13).
- The amount of loan interest canceled for Volunteer Service (contra account # 7 - 14).
- The amount of loan interest canceled for Law Enforcement and Corrections Officer (contra account # 7 - 15).
- The amount of loan interest canceled for Nurse/Medical Technician (contra account # 7 - 16).
- The amount of loan interest canceled for Child/Family and Early Intervention Service (contra account # 7 - 17).
- The amount of loan interest related to defaulted loans assigned to the U.S. government (contra account # 7 - 18).
- The amount of loan interest written off for other costs or losses (specify) (contra account # 7 - 19).

6 - 4 Other Earnings - Late Charges on Loans Made 7/1/87 and After: This credit balance account is maintained to show the earnings of the fund due to late charges assessed on loans made after 7/1/87.

Debit this account for:

- Late charge amounts reimbursed to the school (contra account # 1 - 1).
- Late charge amounts of returned checks (contra account # 1 - 1).
- Late charge amounts for correcting errors.
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

Credit this account with:

- Late charges assessed and collected (contra account # 1 - 1).
- Amounts reimbursed by the school for the late charge portion of returned checks (contra account # 1 - 1).
- Late charges accrued and written off (contra account # 7 - 18).

6 - 5 Other Earnings - Miscellaneous: This credit balance account is maintained to show the earnings of the fund (other than interest on student loans or late charges assessed on loans made 1/1/86 and after), such as penalty charges on loans made 12/31/85 and before, and interest earned on fund cash balances. As it will be necessary to report separately on each type of earnings (penalty charges, interest, earnings, and so on), a subsidiary ledger account for each type of earnings is required. There may be periods when slack demand for loans, coupled with funds received for collection activities, might produce a temporary excess cash balance in the Perkins Loan fund; as a result, institutions are now required to maintain fund balances in insured interest-bearing accounts.

Debit this account for:

- Penalty charges for returned checks (contra account # 1 - 1).
- Correcting errors.
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

Credit this account with:

- Penalty charges assessed and collected (contra account # 1 - 1).
- Interest earned on fund cash (contra account # 1 - 1).
- Any other earnings of the fund (contra account # 1 - 1).
- Penalty charges accrued and written off (contra account # 7 - 19).

6 - 6 Reimbursement of Amounts Canceled on Loans Made 7/1/72 and After: This credit balance account is maintained to show the amounts received from the U.S. government as a result of reimbursements on loans canceled for teaching (Head Start) and military service on loans made 7/1/72 and after, for Peace Corps or VISTA service for loans made after 6/30/87, for employment in law enforcement or as a corrections officer for loans made on or after 11/29/90, and for all cancellations authorized by the 1992 reauthorization of the Higher Education Act (HEA).

Debit this account for:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

Credit this account with:

- Amounts received from the U.S. government for reimbursement of the aggregate amount of institutional funds plus federal funds canceled due to any of the authorized cancellation provisions (contra account # 1 - 1).

6 - 7 Repayments to Federal Government: This debit balance account is maintained to show the total distribution of fund capital in case of partial dissolution of the Perkins Loan fund.

Debit this account for:

- Amount of the appropriate FCC repaid in partial dissolution of the fund (contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 4 - 1).

6 - 8 Repayments to Institution: This debit balance account is maintained to show the total distribution of fund capital in case of partial dissolution of the Perkins Loan fund and to show when an school withdraws an overmatch.

Debit this account for:

- Amount of the appropriate ICC repaid in partial dissolution of the fund (contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 4 - 2).

7 - 1 Litigation Expenses: This is a debit balance account maintained to show the net amount paid for litigation arising in connection with Federal Perkins Loans.

Debit this account for:

- Amounts paid for litigation expenses (contra account # 1 - 1).

Credit this account with:

- Amounts collected from borrowers repaying litigation expenses (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution: This is a debit balance account maintained to show the amount of administrative expenses charged to the fund rather than reimbursement to the school by the Department. Such payments to the school are limited in total by regulations and may not be made from the Perkins Loan fund unless students receive advances of Perkins Loan funds during the award period.

Debit this account for:

- Amounts charged to the fund as authorized ACA(contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 3 Other Collection Expenses: This is a debit balance account maintained to show the net amount charged to the fund for collection expenses other than costs of litigation, such as commissions (as approved by the Department) paid to a collection agency.

Debit this account for:

- Amounts authorized to be charged to the fund as other collection expenses (contra accounts # 1 - 1 or 2 - 1).
- Amount of borrower-paid collection cost portion of returned checks (contra account # 1 - 1).

Credit this account with:

- Amounts collected from borrowers repaying costs of collection other than litigation expenses (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 4 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made Prior to 7/1/72

7 - 5 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made 7/1/72 and After

These debit balance accounts are maintained to show the total cost of loan cancellations for teaching service.

Debit these accounts for:

- Amounts of total principal and interest canceled for teaching service (contra accounts # 2 - 3, 2 - 4, 2 - 6, 2 - 7, 2 - 8, and 6 - 3).

Credit these accounts with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 6 Cost of Loan Principal and Interest Canceled - Military Service, Loans Made Prior to 7/1/72

7 - 7 Cost of Loan Principal and Interest Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education), Loans Made 7/23/92 and After

These debit balance accounts are maintained to show the total cost of loan cancellations for military and teaching service.

Debit these accounts for:

- Amounts of total principal and interest canceled for these specific service areas (contra accounts # 2 - 5, 2 - 9, 2 - 10, 2 - 11, and 6 - 3).

Credit these accounts with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 8 Cost of Loan Principal and Interest Canceled - Military Service 7/1/72 and After

This debit balance account is maintained to show the total cost of loan cancellations for military service.

Debit this account for:

- Amounts of total principal and interest canceled for military service (contra accounts # 2 - 12, 6 - 3).

Credit these accounts with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 9 Cost of Loan Principal and Interest Canceled - Death: This is a debit balance account maintained to show the total cost of loan cancellations for death.

Debit this account for:

- Amounts of total principal and interest canceled for death (contra accounts # 2 - 13, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2.

7 - 10 Cost of Loan Principal and Interest Canceled - Disability: This is a debit balance account maintained to show the total cost of loan cancellations for disability.

Debit this account for:

- Amounts of total principal and interest canceled for disability (contra accounts # 2 - 14, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 11 Cost of Loan Principal and Interest Canceled - Bankruptcy: This is a debit balance account maintained to show the total cost of loan cancellations for bankruptcy.

Debit this account for:

- Amounts of total principal and interest canceled for bankruptcy (contra accounts # 2 - 15, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 12 Cost of Loan Principal and Interest Canceled - Peace Corps or VISTA: This is a debit balance account to show the total cost of principal and interest canceled for service in the Peace Corps or VISTA for loans made after June 30, 1987.

Debit this account for:

- Amounts of total principal and interest canceled for service in the Peace Corps or VISTA (contra accounts # 2 - 16, 2 - 17, and 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 13 Cost of Loan Principal and Interest Canceled - Head Start: This is a debit balance account to show the total cost of principal and interest canceled for the Head Start Program.

Debit this account for:

- Amounts of total principal and interest canceled for the Head Start Program (contra accounts # 2 - 18, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 14 Cost of Loan Principal and Interest Canceled - Volunteer Service: This is a debit balance account to show the total cost of principal and interest canceled for volunteer service.

Debit this account for:

- Amounts of total principal and interest canceled for volunteer service (contra accounts # 2 - 19, 2 - 20, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 15 Cost of Loan Principal and Interest Canceled - Law Enforcement and Corrections Officer: This is a debit balance account to show the total cost of principal and interest canceled for borrowers employed in law enforcement or corrections.

Debit this account for:

- Amounts of total principal and interest canceled for a borrower's employment as a law-enforcement or corrections officer (contra accounts # 2 - 21, 2 - 22, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 16 Cost of Loan Principal and Interest Canceled - Nurse/Medical Technician: This is a debit balance account to show the total cost of principal and interest canceled for a borrower's employment as a nurse or medical technician.

Debit this account for:

- Amounts of total principal and interest canceled for a borrower's employment as a nurse or medical technician (contra accounts # 2 - 23, 2 - 24, 2 - 25, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 17 Cost of Loan Principal and Interest Canceled - Child/Family and Early Intervention Service: This is a debit balance account to show the total cost of principal and interest canceled for a borrower's employment in a child/family or early intervention service.

Debit this account for:

- Amounts of total principal and interest canceled for the child/family or early intervention service (contra accounts # 2 - 26, 2 - 27, 2 - 28, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 18 Cost of Defaulted Loan Principal and Interest Assigned to Federal Government: This is a debit balance account maintained to show the total cost of defaulted loans assigned to, and accepted by, the U.S. government.

Debit this account for:

- Amounts of total principal and interest related to defaulted loans assigned to the U.S. government (contra accounts # 2 - 2, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 19 Other Costs or Losses: This is a debit balance account maintained to show the total amount of other costs or losses. Any entries to this account, such as accounts written off, should have full documentation of the reasons. In some cases, approval by the Department must be included as part of the documentation.

Debit this account for:

- Amounts of total principal, interest, penalty, and late charges written off because of other costs or losses. The reason for the write-off should be specified for easy identification in the account (contra accounts # 2 - 29, 6 - 3, 6 - 4, 6 - 5).

Credit this account with:

- Amounts of previous write-offs reversed due to collection (contra accounts # 2 - 29, 6 - 3, 6 - 4, 6 - 5).
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

William D. Ford Federal Direct Loan Accounts

1 - 1 Cash, Direct Loans: All receipts and disbursements of cash related to the Direct Loan Program are recorded in this account.

Debit this account for:

- Transfers from G5 accounts (contra account # 6 - 1).
- Recoveries from recipients (contra account # 7 - 1).

Credit this account for:

- Payments to students (contra account # 7 - 1).
- Return of excess cash to via FEDWIRE or ACH (contra account # 6 - 1).

1 - 2 Accounts Receivable, G5: This debit balance account controls the transfer of cash directly from the G5 account established for Direct Loans.

Debit this account for:

- Amounts due from G5 for disbursement needs for the period (contra account # 6 - 1).
- Return of excess cash (contra account # 1 - 1).

Credit this account with:

- Cash transferred directly from the G5 account (contra account # 1 - 1).

6 - 1 Income from G5 - Direct Loans: This credit balance account reflects the income from the Direct Loan Program. This amount is not a transfer from the G5 account referred to in section 5.3. These separate accounts allow for reconciliation with the institution's records as part of the Direct Loan reconciliation process.

Debit this account for:

- Closing entry at end of accounting fiscal year, the income from G5 to meet disbursement needs for the period (contra accounts # 7 - 1, 7 - 2).

Credit this account with:

- Income from G5 recorded to meet current disbursement needs (contra account # 1 - 2).

7 - 1 Funds Advanced to Borrowers: This debit balance account is maintained to record payments made to students or parents for loans. This account may be further subdivided to separate disbursements for PLUS, subsidized, and unsubsidized loans.

Debit this account for:

- Loan payments made to students or students' parents (contra account # 1 - 1).

Credit this account with:

- Recoveries from loan recipients (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year for the total amount of loan disbursements made to students or students' parents for the accounting period (contra account # 6 - 1).

Federal TEACH Grant Accounts

1 - 1 Cash, Federal TEACH Grants: All receipts and disbursements of cash related to the TEACH Grant Program are recorded in this account. Typically, this account would show a zero balance after each period's entries are posted, as the transfer of funds from G5 should equal only the amount of grants to be paid immediately to students.

Debit this account for:

- Transfers from G5 account (contra account # 6 - 1).
- Recoveries from recipients (contra account # 7 - 1).

Credit this account with:

- Payments to students (contra account # 7 - 1).

6 - 1 Transfer from G5 - Federal TEACH Grants for Students: This credit balance account controls the transfer of cash from the G5 account "Cash Control, G5" to the TEACH Grant account "Cash, Federal TEACH Grants." Such cash transfers should be made only in the precise amounts needed immediately to pay grants to students.

Debit this account for:

- Closing entry at end of accounting fiscal year, the total amount of cash transferred from G5 account to meet disbursement needs for the period (contra account # 7 - 1).

Credit this account with:

- Cash transferred from G5 account to meet current disbursement needs (contra account # 1 - 1).

7 - 1 Student Grants Paid - Federal TEACH Grant: This debit balance account is maintained to record payments made to students for TEACH Grants.

Debit this account for:

- Grant payments made to students (contra account # 1 - 1).

Credit this account with:

- Recoveries from recipients (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year for the total amount of grant payments made to students for the accounting period (contra account # 6 - 1).

Federal Iraq and Afghanistan Service Grant Accounts

1 - 1 Cash, Federal Iraq and Afghanistan Service Grants: All receipts and disbursements of cash related to the Iraq and Afghanistan Service Grant Program are recorded in this account. Typically, this account would show a zero balance after each period's entries are posted, as the transfer of funds from G5 should equal only the amount of grants to be paid immediately to students.

Debit this account for:

- Transfers from G5 account (contra account # 6 - 1).
- Recoveries from recipients (contra account # 7 - 1).

Credit this account with:

- Payments to students (contra account # 7 - 1).

6 - 1 Transfer from G5 - Federal Iraq and Afghanistan Service Grants for Students: This credit balance account controls the transfer of cash from the G5 account "Cash Control, G5" to the Iraq and Afghanistan Service Grant account "Cash, Federal Iraq and Afghanistan Service Grants." Such cash transfers should be made only in the precise amounts needed immediately to pay grants to students.

Debit this account for:

- Closing entry at end of accounting fiscal year, the total amount of cash transferred from G5 account to meet disbursement needs for the period (contra account # 7 - 1).

Credit this account with:

- Cash transferred from G5 account to meet current disbursement needs (contra account # 1 - 1).

7 - 1 Student Grants Paid - Federal Iraq and Afghanistan Service Grant: This debit balance account is maintained to record payments made to students for Iraq and Afghanistan Service Grants.

Debit this account for:

- Grant payments made to students (contra account # 1 - 1).

Credit this account with:

- Recoveries from recipients (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year for the total amount of grant payments made to students for the accounting period (contra account # 6 - 1).

A School's Financial Management Systems

APPENDIX B

The accounting procedures and financial management systems used by a school to record and report on the transactions in the Federal Student Aid programs play a major role in the school's management of those programs. In this chapter, we will discuss the minimum criteria for those procedures and systems, identify areas where problems might arise, and point out potential system weaknesses.

FINANCIAL MANAGEMENT SYSTEMS

Financial management systems
34 CFR 668, Subpart K

A school's financial management system (including the school's accounting system) must provide effective control over and accountability for all funds received from the U.S. Department of Education's (ED's) Grant Administration and Payment System (G5). An FSA fiscal management system includes procedures for

- requesting funds from ED;
- disbursing funds to eligible students and parents;
- accounting for funds and financial activities;[1]
- keeping accurate and auditable records including providing the clear audit trail required by cash management regulations;[1]
- meeting the documentation requirements of the individual program regulations;
- managing cash;
- ensuring proper filing of timely applications; and
- enabling timely internal and external financial reporting.

Accounting System Defined

A school's accounting system includes those procedures that deal with the organization and controls necessary to identify and record transactions in a school's journals and ledgers, while systematically providing for the supporting documentation for all journal entries. The accounting system is a subset of the school's larger system of financial management.

At a minimum, a school's financial management system including its accounting system must provide

1. accurate, current, and complete disclosure of the financial condition of each federal aid program or project sponsored by ED;
2. records that adequately identify the source and application of funds for sponsored activities and contain information on institutional awards, authorizations, obligations, unobligated balances, assets, income, liabilities, revenues, expenditures, and cash disbursements;[1]

1. Accounting system function

3. effective control over and accountability for all funds, property, and other assets, including adequate safeguarding of all such assets to ensure that they are used solely for authorized purposes;[2]
4. comparison of actual expended amounts with amounts budgeted for each FSA program;[2]
5. procedures to ensure the timely, efficient transfer of funds when they are advanced through electronic methods (these procedures must limit the time between the transfer of funds from the U.S. Treasury and cash disbursement by the school to students so that funds are disbursed no later than three business days following the receipt of funds, and do not result in excess cash.);[2]
6. procedures according to the applicable terms of the FSA program for determining reasonableness, allowability, and allocability of costs;[2]
7. accounting records that are supported by audit trail documentation;[1]
8. monthly reconciliation of individual student FSA awards as recorded in the financial aid, business office, student account, and Department systems (for Pell and Direct Loan);[2] and
9. examinations in the form of external or internal audits, which must be made according to generally accepted auditing standards and government auditing standards.[2]

Schools organize and manage their financial operations differently depending on such factors as the size of the school, administrative structure, staffing, automation, and federal program participation. Although fiscal operations can vary from school to school, successfully managing FSA programs at any school depends on coordinated efforts across institutional offices.

Coordination has become increasingly important as automated systems have replaced paper-based ones. Automated systems bring many benefits, such as enhanced data integrity and speedy data exchange. However, they also present challenges. **Perhaps the most critical challenge is that automation can blur responsibility for functions that, by law, must be kept separate, such as awarding and disbursing federal funds.**

1. Accounting function;
2. Financial management system functions

THE NETWORK OF RESPONSIBILITIES

Managing FSA assistance is a school-wide responsibility. FSA program funds are provided to the school, and all offices at a school must work together to ensure successful program management. A school's FSA program management generally takes place in three functional areas:

- the office of the chief executive (CEO, president, chancellor, owner, etc.),
- the financial aid office, and
- the business (bursar's) office.

Schools differ in how they divide these functions among administrative offices. However, the president's office, the financial aid office, and the business office always play key roles.

The CEO's office

Ultimate responsibility for a school's FSA programs resides with the school's CEO. Although authority and responsibility are delegated to other offices, the leadership and support of the CEO are crucial to successfully administering FSA programs. By recognizing the importance of federal aid programs, making FSA program administration a high priority, and holding key officials accountable, CEO leadership can foster an environment that promotes an effective and responsive financial aid program that meets institutional goals, students' needs, and federal requirements.

The next page lists the administrative responsibilities of a school's CEO.

The CEO's/President's Responsibilities

- meets the financial standards for administering the FSA programs
- has an individual capable of administering the FSA programs and coordinating federal and nonfederal financial aid
- has an adequate number of qualified staff to administer FSA programs
- has a procedure to report changes to ED about the school's current eligibility status (for example, changes in ownership, address, name, officials, third-party servicers, programs, and locations)
- has a procedure to ensure that FSA funds for new programs and locations are not disbursed until approvals (when required) are received from ED
- has established clear lines of responsibility among the pertinent school offices
- has good communication and cooperation among personnel in the pertinent school offices
- maintains effective recordkeeping systems for both student records and financial records
- has an adequate system of checks and balances to ensure separation of award functions from disbursement functions
- has accurate information about student applicants for FSA aid and resolves any discrepancies or inconsistencies
- provides adequate financial aid and loan debt management counseling to students
- refers any suspected cases of FSA fraud, abuse, or misrepresentation to ED's Office of Inspector General
- obtains a letter of credit (if the school has failed to meet the standards of financial responsibility)
- has an independent auditor perform an annual federal audit of the school's FSA financial operations
- cooperates fully with any program reviews or audits and makes available all necessary information to the reviewers or auditors
- has no criminal or fraudulent activities occur as it manages federal funds and administers FSA programs
- has established reasonable standards of satisfactory academic progress (SAP) for students
- has established a fair and equitable institutional refund policy (if required by the school's accrediting agency)
- has an operable and accessible drug abuse prevention program, as required by the Drug-Free Schools and Communities Act
- has a drug-free workplace, as required by the Drug-Free Workplace Act
- makes available all published information required by the Student Right-to-Know Act and the Campus Security Act and any other applicable laws and regulations
- provides the services described in its publications

For complete information about the requirement to obtain a letter of credit when a school fails to meet the standards of financial responsibility, and the requirement to obtain an independent audit of a school's participation in the FSA programs please see the ***Federal Student Aid Handbook, Volume 2***.

The financial aid office

While a school's financial aid office is usually assigned most of the responsibility for administering FSA programs, its role in the institution's fiscal operation is a limited one. In some cases, functions such as loan counseling might be performed by the business office instead of the aid office.

Responsibilities commonly assigned to a school's financial aid office

- Advise and counsel students and parents about financial aid
- Provide students with consumer information, as required by federal regulations
- Develop written policies and procedures about the way the school administers FSA programs
- Determine students' eligibility for financial aid
- Make financial aid awards to students
- Adhere to the principle of separation of functions (no single office or individual may authorize payments and disburse FSA funds to students)
- In administering financial aid programs, coordinate financial aid activities with those of other school offices
- Interact with various outside groups, agencies, associations, and individuals about issues concerning the school's administration of financial aid programs
- Monitor students' satisfactory academic progress (SAP)
- Maintain school records and student records that document the administration of the financial aid office and provide data for reports
- Keep current on changes in laws and regulations to ensure that the school remains in compliance
- Assist in reporting program expenditures
- Manage and report on activities that involve financial aid funds
- Calculate the return of Title IV funds and, if it applies, authorize post-withdrawal disbursements to students
- Assist in reconciling loan records (for schools in the Direct Loan Program)
- Reconcile student financial aid data provided to the business office to ensure all payments have been made, return of FSA funds have been accounted for, and expenditures have been reported
- Have a procedure to report any changes to ED about the school's current eligibility status (for example, change in ownership, address, name, officials, third-party servicers, etc.)
- Perform (limited) fiscal operations, such as
    - authorizing payment of FSA funds to student accounts or to students directly
    - authorizing return of Title IV funds to program accounts and post-withdrawal disbursements to students
    - notifying a student who owes an overpayment as a result of the student's withdrawal from the school in order for ED or the school to recover the overpayment
    - notifying ED of the overpayment
    - coordinating submission of the Fiscal Operations Report and Application to Participate (FISAP)
- Provide entrance and exit counseling to borrowers of FFEL Program loans and Direct Loan Program loans as part of the award and delivery process[1]
- Provide entrance and exit counseling to borrowers of Federal Perkins Loans as part of the award and delivery process[1]

1. At some schools, the business office performs this function.

The business (bursar's) office

Most FSA related fiscal operations are handled by a school's business office, also. This office may also be known as the fiscal office, finance office, comptroller's office, bursar's office, treasurer's office, or student accounts office. For the duration of this text, this office will be referred to simply as *the business office*.

The business office provides critical services to the school in managing both federal and nonfederal financial aid programs. Administering the accounting, recordkeeping, and reporting functions related to the school's use of federal and other funds requires many detailed, complex systems. Strong internal controls and sound business and financial management practices are keys to the success of these operations and delivering funds to students.

The next page lists some of the common responsibilities of the business office.

Responsibilities commonly assigned to a school's business office

- Coordinate activities and cooperate with the financial aid office in
  - projecting cash needed to cover disbursements
  - processing cancellations and institutional refunds
  - obtaining authorization to pay FSA funds
  - being aware of the changes in FSA laws and regulation
  - submitting accurate and timely reports
  - reconciling records to ensure that financial aid adjustments are properly recorded
- Maintain a system of internal controls that includes adequate checks and balances
- Ensure that the functions of authorizing and disbursing FSA funds remain separate
- Maintain records consistent with Generally Accepted Accounting Principles, and government auditing standards
- Maintain records to ensure a clear audit trail
- Draw down and return FSA funds to program accounts
- Disburse funds to eligible students from FSA program accounts
- Maintain a system of student accounts that records charges, credits, and amounts due
- Collect Federal Perkins Loans[1]
- Calculate the return of Title IV funds, and if it applies, authorize post-withdrawal disbursements to students[2]
- Establish and implement the institution's refund policy (if required by the school's accrediting or state agency)[2]
- Process return of Title IV funds to program accounts and post-withdrawal disbursements to students according to the applicable federal laws and regulations
- Assist in reporting FSA expenditures to the Department in a timely manner
- Reconcile accounts, including
  - reconciling cash between school records and bank statements and reports
  - reconciling federal funds between bank statements and federally reported balances
- Assist in completing applications, fiscal reports for federal funds, and FISAP
- Maintain a cash management system to meet disbursement requirements and federal laws and regulations
- Provide general stewardship for federal funds, including maintaining bank accounts and investments as appropriate
- Prepare for and participate in FSA program reviews and audits
- Before making a first disbursement of Direct Loan or Perkins Loan funds, confirm that new borrowers have completed entrance counseling[2]
- Ensure that Direct Loan and Perkins Loan borrowers have completed exit counseling within the time permitted by the appropriate regulations and school policies[3]
- Establish and monitor Federal Work-Study (FWS) payroll and time sheets[4]

1. At some schools, a separate student loan office collects these loans.
2. At some schools, the financial aid office performs this function.
3. At some schools, these activities are performed by the financial aid office. In addition, the business office may be responsible for administering other aspects of the Federal Perkins Loan Program. While the financial aid office may be responsible for awarding Perkins Loan funds, the business office may be responsible for collecting and handling promissory notes, billing borrowers in repayment, collecting payments, authorizing deferments, cancelling loans, and reporting Perkins Loans to NSLDS.
4. At some schools, the personnel office performs this function.

Synchronizing operations and responsibilities

Typically, several offices at your school will share responsibility for managing any one FSA program. To illustrate this network of responsibilities, consider the relatively routine activity of managing FWS Program time sheets for student employees. The financial aid office typically authorizes FWS awards and monitors student earnings to ensure students have not exceeded their authorized awards. On the other hand, the business office usually processes payroll and monitors the school's nonfederal share of FWS to ensure the school is adequately matching the federal share. Your school's processes should demonstrate similar interdependence in your management of its FSA programs. To further explore this principle, if your school participates in the FWS programs, please complete the FWS questionnaire on the next page as it applies to your school.

FWS Questionnaire on Network of Responsibilities

1. The Federal Work-Study (FWS) Program time sheet requires oversight certification. Who is authorized to certify that a student has worked the hours reported and earned the amount paid?

_____

_____

2. Students must remain eligible from one term to the next. Who monitors student eligibility and academic progress?

_____

_____

3. Some eligibility requirements are school policies. Who develops these policies for the school?

_____

_____

4. Students are paid wages on the basis of their time sheets.
   - Who collects the time sheets from students? _____
   - Who processes the payroll? _____
   - Who reconciles the payroll to the time sheets? _____
5. Students may only earn up to the amount of their authorized FWS awards.
   - Who determines the amount of the award? _____
   - Who monitors students' earnings to ensure they do not earn more than that amount?

_____

6. Schools must develop and place students in FWS jobs.
   - Who locates and develops these jobs? _____
   - Who places students in these jobs? _____
7. All schools are required to spend at least seven percent of the federal allocation of their FWS funds to employ students in community service positions.
   - Who locates and develops these jobs? _____
   - Who monitors the percentage of funds used for these jobs? _____

_____

8. Student earnings are part of the institution's overall FWS budget.
   - Who develops the budget? _____
   - Who monitors allocations and disbursements? _____
   - Who monitors expenditures? _____
9. Schools that receive FWS funds are required to apply for those funds and to report to the Department on the use of those funds.
   - Who completes the application? _____
   - Who completes the report? _____

INTERNAL CONTROLS—A SYSTEM OF CHECK AND BALANCES

Checks and balances
34 CFR 668.16(c)(1)
34 CFR 674.19(a)
34 CFR 675.19(a)
34 CFR 676.19(a)

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the FSA programs include an adequate system of internal controls or checks and balances.

What is internal control

Internal control is an integral component of an organization's management. An effective internal control structure includes a school's plan of organization and all the policies, procedures, and actions taken by the school to provide **reasonable assurance** that the school will achieve its objectives in the following areas:

1. Effectiveness and efficiency of operations
2. Accuracy of operating data
3. Reliability of program reporting
4. Protection of funds against fraud and misuse
5. Compliance with organizational policies and applicable FSA laws and regulations.

The first category addresses a school's administrative objectives, including performance and financial goals and safeguarding of resources. The second relates to the need to ensure that the decisions made by a school in its day-to-day operations are based on accurate information. The third relates to the preparation of financial statements, audits, and other fiscal and operational reports a school is required to make to the Department. The fourth refers to a school's fiduciary responsibility to safeguard FSA funds and ensure they are used for the purposes and by the recipients intended. The fifth addresses the requirement that a school comply with all applicable federal, and state, laws and regulations, as well as the regulations of its accrediting agency.

Components of internal control

Internal control consists of five interrelated components derived from the way a school is managed. The components are

- *Control Environment*—The control environment sets the tone of an organization and influences the mind-set of its employees. It is the foundation for all other components of internal control, providing its discipline and structure. Control environment factors include the integrity, ethical values, and competence of the school's people; management's philosophy and operating style; and the way a school's administration assigns authority and responsibility and organizes and develops its employees.

Administrators must convey the message that integrity and ethical values cannot be compromised, and employees must receive and understand that message. Adopting codes of conduct and other policies regarding acceptable institutional practices, conflicts of interest, and expected standards of ethical and moral behavior help establish an organizational climate in which the other components of internal control are able to achieve their purposes.

- *Risk assessment*—Every entity faces a variety of risks from external and internal sources. Risk assessment is the identification and analysis of risks that have the potential to negatively affect a school's satisfactory management of the FSA programs, its financial strength, its public image, and the overall quality of its programs and services.

  Many techniques have been developed to identify risks. The majority—particularly those developed by internal and external auditors to determine the scope of their activities—involve qualitative or quantitative methods to prioritize and identify higher risk activities. The FSA Assessment Tools can help your school identify needed areas of improvement. In addition, your case management team can provide you with a list of those fiscal and administrative responsibilities that were most often problematic during recent program reviews.

  Certain circumstances demand special attention because of their potential impact on the control environment. For example, when any of the following occur, a school should examine the ways in which it affects the schools operations and the appropriate response.

  - *A change in the operating environment*. Changes in the HEA or state law, ED's regulations, or accrediting agency procedures might require a change in organizational procedures.
  - *New personnel*. Turnover of personnel in the absence of effective training and supervision can result in breakdowns in the control environment.
  - *New or revamped information systems*. Normally effective controls can break down when new systems are developed, particularly when those systems are brought online under tight time constraints or at a critical time (e.g., just before registration).
  - *Rapid growth*. When a school experiences rapid growth in the number of FSA recipients or the amount of federal funds it is receiving on behalf of those recipients, existing control systems may break down.
  - *New technology*. When a new technology is incorporated into management practices, a high likelihood exists that internal controls will need to be modified.

Adopting EFT as the method of distributing FSA credit balances, and changing to the use of *smart cards* as a mechanism for providing access to student's FSA funds are examples of technologies that may require changes in control procedures.

- *Information and communication*. Pertinent information must be identified, captured, and communicated in a form and time frame that enables employees to carry out their responsibilities. One type of communication involves the creation of an appropriate control environment. A second involves operational, financial, and compliance related information.

  All employees must receive a clear message from senior administrators that control responsibilities must be taken seriously. Employees must understand their own roles in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information to those administrators who can affect change.

  Employees at all levels need access to information to make appropriate operational, financial, and compliance decisions. The quality of information is determined by the degree to which the

  - *content is appropriate*—Is the needed information there?
  - *information is timely*—Is it there when required?
  - *information is current*—Is it the latest available?
  - *information is accurate*—Are the data correct?
  - *information is accessible*—Can it be obtained easily by appropriate parties?

- *Monitoring*—Internal control systems need to be monitored—a process that assesses the quality of the system's performance over time. This can be accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities and other actions employees take in performing their duties.

  On the other hand, successful institutions pause from time to time to evaluate the degree to which they are achieving their objectives and plan for changes needed to improve performance where needed. Evaluating the success of internal control procedures should be part of an institution's periodic overall evaluations.

- *Control Activities*—Control activities are the policies and procedures that help ensure a school's administrative directives are followed. They help guarantee that the actions necessary to reduce risk are carried out. Control activities occur throughout an organization and include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, and periodic reviews of performance, security of funds, and separation of function.

  Control activities usually involve two elements: (1) a policy that establishes what should be done (and that serves as a basis for the second element), and (2) procedures to implement the policy. The most effective policies and procedures are those that are written. Control activities should be part of new employees' orientation, and the subject of periodic training for continuing employees.

Of course, no matter how well designed and operated, internal control cannot provide absolute assurance that all objectives will be met. Factors outside the control or influence of management can affect the entity's ability to achieve all of its goals. In addition, modern data management systems create special problems because often, paper and audit trails may be problematic. Good systems of internal control should provide for paper documentation at key points in the electronic system.

One key feature of any internal control system should be built in **independent checks** on performance. In large organizations, the internal audit function should report directly to the CEO or board of directors. This helps avoid the difficulties and conflicts of interests that result when the internal audit staff reports to the accounting manager, Vice President for Finance, or Chief Financial Officer. In small organizations where total separation of duties is not an economically viable alternative, owners and presidents must be involved in the control system through independent performance checks. In addition, they must assume key duties such as check signing and monthly bank account reconciliations.

A thorough discussion of the creation of a school-wide internal control environment is beyond the scope of this volume. However, we want to emphasize the importance of a school-wide commitment to control activities that begins with a school's chief executive and involves all employees who in any way participate in the school's FSA programs or are responsible for FSA funds.

Control activities important in managing FSA funds

Separating functions
34 CFR 668.16(c)(2)

To participate in federally funded student financial aid programs, a school must be able to demonstrate that adequate checks and balances are in place. A school's internal control system should, at a minimum, include

- **separating the functions** of authorizing and awarding FSA aid and disbursing FSA program funds;
- **taking trial balances** (to determine whether accounts are in balance);
- **reconciling cash** (a reconciliation between accounting [ledger] balances and bank balances);
- **reconciling federal funds** (ensuring that all federal funds drawn down are appropriately disbursed or returned within the time frames allowed by regulation); and
- maintaining adequate **electronic data processing (EDP) controls.**

Family defined
A member of an individual's family is a parent, sibling, spouse, child, spouse's parent or sibling's, or child's spouse.

Definition of control
34 CFR 600.30(b)

Ownership interest
34 CFR 668.15(f)

A school should use its internal audits or external audits to verify that the systems of checks and balances in place at the school have been properly designed and are being followed routinely.

The separation of functions

To accomplish separation of duties, duties are divided among different individuals to reduce the risk of error or inappropriate action, (for example, when the employee or office responsible for safeguarding an asset is someone other than the employee or office that maintains accounting records for that asset). In general, responsibility for related transactions should be divided among employees so that one employee's work serves as a check on the work of other employees. When duties are separated, there must be collusion between employees for assets to be stolen and the theft disguised in the accounting records.

Federal regulations require a school to separate the functions of authorizing payments and disbursing funds so that no single office or individual exercises both functions for any student receiving FSA funds. Even very small institutions with limited staff are not exempt from this requirement. These two functions must be performed by individuals who are not members of the same family, who do not together exercise substantial control over the school, and who are organizationally independent.

Individuals with responsibility for authorizing or disbursing FSA funds may perform other functions as well, but they may not perform both the authorization and disbursement functions. If a school performs these functions via computer, no one person may have the ability to change data that affect both the authorization and disbursement of FSA funds.

Typically, the financial aid office is responsible for authorizing disbursements by awarding aid through the need analysis and packaging processes. Awards are then turned over to a business office that typically requests funds from ED's Grant Administration and Payment System (G5), and disburses the funds by crediting student accounts, delivering checks to students, authorizing an EFT, or delivering cash to students. The person (or office) that awards FSA funds may not sign checks or deliver them to students, nor be permitted to disburse cash to students, or to credit student accounts with FSA funds to cover allowable costs (such as tuition, fees, books, supplies, or other authorized charges).

There should also be a segregation of functions within the business office. This separation should provide that the individual within the school who reconciles federal cash does not also receive federal cash or disburse it. This will ensure that several individuals at the school evaluate federal funds and, at each step of the process, that the applicable regulations are being followed.

The person performing reconciliations should receive bank statements and Direct Loan reconciliation reports directly from the respective, appropriate sources. Supervisory approval of the completed reconciliations should also be obtained and documented on the forms.

While electronic processes enhance accuracy and efficiency, they also can blur separation of functions so the awarding and disbursement occur virtually simultaneously. Schools must set up controls that prevent an individual or an office from having the authority (or the ability) to perform both functions. In addition, your system also should have controls that prevent cross-functional tampering. For example, financial aid office employees should not be able to change data elements that are entered by the registrar's office. Finally, your system only should allow individuals with special security classifications to make changes to the programs that determine student need and awards, and it should be able to identify the individuals who make such changes.

For further guidance on the separation of functions, contact the Department's Case Management and Oversight Team that serves your school's state.

Remember, because electronic processes can blur separation of functions, a school must be careful to create controls that ensure separation of authorizing FSA payments and disbursing FSA payments. This also applies within the business office itself. One individual should not be solely responsible for receiving funds and reconciling those funds.

Internal Controls In Automated Systems

Since no one person may have the ability to change data that affect both authorization and disbursement, if award entries made by the financial aid office automatically roll over and populate award fields in the business office, then the separation of functions must take place elsewhere.

For example, if your system automatically awards funds based on a student's budget and/or need, then your system must ensure that only employees with a special security standing can change those budgets or otherwise modify a student's award. In addition, your system must be able to identify any employee who makes a change to a data element or program that can affect the level of a student's award (anyone who initiates a budget or award override).

Trial balance

A trial balance is the confirmation that debit and credit balances are equal. A trial balance for federal student financial aid programs is a confirmation that accounts receivable, program expenditures, and the cash balance equal the amount of aid that has been authorized by the financial aid office.

To be effective, taking a trial balance should be performed at least monthly and reconciling cash should be performed when bank statements are received or at least monthly if statements are received more frequently.

Reconciliation of bank records

Since cash is more susceptible to manipulation than other assets, multiple checks and balances are necessary for effective internal control of cash.

Reconciling cash is one confirmation that the cash balance shown in the school's accounting records is in agreement with the balance reflected in the school's bank statement. Differences between the school's accounting records and the school's bank statement balance can be caused by timing variances, errors, or unrecorded entries. The bank reconciliation process can lead to adjusting entries for

- bank service charges;
- non-sufficient funds (NSF) charges;
- debit and/or credit memoranda; and
- correcting errors.

The individual performing bank reconciliation should be trained to recognize and report sources of errors such as

- delays in deposit;
- checks that remain outstanding after long periods of time;
- irregularities in funds transfers and adjustments; and
- deviations on canceled checks (payee, signature, or endorsement).

The prompt and thorough performance of bank reconciliation duties enhances the internal control system.

Note that if a school maintains separate bank accounts for each program, a separate bank reconciliation process should be performed for each account/program.

Reconciling FSA funds

Reconciliation of FSA funds is a key component of internal control in the FSA programs. A school reconciles data when, for example, on the FISAP it reports cumulative data for its Federal Perkins Loan portfolio. A school also performs reconciliation on an annual basis when it reports annual FSEOG data on the FISAP and when it closes out its general ledger. However, to help fulfill its responsibility to safeguard federal funds and ensure they are expended as intended, a school must perform reconciliation in each FSA program monthly. That is, to provide adequate internal controls, a school must have a system for comparing separately, for each FSA program, the total draws recorded in G5 in a 30-day period to the amount disbursed to students or returned to the Department and explaining all discrepancies.

Reconciliation in the FSA programs is an internal control procedure that helps ensure that a school has met its fiduciary responsibility to use its FSA funds in the manner and for the purposes prescribed by regulations. The process of reconciliation as required in the regulations applies primarily to a school's accounting records. Other internal control procedures ensure that a school's other fiscal records and its program records are being maintained properly and that they accurately reflect the schools's FSA operations.

During reconciliation, a school compares its G5 records to its banking records, and the accounting entries in its FSA cash accounts to the accounting entries in its FSA disbursement accounts. The reconciliation process will seek to explain the differences between the funds the school received and the funds the school disbursed or returned.

Regulations require that all federal funds drawn down be accounted for. Moreover, a school must identify expenditures of FSA funds on a student-by-student basis. So, if the trial balances run for one or more of the FSA programs fail to show that all federal funds received by the school were disbursed or returned in the time frames allowed by regulations, the school will have to examine its accounting detail (student-by-student records) to identify the discrepancies keeping the accounts out of balance. **All discrepancies must be explained for the accounts to be considered reconciled.**

A key element in the reconciliation process is the clear audit trail a school's accounting records should provide. That audit trail should track FSA funds from G5 to individual students.

Part of the monthly reconciliation a school must perform requires examining fiscal and program records to ensure that they agree with and substantiate the reconciled accounting records.

Required fiscal records

34 CFR 668.24(b)

Reconciliation is one of the tools a school uses to evaluate its system for accounting for the receipt and expenditure of FSA funds in accordance with generally accepted accounting principles.

Monthly reconciliation required

34 CFR 674.19 (d)(1), 34 CFR 675.19(b)(2)(iv), 34 CFR 676.19(b)(2), and 34 CFR 685.102(b)

FSA Assessments

The FSA Assessments can help you in reconciling and other fiscal management activities. Administrators may access the tools and training through the Quality Assurance Program Web page on IFAP. The direct links to the FSA Assessment Tools & Training are

ifap.ed.gov/qahome/assessmenttraining.html

or

ifap.ed.gov/qahome/fsaassessment.html

As an alternative on the Quality Assurance Program home page FAA's may select "**Training & Guidance**" and then "**FSA Assessments.**"

or

"Tools for Schools" and then "**FSA Assessments.**"

The Quality Assurance Program website is **ifap.ed.gov/qahome/Default.html.**

The assessments that might be of special interest to the business office are Fiscal Management, Return of Title IV Funds, FSEOG, FWS, Perkins, and Default Prevention Management.

Example of An Audit Trail for an FSEOG Cash Draw

1. Examining its cash draws as recorded in G5 for the previous 30-day period, a school finds a record of a drawdown of $75,000 in federal funds identified as FSEOG federal share.
2. The school examines its bank records for the account the school has designated to receive FSA funds to ensure that the funds were received.
3. In the school's G5 Cash Control Account, the $75,000 is entered as an offset to $75,000 in G5 Accounts Receivable.
4. The records show a $75,000 credit to the G5 Cash Control Account (an asset account) and a $75,000 debit to the income account, FSEOG Transfer from G5.
5. At the same time the records should show that the school deposited its match[1]—credited its Institutional Cash Account with $25,000, and debited Institution's Cash Contributions (its G5 income account) with $25,000. (Note that the detail record for this transaction is the school's bank records and its internal subsidiary ledgers.)
6. The records show a $75,000 credit in FSEOG Transfer from G5 and $25,000 credit in Institution's Cash Contributions and debits of $25,000 and $75,000 to the expense account Student Grants Paid—FSEOG.
7. Student Grants Paid—FSEOG shows a credit of $100,000 to a the individual student accounts. (The records might show one credit of $100,000 to a memo account in which the detail of the individual students who received the grants is present.)
8. The student account records (student account cards in a manual system) are fiscal records (not program records). The account records are the detail records that substantiate the subsidiary ledger Student Grants Paid. They substantiate that the $75,000 G5 draw was used as intended.

1. If a school matches with tuition, fees, room and board, waivers, etc., the school's accounting records must show a clear audit trail from the noncash match in the student's account to the Memo Account "Institution's Noncash Contribution."

Note: Generally, program records are maintained by the financial aid office and fiscal records by the business office.

Questions you can ask about your program and fiscal records include the following:

- What program records does your school use to determine the amount of your federal funds request to G5. Do the date and amount of your anticipated disbursements of grant, loan, and FWS payroll funds support the cash requests you've made to G5?
- Do the amounts and dates of your school's calculations of refunds or overpayments made or due to ED, and the amounts and dates of Return calculations for students who withdraw substantiate the entries in the G5 cash control contra account *Funds Returned to ED*?

As part of your school's internal control procedures, you should have a system that examines your fiscal and program records to ensure they are in agreement and support your accounting records. We will provide examples of those internal control procedures in our discussion of the individual FSA programs.

Electronic data processing (EDP) controls

The Department continues to encourage and support schools' use of electronic recordkeeping and communications. Of course, any time a school uses an electronic process to transfer funds, record or transmit confidential information, or obtain a student's confirmation, acknowledgment, or approval, the school must adopt reasonable safeguards against possible fraud and abuse. Reasonable safeguards include:

- creating written policies and procedures for the security and proper operation of student information systems that go all the way down to the individual user level;
- informing authorized users of guidelines for proper system use, and having users acknowledge their responsibilities by signing an acknowledgment statement;
- issuing unique user IDs and passwords to each employee to ensure individual user accountability;
- changing passwords frequently;
- revoking access for unsuccessful log-ins;
- segregation of computer security duties and responsibilities, including granting appropriate levels of access to staff and limiting an employee's access to only those functions necessary to perform his/her assigned duties;

- establishing adequate software-security controls, audit functions, user identification, entry point tracking, and system surveys (these security controls should be sufficient to indicate or detect possible misuse, abuse, or unauthorized activity on the system), and conducting random audits of the system using the aforementioned functions;
- providing adequate provisions for system and data back up, contingency, disaster recovery, and business resumption;
- conducting security tests of code access; and
- physical computer security.

Before the start of an award year, you should test your school's automated packaging program to ensure that the calculations used to determine the amount of students' grant, loan, or FWS awards yield consistent results, and that the awards that result are within the amounts allowed by regulation. In addition, you should compare the records of awards made to students by the financial aid office to the records of those awards in the business office.

Other checks and balances

Assigning specific duties to individual employees

When the responsibility for a particular work function is assigned to one employee or to a small group of employees, that employee (or that group) is accountable for specific tasks. Then, if a problem occurs, the employee responsible can be easily identified.

Rotating job assignments

Some schools cross train their employees and rotate job assignments each fiscal year. This policy discourages employees from engaging in long-term schemes to defraud the school and ED. Rotating assignments also makes it more likely that theft or misuse will be discovered quickly because an employee in a new assignment will quickly identify behavior or records that are out of compliance with school policy or ED regulations.

Mechanical devices and system safeguards

Requiring the use of simple mechanical devices can often reduce temptation and prevent theft. For example, schools that distribute FSA credit balances by check should adopt procedures that ensure that checks that cannot be delivered are returned to a lockbox type device—not to the school's mail room. Returned checks should be recorded and provided the same safeguards as cash.

Policies and procedures manuals

Control activities usually involve two elements—policies establishing what should be done, and procedures to effect the policies. For example, in evaluating satisfactory academic progress (SAP), a school might have a *policy* that, to be considered to be making satisfactory academic progress, a student must have a 2.0 GPA once that student has attempted 60 credits. The *procedures* associated with that policy are the action steps the school takes to measure a student's progress in increments and intervene with students who appear to be in danger of failing to achieve the required GPA.

Many factors support the creation of a written policies and procedures manual for a school's participation in the FSA programs. The first factor is compliance with Department regulations. In some cases, e.g., verification deadlines, withdrawal procedures, approved leaves of absence and SAP, schools are required by ED regulations to have written procedures and to make them available. Second, for policies and procedures to be created with input from all appropriate offices within an organization the draft versions must be in writing so everyone works from the same starting point. Third, thoughtful, conscientious, and consistent implementation of any organization-wide activity requires a mutually agreed upon and understood framework for the activity. Finally, a comprehensive, well-written policies and procedures manual can

- document how and when the school establishes specific policies and procedures;
- provide a single location for the school's policies and procedures;
- serve as a valuable reference during a program review or audit; and
- provide the basis for orientation and training of new employees and refreshing the skills of current employees.

TIP **The FSA Assessments** can assist schools with creating a policy and procedure manual. Administrators may access the tool through the Quality Assurance Program Web page on IFAP. The direct link to the FSA Assessment tool for assistance with creating a policy and procedure manual is accessible at

ifap.ed.gov/qahome/fsaassessment.html.

Under the schools section, the first bullet point—*A Guide to Creating a Policies and Procedures Manual*—will provide the necessary guidance. The direct link to this section is

ifap.ed.gov/qahome/qaassessments/makingofapandpmanual.html.

! **The Department strongly recommends that participating schools create policies and procedures manuals that cover the entirety of the school's participation in the FSA programs. We believe that an all-inclusive policies and procedures manual is critical to establishing internal controls and ensuring effective and efficient operation of a schools FSA programs.**

We encourage those individuals responsible for participating in schools' business operations to join with their colleagues in financial aid in creating a comprehensive FSA policies and procedures manual for their schools.

Examples of Topics that Should be Included in a School's FSA Policies and Procedures

- the organizational structure of the school's business and financial aid offices including how your school determines the number of qualified individuals required to administer the Title IV Programs
- the schools procedures for ensuring its E-APP is kept current
- the checks and balances built into your school's financial management systems that ensure separation of functions and cash control
- identification of the required coordinating official
- procedures for ensuring that the coordinating official is kept informed of all information received by the school that might affect a student's eligibility for federal student aid
- an annual calendar of aid-related activities
- a list of all financial charges
- descriptions of all financial assistance available at the school, the eligibility criteria, and the procedures for applying for aid
- procedures for processing aid applications
- policy and procedures for resolving conflicting information
- general financial counseling available to students
- general eligibility criteria for FSA program funds
- procedures for ensuring that all recipients meet FSA eligibility requirements
- eligibility criteria for school-based assistance
- the school's packaging philosophy and the procedures for awarding FSEOG, Perkins Loans, and FWS jobs
- TEACH Grants—identifying eligible students, counseling, and awarding
- payment periods and loan periods
- procedures for ensuring that all students for whom funds are being requested have begun all the classes on which their aid is based
- procedures for determining that students who received a Direct Loan disbursement were enrolled in at least six credits at the time of the disbursement
- procedures for ensuring that individual Tile IV program requirements (for the award year or payment period) have been met before FSA funds are posted to a student's account
- procedures for requesting and drawing down federal funds
- disbursement procedures
- crediting student accounts
- variables considered and procedures applicable to using professional judgement
- variables considered and procedures applicable to changing dependency status (overrides)
- how, where, and for how long all documents relating to federal student aid are maintained
- the fiscal recordkeeping process
- the fiscal reporting process
- procedures for determining that students who failed to earn a passing grade in any of their courses remained in attendance through the 60 percent point in the period for which the student received FSA funds

- the Return of Title IV funds procedures
- procedures for handling overpayments
- Federal Work-Study Program —Assigning FWS Jobs, job descriptions, rates of pay and the procedures for determining the rate of pay when a position has multiple rates, procedures for reporting FWS hours worked for on-and off-campus positions, payroll records and reporting procedures
- Job Location and Development (JLD) procedures and records, Work Colleges Program procedures and records
- Direct Loan—packaging, confirmation, Certifying, MPN, counseling, disbursing
- information on whether the school provides any of the required matches to federal funds for any of the Campus-Based programs from noncash sources and how that might affect a student's FWS earnings
- monthly reconciliation procedures for all FSA programs
- Federal Perkins Loan Program Master Promissory Note (MPN), disclosure, counseling, records, forbearance, deferment, due diligence
- rules for recalculating Pell Grant and other FSA assistance when students add or drop classes
- carried forward/carried back procedures for FSEOG and FWS
- transferring funds between the Campus-Based programs
- NSLDS procedures and responsibilities
- G5 procedures and responsibilities
- FISAP procedures and responsibilities
- student and parent authorizations
- procedures for handling credit balances
- procedures for making post-withdrawal disbursements
- procedures to ensure security of returned checks
- procedures to ensure that FSA funds do not escheat, and other internal control procedures
- verification procedures and deadlines
- Satisfactory Academic Progress policies, including appeal procedures
- procedures for negotiating and recording those parts of contracts and consortia agreements
- procedures for ensuring compliance with regulations on correspondence and telecommunications limitations
- procedures for ensuring that required updates to the E-APP are filed in a timely manner
- the required voter registration program
- the required anti-drug program
- directions on how to obtain the reports a school is required to make available under The Campus Security/ Clery Act, The Student-Right-to-Know Act, and the Equity in Athletics Disclosure Act
- copies of all forms, applications, standard correspondence, and other materials routinely used by the business office and financial aid office
- method of insuring that all employees of the financial aid office receive up-to-date training on the administration of the FSA programs
- procedures for evaluating and improving the operations of the business and financial aid offices
- procedures for requesting and criteria for awarding Leaves of Absence

EVALUATING AND IMPROVING YOUR SCHOOL'S FINANCIAL MANAGEMENT SYSTEMS

Improving the way schools manage the Federal Student Aid programs is a priority for the Department, and should be one for school business and financial aid officers. Strengthening your school's administration of FSA aid begins with an annual analysis of existing procedures, practices, and polices, is followed by an honest evaluation of where you have been successful and where improvements are needed, and concludes with planning for the upcoming year. An annual program of analysis, evaluation, and planning can help your school ensure its compliance with statutory and regulatory requirements and promote constant improvement in your procedures, practices, and polices.

The primary methods for evaluating a school's management of the FSA programs are self-evaluation, and peer evaluation.

Self-evaluation

Compliance is a requirement, but quality is a choice. If your school is serious about this choice, the Department provides a way for you to conduct a practical self-evaluation of your FSA programs. The Department has developed an *FSA Assessment Tool* that is intended to help schools examine and improve their management of the FSA programs.

The FSA Assessment Tool can be used to evaluate and analyze a school's existing policies, procedures, and practices to determine where improvements are needed. The Department encourages schools to use the assessment activities on an ongoing basis to ensure compliance and establish the foundation for continuous improvement.

The FSA Assessment Tool consists of a comprehensive set of activities and questions designed to help your school assess its current FSA operations. Each assessment contains the major functional requirements, as well as suggested assessment steps.

The assessments can help you

- anticipate and address problems;
- spot-check the systems you are using to manage information;
- prepare for an audit or other review;
- maximize the efficiency of your staff in handling their duties; and
- continuously revise your approaches to management of the FSA programs according to your campus needs.

FSA Assessment topics currently available include the following:

1. Student Eligibility
2. Satisfactory Academic Progress
3. FSA Verification,
4. Institutional Eligibility
    - Recertification
    - Change In Ownership
    - Administrative Capabilities
5. Default Prevention Management
6. Consumer Information
7. Fiscal Management
    - Disbursing Aid
    - Reporting and Reconciling
8. Return of FSA Funds
9. Perkins Due Diligence
10. Perkins Repayment
11. Perkins Cancellation
12. Perkins Awarding and Disbursement
13. Perkins Forbearance and Deferment
14. Federal Work-Study
15. FSEOG
16. Automation

To enhance their effectiveness, the Assessment Tools include activities to test compliance and procedures. The Assessment Tools also are linked to the latest regulations, Dear Colleague Letters, Federal Registers, and other related documents. Downloadable Microsoft Word documents include the hyperlinks as well. Those who download any of the FSA Assessments can access all hyperlinks through their Internet service provider (ISP).

Since financial aid is an institutional responsibility, some assessments may need to involve several offices on campus (financial aid, business office, admissions) to complete the assessment.

A second tool for self improvement is *The Self-Evaluation Guide*, published by the National Association of Student Financial Aid Administrators (NASFAA). It provides a step-by-step outline for reviewing financial aid and fiscal policies, procedures, and practices. It can help your school develop a comprehensive systems for evaluating its FSA participation.

Peer evaluation

Peer evaluation is another technique your school can employ to obtain an independent, objective review of an your administration of FSA programs. A peer evaluator can be a financial aid administrator or fiscal officer from another school or a financial aid consultant.

During a peer evaluation, a school obtains an objective assessment of its operation from someone at a similar school. The person performing the evaluation also benefits by getting a firsthand look at how another school manages financial aid programs. Comparing notes and exchanging ideas are methods by which colleagues in financial aid offices and business offices can share their expertise for improved FSA administration.

DIRECT LOAN RECONCILIATION WORKSHEET

SCHOOL FINAID SYSTEM TO COD SCHOOL ACCOUNT STATEMENT RECONCILIATION REPORT

As of Date:

	SCHOOL'S FINAID SYSTEM:	COD SCHOOL ACCT STATEMENT ($AS):	DIFFERENCE:	EXPLAIN DIFFERENCES &/OR REASONS FOR ECB:
Beginning Balance			$0	
Cash Receipts			$0	
Refunds of Cash*			$0	
Net Drawdowns/Payments	$0	$0	$0	
Booked Disbursements			$0	
Booked Adjustments			$0	
Total Net Booked Disbs	$0	$0	$0	
Ending Cash Balance	$0	$0	$0	
Unbooked Disbursements			$0	
Unbooked Adjustments			$0	
Total Net Unbooked Disbs	$0	$0	$0	
Cash>Net Accepted and Posted Disbs	$0	$0	$0	

*Refunds of Cash are entered as negative numbers on this spreadsheet, for the summation for Net Drawdowns/Payments to calculate correctly.

INTERNAL RECONCILIATION WORKSHEET

SCHOOL INTERNAL RECONCILIATION REPORT

As of Date:

	SCHOOL'S BUSINESS OFFICE:	SCHOOL'S FMAID SYSTEM:	DIFFERENCE:	EXPLAIN DIFFERENCES &/OR REASONS FOR ECB:
Beginning Balance	$0	$0	$0	
Cash Receipts			$0	
Refunds of Cash*			$0	
Net Drawdowns/Payments	$0	$0	$0	
Disbursements**			$0	
Adjustments**			$0	
Total Disbursed	$0	$0	$0	
Ending Cash Balance	$0	$0	$0	

*Refunds of Cash are entered as negative numbers on this spreadsheet, for the summation for Net Drawdowns/Payments to calculate correctly.
**Since the Business Office usually does not distinguish booked from unbooked, these figures are a total of all actual disbursements at the school.