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Introduction to Volume 4

This volume provides guidance on how to request, disburse, manage, and report on the use of federal student aid funds.

Here we provide a summary of changes and clarifications. **However, the introduction does not provide complete guidance on these changes**. For that, refer to the text in the chapters cited, the Code of Federal Regulations (CFR), and the Higher Education Act (HEA).

We appreciate any comments that you have on this volume as well as all the volumes of the FSA Handbook. We revise the text based on questions and feedback from the financial aid community, so please write us at **fsaschoolspubs@ed.gov** about how to improve the Handbook so that it is always clear and informative.

Notes on Active Links

At the top of each page you will find links to the Dear Colleague Letters, the Code of Federal Regulations, and the Handbook glossary and acronyms.

Glossary CFR DCL

Major changes for 2020–2021

Links, URLs and websites have been updated throughout Volume 4 due to recent upgrades and changes with the Department's IFAP website.

On page 5, we informed schools that by the end of December 2020, the government will be replacing school DUNS numbers with Unique Entity Identifiers (UEI) generated in the System for Award Management (SAM.gov), which will become the official identifier for doing business with the federal government.

We provided information about the new electronic submission process in the COD System for schools required to use the heightened cash monitoring or reimbursement payment methods on page 15.

We clarified on pages 27, 28, and 37 that a separate student/parent authorization is not required to use current Title IV funds to cover prior year charges up to $200 for tuition, fees, contracted room and board. We further clarified that an authorization is also not required for other allowable charges if an authorization covering those charges had already been obtained and had not been rescinded.

In the institutional charges discussion on page 31, we clarified that an administrative fee of $100 or 5% of the total institutional charges, whichever is less, can be excluded from the institutional charges used in step 5 of the R2T4 calculation.

In the apportionment section and corresponding examples found on pages 33-35, we replaced the word "apportionment" with "proration" to be consistent with our regulations and current guidance. Provided additional information with respect to the specific formula for prorating charges found in 34 CFR 668.164(c)(5).

In the prior-year charges section on page 37, we clarified that during a payment period where a student receives both a Direct Loan and funds from any other Title IV program, the school may determine whether the current year will be based on the loan period or the award year.

We added a section on page 48 entitled "correcting disbursements" reminding schools that disbursing or re-disbursing Title IV funds to resolve a school disbursement error is still considered a disbursement which must meet all the cash management disbursement rules, including all of the late disbursement conditions, if applicable.

On page 75, we provided additional packaging formula information reminding schools that when packaging subsidized or need-based aid, the basic formula is Cost of Attendance (COA) minus Expected Family Contribution (EFC) minus Estimated Financial Aid (EFA) equals need. When packaging unsubsidized or non-need based aid the formula is simply COA minus EFA (unsubsidized aid can replace all or part of the EFC).

We clarified on page 77 that a school has the option to replace a student's EFC with TEACH Grant funds and removed TEACH Grant overaward examples that had caused confusion.

In the Campus-Based section on page 78, we expanded our guidance around the $300 tolerance with an example explaining that the $300 tolerance includes situations where a student with need ends up with an overaward of up to $300 above COA as well.

Updated page 80 with clarifying guidance about when and how a school can replace subsidized loans with unsubsidized loans or unsubsidized loans with subsidized loans when awarding errors have occurred.

Where appropriate, we added information about "Year-round" Pell thresholds (150%) in the Pell Potential Overaward Process (POP) on pages 85-87.

On pages 103-104, we reminded schools that though funds may be considered to have been returned timely if placed in the school's federal funds account, the school must also remember to return funds according to the three business day time frame to remain in compliance with excess cash requirements.

Requesting and Managing FSA Funds

CHAPTER 1

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, maintaining, disbursing and managing FSA program funds. These rules and procedures also apply to third-party servicers.

PURPOSE OF CASH MANAGEMENT REGULATIONS

Cash management
34 CFR Subpart K

Purpose of regulations
34 CFR 668.161

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 funds used for the Job Location and Development Program under 34 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.**

Standard of conduct
34 CFR 668.161(c) & 34 CFR 668.82

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),
- Federal Office of Management and Budget (OMB) standards,
- U.S. Department of Treasury regulations, and
- U.S. Department of Education (ED/the Department) regulations.

Note that the cash management requirements are not applicable to state grant and scholarship programs. 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.

You can evaluate your school's fiscal management procedures by

referring to the "Fiscal Management" section of the FSA Assessments located on IFAP under the central information box labeled "Tools for Schools."

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). (G5 controls cash for both FSA and non-FSA Title IV programs.)

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). Users must register for access to G5, and there is no limit to the number of G5 users an organization may have. Business officers and financial aid administrators are encouraged to use G5 to reconcile FSA funds.

G5 provides financial management support services for the grant life cycle in a single system. It supports the planning, obligating, authorizing, disbursing, returning, 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.

A school uses G5 to request cash for the:

- Direct Loan Program,

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

The G5 website is **https://g5.gov**. For questions contact the G5 help desk by calling 1-888-336-8930 or emailing edcaps.user@ed.gov.

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

Definitions

A **grantee** is an entity (not a person) that applies for and receives a grant award from the Department. The grantee is responsible for ensuring the grant is administered according to 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.

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

Accessing G5

Schools request federal cash on the G5 website (**https://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 (DUNS) number*,
2. obtaining a grant award number,
3. setting up bank information,
4. registering the DUNS number and TIN with the System for Award Management (SAM), and
5. obtaining user ID(s) and password(s).

*Please note that the Department will be transitioning from the DUNS 9-digit number to the Unique Entity Identifier (UEI), a 12-character, alphanumeric identifier, by a future still to be determined date. The General Services Administration (GSA) is leading this effort to replace the DUNS with the UEI for the Federal Government using their SAM.gov system. Stay tuned to IFAP for more information.

What Is a DUNS number?

The Data Universal Numbering System (DUNS) number is a unique nine-digit identification code that is assigned to a school. G5 grantees and payees must register their DUNS number and TIN with the System for Award Management (SAM). Also, schools must annually confirm registration of their DUNS number(s) on the SAM website and will receive 60-day and 30-day reminder emails to do this. See the electronic announcement of May 1, 2020.

The DUNS number represents your school as a unique financial entity. You must notify the Department via your regional School Participation Division if your school merges with or is sold to another organization or if it separates from an existing organization and becomes a freestanding one.

To contact Dun & Bradstreet and get a DUNS number, go to their web page for phone, email, and web chat options.

What Is a grant award number?

The grant award number is a unique, 11-character identifier for each grant award issued by a specific program office to a specific grantee. **All funds are requested (and returned) using the grant award number.**

Below is an example of a grant award number and an explanation of its parts:

P031B201234

P—Program office issuing the award

031—Catalog of Federal Domestic Assistance (CFDA) numeric suffix of the program

B—Alphabetic subprogram identifier

20—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

Here are examples of grant award number prefixes:

P007A FSEOG
P033A FWS
P063P Pell
P268K DL
P408A IASG
P379T TEACH

Title IV funds are program and award year-specific.

P063P**20**#### is the award for **2020–2021** Pell funds.

P268K**21**#### is the award for **2020–2021** Direct Loan funds.

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

There is also a unique grant award number for the Pell administrative cost allowance funds for which your school might be entitled—P063Q##XXXX.

System for Award Management

The System for Award Management (SAM) is a free website that consolidates the capabilities of the 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 DUNS number or business name into the search box.

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 complete a Direct Deposit Sign-Up Form (SF1199A) and mail it with a cover letter and a copy of your program participation agreement to the Department's Office of the Chief Financial Officer at the address on the form.

The form is located on the G5 homepage in the frequently asked questions (FAQs). Look under the banking section for the subheading "Domestic." The SF1199A is the first bullet point.

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 following:

- name and address of the payee's bank;
- bank's ABA number (routing 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**.

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 **https://g5.gov**. You can register for a user ID and password by following these instructions:

1. The first step in registering after reaching **https://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. There are links if you forgot your email ID or need to reset your password.

Using the user ID and password

User IDs and passwords are required to access G5 or request cash through the G5 Hotline. (To enhance G5 security, payees are required to provide additional identifiers to access G5.) You will be asked 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.

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 implemented a more secure means for users of the G5 Grants Administration System to gain access, referred to as two-factor authentication.

Two-factor authentication is a security process in which the user provides two means of identification from separate categories of credentials. One is typically something you know, such as a password, and the other is something you have, such as a security code you download from a mobile device. The combination of these two security

elements makes unauthorized access more difficult. Once both factors are validated, users are allowed into the G5 system.

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, 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, for which there are penalties. Schools should carefully review the excess cash tolerances regulations - 34 CFR 668.166. (See the discussion of excess cash later in this chapter.)

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

- Pell, TEACH, and Iraq and Afghanistan Service 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;
- Direct Loan disbursements.

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

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

When a school initiates a drawdown from G5, it should consider that processing requests within G5 typically take 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 ***closeout process*** includes the liquidation, suspension, and closeout periods.

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.

Liquidation period

The liquidation period is one month, follows the performance period, and is the first period within the 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 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 the liquidation period. 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.

DRAWING DOWN FSA FUNDS

A school's ***authorization*** is the amount of FSA funds a school is

currently eligible for within a particular award year for a specific Title IV program. The authorization is called the Current Funding Level (CFL). Please note that in the Direct Loan and Teacher Education Assistance for College and Higher Education (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 Title IV program by award year. Note that **FSA funds are school, award year, and Title IV program specific, and should not be used for another school, award year, or Title IV program.**

A school may *not* request more funds than it immediately 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 (to avoid excess cash issues). 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 methods under which the Department provides funds
34 CFR 668.162(a)

The Department provides funds to participating schools through one of three payment methods: the advance, heightened cash monitoring, and reimbursement payment methods. Most schools receive funds under the advance payment method.

Advance payment method

Advance payment method
34 CFR 668.162(b)

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 (aka the three-day rule).

Drawing down funds in the Pell Grant, Iraq and Afghanistan Service Grant and TEACH Grant Programs

There are no initial authorizations in the Pell Grant, IASG, and TEACH Grant programs. A school's authorization for these programs will be based on the total actual accepted and posted disbursement records accepted by the Common Origination and Disbursement (COD) System (submitted using the Disbursement Release Indicator or DRI = true). 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 Fiscal Operations Report and Application to Participate* (FISAP). 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 the COD System. Schools report expenditures on their FISAP expenditure reports (due on or 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 or, in some cases, a school makes a retroactive correction to its FISAP data.

Schools return unused prior-year Campus-Based funds and/or request additional funds for the upcoming year through the Reallocation-Supplemental award process, which requires completing the reallocation form (submitted in the COD System typically by mid-August). The Department will notify schools of supplemental funding in September.

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

Drawing down funds in the Direct Loan Program

Generally, schools on the advance payment method get 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 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 its authorization, the COD System will automatically increase the authorization to the total net accepted and posted disbursements.

MAINTAINING AND ACCOUNTING FOR FUNDS

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)

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 compliance actions.

The Heightened Cash Monitoring (HCM) and Reimbursement Payment Methods

The Department places a school on an HCM (there are two types) or Reimbursement payment method to closely monitor its cash management. Reasons for this include but are not limited to: lack of financial responsibility; program review or audit findings; student complaints; repeated failures to meet COD reporting requirements; an adverse action against the school by its accreditor or state authorizing agency; an enforcement action against the school (especially if it relates to Title IV) by a consumer protection agency; significant non-compliance with Title IV requirements such as not performing verification, not properly returning funds, or awarding aid to ineligible programs or locations; initiation of a termination action; providing incorrect data to ED officials to cover up violations; suspicion of fraud; and other activity that is or appears to be criminal.

Schools operating under these payment methods do not receive an initial authorization. Instead, they receive an authorization and increases to the authorization after the COD System has accepted and posted actual disbursement records. The 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 it submits a request for funds**. *A school on HCM or reimbursement cannot receive student/parent authorization to hold Title IV credit balances.* A school's request may not exceed the amount of the disbursements it has made to the students and parents included in that request.

Schools' administration of an HCM or 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 about the school's compliance with the HCM or Reimbursement requirements.

The payment methods differ as follows:

Heightened Cash Monitoring 1 (HCM1)—After a school makes disbursements to eligible students from institutional funds and submits disbursement records to the COD System, it draws down FSA funds to cover those disbursements in the same way as a school on the advance payment method. (34 CFR 668.162(d))

Heightened Cash Monitoring 2 (HCM2)—A school placed on HCM2 cannot simply draw down funds as an HCM1 school can. After it makes disbursements to students and parents from institutional funds, it must submit a payment request to the Department through the COD System. The COD System will generate an electronic payment request Form 270, a completed student data spreadsheet outlining students and disbursements and a student sample for the Department to review. The school will upload all required documentation into the COD System including information that each student and parent included in the request was eligible to receive and did receive the funds for which reimbursement is sought and all student files for those students selected in the student file sample.

When the Department receives the request, it will review the disbursements and the school's documentation for errors from the sample of students and parents. Depending on the school's error rate, the Department may approve all, some, or none of the student disbursements in the request.

After the payment request is approved, and after recovering any negative or unsubstantiated cash balance 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 payment request during any 30-day period. See 34 CFR 668.162(d).

Reimbursement—The Department places a school on Reimbursement if it determines that the school needs the highest level of monitoring. This generally occurs for the most severe reasons listed at the top of the page. The procedure is the same as for HCM2 except the Department reviews the documentation for all the students and parents included in the payment request, not just a sample. If all were paid correctly, the Department approves the request. If there were any errors, the request will be denied for those disbursements which had mistakes, and it will be approved for those disbursements which had no mistakes. See 34 CFR 668.162(c).

Questions about HCM or reimbursement should be directed to your regional School Participation Division.

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

For foreign schools 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.

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 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 account as readily as if those funds were in a separate account; and
- identify earnings on FSA program funds in the school's bank account.

Recordkeeping requirements
34 CFR 668.24

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

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.

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, 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.

  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 this requirement.

Standards for holding federal funds in depository accounts
2 CFR 200.305(b)(8)

Retaining interest
34 CFR 668.163(c)(3)

Interest-bearing account

To the extent possible, FSA funds must be maintained in an interest-bearing 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.

The school *may keep up to $500 per year of the interest* or investment revenue earned on funds other than Perkins to pay for the administrative expense of maintaining the account.

Remitting interest

No later than 30 days after the end of that award year, the school must remit any interest earned in excess of $500 to the Department of Health and Human Services and include with it:

- an explanation stating that the refund is for excess interest,

- "U.S. Department of Education—Federal Student Aid" as the name of the awarding agency, and
- the school's DUNS number in the addendum record or other correspondence.

See HHS's instructions (the section on returning interest is at the bottom of the page), but note that they vary somewhat with what is above. For example, the HHS webpage refers to payee account and grant numbers that do not apply here and may be ignored.

Schools may remit excess interest electronically by ACH direct deposit or by FedWire; they may also mail a paper check, though the electronic methods are preferred. Note too that the mailing address for paper checks is no longer the Rockville, Maryland address that was included in the regulations but instead is currently:

HHS Program Support Center, PO Box 979132, St. Louis, MO 63197

See the electronic announcement of May 19, 2017 for more information.

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

Additional Perkins Loan requirements

Schools that continue to service their Perkins loan portfolios must maintain the funds in an interest-bearing account. If a school is also required to maintain an interest-bearing account for other federal funds, it may choose to use the same account for the Perkins funds. However, the school must be able to determine the amount of interest earned on the Perkins funds, and it must retain that interest in the Perkins account. *Schools cannot use interest earned on Perkins funds to pay for the administrative expenses of maintaining the account, and the interest earned is not included in the $500 maximum that schools are permitted to keep each award year.*

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 also be interest bearing.

Excess cash
34 CFR 668.166

EXCESS CASH

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.

Allowable excess cash tolerances

Sometimes a school cannot disburse funds in the required three business 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.

If unusual circumstances such as these exist, a school may retain for up to an additional seven calendar 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 additional seven-day tolerance period.

Consequences for maintaining excess cash

The Department reviews schools to determine if they have improperly maintained excess cash balances. Upon finding a school maintained excess cash beyond any allowed time frames, 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 heightened cash monitoring or reimbursement payment method.

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 information on fines and other actions against schools, please see *Volume 2.*

When a check is considered to have 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.

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

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

The three business day period also begins on the next business day following the date the school deposits funds in its 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 she was paid;
- that are Pell Grant funds deposited because of adjustments to the student's award and Direct Loan funds deposited because of adjustments or cancellations; and
- because a student failed to begin attendance.

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 he or she 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 (ACA)

Administrative cost allowance
34 CFR 690.10(b) and 34 CFR 673.7

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 for each unduplicated Pell Grant recipient at the school per award year.

Pell Grant administrative cost allowance funds to which your school is entitled are identified by a unique grant award number: P063Q##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 and

should not be returned to the Department or disbursed to students. See the March 2, 2020 electronic announcement, for more information about Pell Grant administrative cost allowance payments, particularly for the 2019–2020 award year.

For the Campus-Based Programs, the ACA is taken from the school's federal allocation, and the maximum amount permissible per award year for expenditures to students in the FWS and FSEOG programs is as follows:

- 5% of the first $2,750,000 of its total expenditures to students, plus
- 4% of its expenditures to students that are greater than $2,750,000 but less than $5,500,000, plus
- 3% of its expenditures to students that are $5,500,000 or more.

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 it receives for the FSEOG and FWS Programs. A school may draw its allowance from both programs, or it may take the total allowance from only one program provided there are sufficient funds in that program and the school has disbursed funds to students from that program during the award year.

A school must use its ACA to offset its cost of administering the Pell Grant, FWS, and FSEOG programs. Administrative costs may include the expenses incurred in carrying out a school's student consumer information requirements. For more information about the Campus-Based Programs' ACA, please see *Volume 6, Chapter 1*.

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 FSA funds for any other purpose, including as collateral.

FSA funds are awarded to a student to pay current-year charges. Notwithstanding any authorization obtained by a school from a student or parent to hold any Title IV credit balance funds, 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.

Paying remaining balances
34 CFR 165(b)(5)(iii)

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
34 CFR 668.163(d)

Accounting and fiscal records

As part of meeting its fiduciary responsibilities, a school must

- maintain accounting and internal control systems that identify the cash balance of the funds of each Title IV, HEA program that are included in the school's depository account(s) as readily as if those funds were kept in a separate depository account;
- identify the earnings on Title IV, HEA program funds in the school's depository account(s); and
- maintain its fiscal records according to 34 CFR 668.24.

Garnishment/attachment prohibited
HEA 488A(d)

GARNISHMENT OF FSA FUNDS IS PROHIBITED

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. A school must have an effective procedure to notify any off-campus employer (that is not the school) that garnishment of FWS wages for any debt other than a cost of attendance is not permitted.

FWS WAGES

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.)

If a school cannot locate a student whom it owes earned FWS wages, it must return the federal portion to its FWS account. If the student returns or the school later locates the student, it can recover the FWS funds if the account for that year is still open. If the account is closed, the school must pay the student (under the wage laws) with 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 funds, a school is required to return only the federal portion of the payroll disbursement to its FWS account.)

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.

Example of a policy to prevent escheating

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

In State A, a bank check has a useful life of 180 days. To prevent FSA funds from escheating, the business office at School B identifies at the end of each month all outstanding uncashed checks containing FSA funds and voids them prior to the 180th day. It returns the funds to the applicable FSA program and notifies the financial aid office so it can report the corresponding student-level disbursement decrease to the COD System.

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

This chapter explains the rules for crediting Federal Student Aid (FSA) funds to the student's account and making direct disbursements to the student or parent, as well as different types of disbursements including early and late disbursements. These rules apply to the Pell Grant, Teacher Education Assistance for College and Higher Education (TEACH) Grant, Iraq and Afghanistan Service Grant, Federal Supplemental Educational Opportunity (FSEOG) Grant, and Direct Loan programs. We also note specifically when any rules apply to Federal Work-Study (FWS) 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 any disbursements are made. 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.

If the funds include a Direct Loan, the notice must indicate which funds are subsidized loans, unsubsidized loans, and/or PLUS 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 (see *Volume 5* for notification requirements in such cases), when 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:

Notices and Authorizations

Notices
34 CFR 668.165(a)

Student and parent authorizations
34 CFR 165(b)

- 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
- 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.

Schools may not use a conversation—either in person or on the telephone—as the sole notification of disbursement because that is not an adequate and verifiable method of providing notice. However, schools can use verbal notices in addition to written notices.

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. Under affirmative confirmation, a school obtains written confirmation of the types and amounts of Title IV loans a student wants for the period of enrollment before the school credits the student's account with those loan funds See 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, cancel it, 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 part of a loan or grant; or
- ***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 to cancel all or a part of a loan.

The school must inform the student or parent in writing of the outcome of any cancellation request.

If a school receives a student's or parents'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 his or her loan servicer.

Schools should always use G5 to return Title IV funds. They should not return Direct Loan funds to ED's federal loan servicers directly.

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 balance on the student's account) before the request for cancellation was 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.

However, a school should not return Direct Loan funds on a borrower's behalf if more than 120 days have passed since the disbursement date. If a borrower asks the school to do this, the school should direct him or her to the appropriate servicer for guidance on how he or she can return the money. This is because Direct Loan funds returned 120 days or more after the disbursement is processed as a payment with no adjustment of loan fees or interest.

For additional information on returning loan funds, see *Chapters 3 and 4* in this volume and *Volume 5* (for the return of loan funds when a student withdraws).

See Appendix C of the FSA Handbook for information about loan discharge and other issues when a student dies.

AUTHORIZATIONS

Authorizations
34 CFR 668.165(b)

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, including prior year changes, **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. See 34 CFR 675.16(b)(1)(i).

- Hold an FSA credit balance (see the discussion later in this chapter).

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 continuously 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 those authorized charges incurred by the student *before* the school received the notice.

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 hold an FSA credit balance 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.

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.

Holding Title IV credit balance authorizations

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 other remaining Title IV funds by the end of the last payment period in the award year for which the funds were awarded.

If a student or parent cancels an authorization to hold excess Title IV 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.)

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.

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

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 through email.

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. (See *Volume 2* for more information on The Electronic Signatures in Global and National Commerce Act or E-Sign Act)

Limitations on using power of attorney in disbursing FWS funds

Power of attorney with FWS
34 CFR 675.16(a)(8)

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 Division). A school must be able to show there is no one else (such as a relative, landlord, or member of the clergy) who could act on behalf of the student with the power of attorney.

INSTITUTIONAL CHARGES

Institutional versus noninstitutional charges

Institutional charges are generally those 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, it is considered an institutional charge. Similarly, if a charge is part of an enrollment agreement or any addendum or if the school routinely debits a student's ledger account for the amount with the tuition and fees, it is generally 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.

Books and supplies must be considered part of tuition and fees—and therefore as institutional charges—if a student does not have a real and reasonable opportunity to purchase them elsewhere. (See the section on demonstrating a real and reasonable opportunity in *Volume 5, Chapter 1*.)

A school may include the costs of books and supplies as part of tuition and fees in any of the following three situations:

1. The school demonstrates there is a compelling health or safety reason for it to provide the books and supplies,

2. The school documents on a current basis that the books and supplies, including digital and 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 school, or

3. 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

    - offers a student the ability to opt out of the way a school provides books and supplies.

If a school charges for books and supplies as part of its tuition and fees and a student opts out of that method for providing books and supplies, the school must reduce the student's tuition and fees by the amount associated with the books and supplies.

When calculating R2T4 funds under 34 CFR 668.22, a school may exclude:

- an administrative fee of $100 or 5% of the total institutional charges, whichever is less;
- the documented cost of unreturnable equipment; and
- the documented cost of returnable equipment not returned in good condition within 20 days of withdrawal.

Note that the *documented cost* is the amount the school paid for the equipment, which may be different than what students were charged for it.

Noninstitutional charges (not included in an R2T4 calculation) include:

- charges for any required course materials that a school can document a student had a real and reasonable opportunity to purchase elsewhere;
- 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.).

Noninstitutional charges in an enrollment agreement

Generally, if a school includes charges for books, supplies, and equipment (including kits) as part of a program's enrollment agreement, they are considered institutional charges. However, they can be excluded from institutional charges if all the following criteria are met:

1. There is no up-front charge for the books, supplies, or equipment on students' account ledger, and signing the enrollment agreement does not incur a financial obligation for those items but only acknowledges that they are necessary for the program.
2. A real and reasonable opportunity exists for students to purchase these items from a source other than the school.
3. The school gets written authorization from students who opt to buy these items from the school, in accord with 34 CFR 668.165(b), allowing the school to use Title IV funds to pay for charges other than tuition and fees. The school may then charge student accounts for the kit and use Title IV funds to pay for it.

See Question 10 in the March 5, 2019, electronic announcement.

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.

Using Title IV funds to pay 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, even with a student's authorization. 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. Because overtime charges are in addition to usual tuition and fees and are not normally assessed, they may not be included in a student's cost of attendance for Title IV purposes, nor paid for with any Title IV funds. (See *Volume 3*, *Chapter 2*, for additional information.)

Prorating charges

Prorating charges
34 CFR 668.164(c)(5)

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, prorate 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) for the purpose of determining the amount of Title IV aid that may be credited to a student's account and the amount that must be provided to a student as a credit balance.

Institutional charges (in general, 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 and supplies that are institutional charges would also be prorated.

34 CFR 668.164(c)(5) provides a specific formula for prorating charges. For programs with substantially equal payment periods where the institution charges up-front for the whole program, total institutional charges, including applicable books, supplies or equipment charges, must be divided by the number of payment periods in the program. For other programs, the institution must divide the number of credit or clock hours in the payment period by the number of hours in the program and multiply the result by the total institutional charges for the program. See also the March 5, 2019, announcement, which gives further explanation of this requirement as well as a list of Q's and A's.

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

Example: Prorating costs that are charged up front

Kampfer Technical Center (KTC) is a nonprofit postsecondary school offering a program in storm water abatement. Hanna enters KTC 's abatement program on April 29, 2020. KTC posts the charges for the entire 1,500-hour program at its beginning. Students are required to purchase equipment from the institution as part of an enrollment agreement, so it is included in the tuition and fees.

Program Profile

Academic Year Definition	900 hours and 30 weeks of instructional time
Program	1,500 hours and 50 weeks of instructional time
Program Start Date	April 29, 2020
Program End Date	April 10, 2021
Program Cost	$27,000 total: $22,000 first year, $5,000 second year $15,000 for tuition and equipment charged up front $7,000 for other (e.g., living) expenses in the first year $5,000 for other expenses in the second year
Pell Award Years Included	July 1, 2019–June 30, 2020 July 1, 2020–June 30, 2021
Payment Period 1 (450 hours)	April 29, 20120, to August 9, 2020
Payment Period 2 (450 hours)	August 12, 2020, to November 22, 2020
Payment Period 3 (300 hours)	November 25, 2020, to January 31, 2021
Payment Period 4 (300 hours)	February 3, 2021 to April 10, 2021
First loan period (900 hours)	April 29, 2020, to November 22, 2020
Second loan period (600 hours)	November 25, 2020, to April 10, 2021

Hanna's Federal Student Aid Information

The following maximum Federal Student Aid awards are available to Hanna for her program based upon her EFC and COA. Note that these are not necessarily the amounts that will actually be awarded:

2019–2020 Pell Grant Scheduled Award	$5,100
2020–2021 Pell Grant Scheduled Award	$5,100
Subsidized/Unsubsidized Direct Loan for First Loan Period	$3,500/$2,000
Subsidized/Unsubsidized Direct Loan for Second Loan Period	$4,500/$2,000

When a school charges for an entire program at the start of the course, it must determine the institutional charges—$15,000 in this case—in proportion to the number of clock hours in each payment period. So KTC would apportion $4,500 (450 hours/1,500 hours × $15,000) to each of the payment periods in the first academic year and $3,000 (300 hours/1,500 hours × $15,000) to those in the second academic year.

First Academic Year and Loan Period, 900 Hours

Cost: $22,000 Title IV funds: Pell = $5,100, Subsidized DL = $3,500, Unsubsidized DL = $2,000
Proration for crediting student's account:
First Payment Period: 450/1500 × $15,000 = $4,500
Second Payment Period: 450/1500 × $15,000 = $4,500

Example: Prorating costs (continued)

Note: This example only concerns Title IV funds, which do not cover the entire cost of attendance for the first year. It is assumed that funds from some other source(s) make up the shortfall.

On April 29, 2020, the school credits Hanna's account with $5,300: $2,550 in 2019–2020 Pell Grant funds, and $1,750 in subsidized and $1000 in unsubsidized Direct Loan funds. When these are applied against the $4,500 in prorated school charges for the first payment period, it creates an FSA credit balance of $800 ($5,300 – $4,500) that the school electronically transfers to the bank account Hanna previously specified to be used for that purpose.

Hanna begins the second payment period on August 12, 2020, and the school credits her account with $5,300 as given above, but this time the $2,550 in Pell funds are from the 2020–2021 scheduled award. This again creates a credit balance of $800 that the school transfers to her specified bank account.

Second Academic Year and Loan Period, 600 Hours

Cost: $5,000 Title IV funds: Pell = $3,400, Subsidized DL = $1,600
Proration for crediting student's account:
First Payment Period: 300/1500 × $15,000 = $3,000
Second Payment Period: 300/1500 × $15,000 = $3,000

The cost for the second year is only $5,000, and half of that, $2,500, will be for the first payment period in the second academic year. This is less than the prorated institutional charges of $3,000, which means the student will receive no credit balance of Title IV funds. On November 25, 2020, the school credits Hanna's account with $2,500 in FSA funds: $1,700 in 2020–2021 Pell funds (the first payment period this year—which is the third payment period in the program—is only 300 hours versus 450 in the first and second periods of the first year, so 1/3 rather than 1/2 of the scheduled award is used) and $800 in subsidized Direct Loan funds.

Hanna begins the fourth and final payment period on February 3, 2021, and, as in the third payment period, the aid officer credits her account with $2,500: $1,700 in Pell and $800 in Direct Loan funds. Notice that Hanna has now received $5,950 in Pell funds for 2020–2021 ($2,550 from Payment Period 2 and $1,700 from each of Payment Periods 3 and 4), which is more than her scheduled award of $5,100. Hanna, who is enrolled more than half time, is eligible to receive an additional (year-round) Pell Grant award of up to 50% of her scheduled award (see *Volume 3*, *Chapter 3*). The additional $850 in Pell money amounts to 1/6 or 16.7% of her scheduled award ($850 ÷ $5,100) and counts toward her Lifetime Eligibility Used.

34 CFR 668.164(c)(5)(ii)

PAYING INSTITUTIONAL CHARGES

Paying pass-through charges

Charges Incurred at Bookstores
34 CFR 668.164(c)
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. *A school that has such a contractual agreement for housing and books and supplies is viewed as providing the goods and services itself.*

As allowed under 34 CFR 668.164(c), a school may credit the student's account with Title IV, HEA funds to pay for housing and for educationally related goods and services from the bookstore (with the student's authorization if such charges are not institutional charges). If a third party operates the bookstore, the school must have a written contract or other legal agreement with it, under which the student is able to charge the goods and services. Other FSA requirements apply to housing and the bookstore. For instance,

- A school must give a student the opportunity to opt out of having purchases of books and supplies from an institutionally owned or contracted bookstore charged to his or her account. [34 CFR 668.164(m)(3)]
- 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*.)
- Bookstore charges must count as institutional charges when performing a return calculation if students did not have a "real and reasonable opportunity" to purchase the books and supplies from any place other than that bookstore. (See *Volume 5*.)

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

- 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.
- If the bookstore is on campus or in any off-campus building or property the school owns or controls, the school must include the bookstore among the locations for which it reports campus crime and safety information. See *Volume 2* and *The Handbook for Campus Safety and Security Reporting* for more 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*).

Paying prior-year charges

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

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-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 it obtains (or had already obtained) the student's or parent's authorization under §668.165(b).

A school cannot use current Title IV funds to cover more than $200 in prior-year charges, even with a student or parent authorization.

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

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. When evaluating whether prior-year charges exist in a payment period, the school must use the following definitions for "the current year":

- For a student or parent who receives only a Direct Loan in a payment period, the current year is the current loan period.
- For a student who does not receive a Direct Loan but receives other Title IV funds in a payment period, 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 in a payment period, the current year is either the current loan period or the current award year as determined by the school.

Disbursements by payment period

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 the student or his or her parent is eligible to receive for that payment period. That is, a disbursement 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 that the school cannot document are attributable to that payment period.

As mentioned earlier, for a program with substantially equal payment periods, a school prorates 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 prorates charges 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 disbursement.

A school may disburse Pell, TEACH Grant, Iraq & Afghanistan Service Grant, or FSEOG 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.* However, 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.

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

CHECKING ELIGIBILITY AT THE TIME OF DISBURSEMENT

Before a school awards funds to a student, it confirms that the student is an eligible student and is making satisfactory academic progress (see *Volume 1*). Also, before disbursing FSA funds, the school must determine and document that the student remains eligible to receive the type and amount of FSA funds that it expects to disburse. The school *and its third-party servicer,* if applicable, must have a process (consistent with the regulations) for determining student eligibility at the time of disbursement. See the discussion under *Third-Party Servicers Disbursing Credit Balances by EFT* and *Tier One and Tier Two Arrangements* later in this chapter for additional information about working with third-party servicers. Confirmation includes, but is not limited to, the following:

- for Direct Loans, the student is enrolled at least half time and has a valid, linked MPN;
- 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 (for Direct Loan purposes) has completed the previous period

(credits/clock hours and weeks of instruction);

- first-time FSA borrowers have completed entrance counseling, and received the required disclosures (see *Volume 3*);
- first-time, first year borrowers have completed the first 30 days of their academic program (see *Volume 3*);
- for TEACH Grant awards, the student has
    a) completed initial or subsequent counseling, as appropriate (see *Volume 3*);
    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 within the current payment period.

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. **Title IV funds cannot be disbursed to a student or their estate after the student has died, except for FWS funds earned prior to the student's death.** See Appendix C of the FSA Handbook.

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

Third-party servicer responsibility to check 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. It is responsible for confirming student eligibility if the school engages the servicer to perform activities or transactions that lead to or support Title IV disbursements. Examples of activities and transactions are:

- processing financial aid applications;
- performing need 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 funds that students are eligible to receive;
- creating origination, disbursement, or other records in the COD System;
- requesting funds under the advance, reimbursement, or heightened cash monitoring (HCM) payment methods; or
- accounting for funds that are originated, requested, or disbursed in reports or data submissions to the Department.

When schools can't make interim disbursements

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 an interim disbursement. A school can make an interim disbursement of certain types of FSA funds to a student selected for verification (including one selected by the school rather than the CPS) prior to verification being completed. See *Chapter 4* of the *Application and Verification Guide*.

Because schools on the HCM2 and reimbursement payment methods must, as part of their request for Title IV funds from the Department, submit documentation showing that students were eligible to receive the funds disbursed to them, and because final determination of student eligibility includes completing verification, ***HCM2 and reimbursement schools are not able to make interim disbursements.***

TIME FRAMES FOR PAYING FSA FUNDS

Prompt disbursement (three-day) rule

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 business 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. As explained 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 after 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 with all 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 all or a portion of 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 first day of the first payment period in the student's program (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.

Reporting disbursements within 15 days

Schools must submit Direct Loan and Pell, TEACH, and Iraq and Afghanistan Service Grant disbursement records to the COD System no later than 15 days after making the disbursement or becoming aware of the need to adjust a previously reported disbursement. See Federal Register Volume 84, Number 212, November 1, 2019.

The Department considers that Title IV funds are disbursed on the date that schools (a) credit those funds in their general ledger or any subledger to a student's account or (b) pay those funds to a student or parent directly. Title IV aid is disbursed even if schools use their own funds in advance of receiving program funds from the Department.

Failure to submit disbursement records within the required time frame may result in a rejection of all or part of the reported disbursement, an audit or program review finding, or possible fines or other penalties.

EARLY DISBURSEMENTS

Early Disbursements
34 CFR 668.164(i)

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 clock-hour program, a non-term credit-hour program, or a credit-hour program offered in terms that are not substantially equal in length, ***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 funds.

Exception to the 30-day delay
34 CFR 668.164(i)(2)

Generally 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). This restriction does not apply if the school is exempt under 34 CFR 685.303(b)(5)(i)(A) or (B), which apply to having low default rates.

In addition, 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

Retroactive payments
34 CFR 668.164(k)

If a school did not make a disbursement to an enrolled student for a payment period(s) he or she completed—for example, because of an

administrative delay or because the student's ISIR was not available until later—it may pay the student for all prior completed periods in the current award year or loan period for which the student was eligible.

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

Late disbursements
34 CFR 668.164(j)

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

- for the Direct Loan program, the student 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 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 below.)

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

An institution may not make a late disbursement of any Title IV aid unless it receives a valid SAR/ISIR for the student by the deadline dates established by the Secretary in a notice published in the Federal Register. An award year specific notice is published annually.

Processed date

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

Conditions and limitations on late disbursements

For students to receive a late disbursement, these conditions must have been met before they lost eligibility [34 CFR 668.164(j)(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]
TEACH Grants		The grant is originated.

These additional limitations must be satisfied before a school may make a late disbursement [34 CFR 668.164(j)(4)][3]

- For all Title IV programs, the school received a valid SAR/ISIR by the date established by the Department in the annual deadline date notice.
- For Direct Loans:
  1. Students who are first-time, first-year borrowers completed 30 days of the program (subject to waivers discussed in *Volume 3*).
  2. For a second or subsequent disbursement, students successfully completed the period for which the loan was intended.

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

[2] ***The date of origination for a Direct Loan is the date a school creates the electronic loan origination record in its computer system;*** this may differ from the date the school transmits the record to the COD System or when the Department approves a record. 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.

Sometimes 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. Subsequently, the school may receive a SAR/ISIR for the student with a processed date after he or she ceased to be eligible. In this case the school needs to obtain a copy of the earlier SAR/ISIR to document eligibility for the late disbursement.

Date of origination

Date of origination
34 CFR 685.301(a)(6)

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 of Direct Loans (assuming all other late disbursement requirements are met).

Limitations on making a late disbursement

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

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** (see previous chart)**:**

- a late second or subsequent disbursement of Direct Loan funds unless the student has 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.

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

If a student who qualifies for a late disbursement completes or withdraws during the payment period or period of enrollment, a school **must** make or offer, as appropriate, a late disbursement. Of course, though a school must in such cases offer the disbursement, a student or parent is never required to accept it. For example, a student may decline a loan disbursement to avoid the extra debt.

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 funds that the student or parent was eligible to receive while the student was enrolled. Unlike with post-withdrawal

disbursements below, there are no specific requirements for how schools offer this choice. 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 that a student who withdraws during the payment period or period of enrollment has earned based on a return of Title IV funds calculation is called a post-withdrawal disbursement. A school must make any post-withdrawal disbursement required by the provisions of 34 CFR 668.22. The conditions and limitations for a post-withdrawal disbursement are the same as for all other late disbursements though there are additional requirements. See *Volume 5* for the rules about offering and paying a post-withdrawal disbursement.

Post-withdrawal disbursement
34 CFR 668.22(a)(5)

If a student did not withdraw or complete the payment period or period of enrollment but ceased to be enrolled at least half-time, the school **may** make a late disbursement of a Direct Loan. As long as the school previously confirmed that the student began attendance for the loan period and was enrolled at least half time, it is not required to reconfirm attendance before making a late disbursement of the 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 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.

Paying a late disbursement

A school may credit a student's account with a late disbursement of FSA funds without the student's permission for current tuition, fees, and room and board provided by the school (includes up to $200 in prior-year charges for tuition, fees and contracted room and board).

A school may also credit a student's account with a late disbursement of FSA funds for other allowable charges of educationally related goods and services provided by the school if it obtained the student's or parent's authorization under §668.165(b) before the student lost eligibility (this authorization also applies toward other allowable charges of prior-year charges up to the $200 threshold).

If funds remain from a late disbursement after the outstanding charges on the student's account have been satisfied, **the school must pay the 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 post-withdrawal disbursements.

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.

Flexibility in contacting students

To avoid having to contact students multiple times, a school may use one contact to:

- counsel borrowers about their loan repayment obligations;
- obtain permission to credit loan funds to students' accounts to cover unpaid institutional charges;
- obtain permission to make a late disbursement of grant or loan funds for other than institutional charges (if not previously obtained);
- obtain permission to make a late disbursement of grant or loan funds directly to students; and
- confirm that students wish the school to receive, as a direct disbursement, any grant or loan funds the students are due as a late disbursement.

Students' response to an offer of a late disbursement does not have to be in writing, but the school must document it.

Extended processing

Extended or post-deadline processing allows a school to make needed adjustments that may be identified after the closeout or processing deadline. Schools may request an extension to the data submission deadline for Direct Loans or grants via the post-deadline/extended processing request page in the COD System. They 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 students when it informs them they are due a late disbursement, the school may include information about the advantages of keeping loan debt to a minimum.

Please keep in mind that if reporting a late disbursement, it must still meet all of the conditions mentioned earlier including the 180 day deadline.

Correcting disbursements

If your school incorrectly returned funds or failed to draw down all the funds a student was entitled to, please note that disbursing or re-disbursing Title IV funds to resolve a school disbursement error is still considered a disbursement under the definition in 34 CFR 668.164(a). As such, the disbursement (even if correcting an error) must meet all the cash management disbursement rules, including all of the late disbursement conditions, if applicable. That means, if a school discovers a disbursement error after a student is no longer eligible, any corrective disbursements must be made within the 180 day late disbursement deadline.

DISBURSING FWS WAGES

FWS payments to students
34 CFR 675.16

Crediting student's account
34 CFR 675.16(b)

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 similar payrolls at the school. Unless you are paying the student with noncash contributions, 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 audits and program reviews, schools must have documentation (e.g., canceled checks, bank statements) showing that students received disbursements in the amount charged to the FWS Program.

Noncash contributions

Your school 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/or books and supplies. However, you may not count forgiveness of a charge, such as an FWS student's parking fine or library fine, as part of the 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 your

school pays its share for a future academic period in the form of prepaid tuition, fees, services, or equipment, you must give the student—again, before the end of her final payroll period—a statement of the amount of the noncash contribution earned.

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 FWS funds allocated for the first award year and for compensation earned beginning July 1 with FWS funds allocated for the following award year. (See *Volume 6* for a discussion of carrying back funds for summer employment.)

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 to credit FWS 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.

METHOD OF DISBURSEMENT

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 472

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. A school can evaluate their disbursement procedures by referring to the "Fiscal Management Assessment" at https://ifap.ed.gov/fsa-assessments/04-03-2019-fiscal-management.

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). Note that Direct Loan funds credited to a student's account must pay for current charges first.

Allowable charges include the following:

- current charges incurred by the student at the school for

Tuition and fees
Section 472 of the HEA

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 (see the discussion under *Paying prior-year charges* earlier 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 any 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 him or her 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; or
- 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
34 CFR 668.164(d)(2)

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 (1) mail the check to the student or parent, (2) pay the student or parent directly by other means, or (3) return the funds to the appropriate Title IV program.

Disbursements in short programs where grades aren't awarded until the end of the program

Before making a second disbursement to students enrolled in one-year or shorter programs for which they 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* and you must:

- measure a student's 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 a second disbursement* of FSA funds to students who are not making satisfactory academic progress, except that students on probation or warning may receive a second disbursement if they completed the clock hours or credit hours associated with the first period.

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 balance 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 a student's account at the school create an FSA credit balance, the school 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 that day, or
- the balance occurred if that was after the first day of class.

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 **studentaid.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 which Title IV funds make up a Title IV credit balance. ***No matter the order or which Title IV funds a student receives, it is up to the school to determine which Title IV funds create a Title IV 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.

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

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.

Paying a credit balance
by EFT: 34 CFR 668.164(d)(1)(i)(A) & (ii)(A)
by check: 34 CFR 668.164(d)(1)(i)(B) & (ii)(B)

PAYING FSA CREDIT BALANCES

A school may pay a Title IV credit balance several ways including issuing a check, initiating an EFT process or dispensing cash.

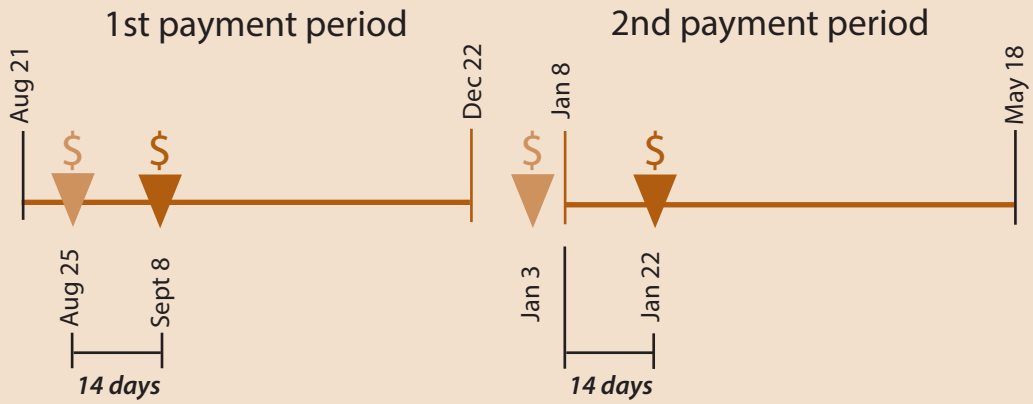
Paying FSA credit balances by issuing a check

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 may pay a Title IV 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 a check is available for immediate pickup and provides the specific location.

If notified that a check is available for immediate pickup, the school must be able to give the student a check when the student comes to the office within the 14-day time frame. For example, 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.

Example—14-Day Time Frame for Paying Credit Balances



In the first payment period above, the school disburses FSA funds to incoming students on August 25 after the students have started classes, so it has 14 days after August 25 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 after January 8 ***(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 (ETI) as a computer student, and her total allowable charges for the fall term amount to $1,500. ETI credits $2,000 to her account, composed 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). In this case, the excess $500 is not subject to the 14 day time frame.

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.

Definition of bank account

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.

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.

Heightened cash monitoring and reimbursement payment method schools and Title IV credit balances

The Department considers a school on Heightened Cash Monitoring and Reimbursement to have made a disbursement when it satisfies the conditions and deadlines explained under *Defining the Date of Disbursement* earlier in the chapter. If a disbursement creates a Title IV credit balance, the school must pay the balance directly to the student or parent before it requests funds through G5 or the Department as appropriate.

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.)

Provisions for books and supplies
34 CFR 668.164(m)

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 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 methods. 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.

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.

Although schools on the HCM and reimbursement payment methods do not receive funds from the Department prior to making disbursements, they must still provide a way for students to get or purchase books and supplies within the mandated time frame.

If the 30-day delayed disbursement requirement for Direct Loans applies to a student and a Direct Loan is the only Title IV aid the student is receiving, a school is not able to comply with 34 CFR 668.164(m) (the provisions for books and supplies).

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/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.

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.

Note that 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 stored-value or prepaid debit cards, 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 guidance on *T1 and T2 accounts* later in this chapter for information about charges allowed under those accounts.

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 any excess Title IV funds to the student within the FSA credit balance time frames.

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 unclaimed funds
34 CFR 668.164(l)

FSA funds may not escheat to a state or any other third party. (See the end of *Chapter 1* for more 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.

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.

However, the school must cease all attempts to disburse the funds and ensure that all unclaimed credit balance funds are returned ***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.

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.

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 adjustment in the student's Direct Loan record in the COD System.

   When the school reduces the student's Direct Loan actual disbursement amounts in the COD System, 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.

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 adjustment in the student's Pell, TEACH, or Iraq and Afghanistan Service Grant award in the COD System.

Federal 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.

To ensure the applicable deadlines are met, we encourage schools to develop a process to periodically check for returned Title IV credit balances resulting from unclaimed checks or rejected EFTs prior to the deadlines.

HOLDING FSA CREDIT BALANCES

A school is permitted to hold Title IV credit balances if it obtains a voluntary authorization from the student (or parent, in the case of PLUS). If a school has the authorization to hold the Title IV 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. The school must also 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 Title IV credit balance funds.

Because FSA funds are awarded to pay current year charges, regardless of 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 Title IV credit balance, you must use all reasonable means to locate the student. If you still cannot find the student, your school must return the Title IV credit balance to the appropriate FSA program(s). 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.

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:

- 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/parent must be informed that they may refuse to provide authorization, that they 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 the HCM and reimbursement payment methods are prohibited from holding credit balances

Reimbursement and HCM payment methods
34 CFR 668.162(c) and (d)

Schools on the heightened cash monitoring and reimbursement payment methods 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 34 CFR 668.164(h) before the schools submit a request for those funds. A requirement to pay students their credit balances prohibits schools from obtaining student/parent authorizations to hold Title IV credit balance funds.

Prohibited Behavior

A school may not suggest or require/coerce that all students or all students in a specific group (e.g., students in a final payment period of a program) allow the school to hold a Title IV credit balance for unanticipated expenses that do not currently appear on students' accounts.

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

In addition, the requirement 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 the loan period.

During a program review or federal audit, the Department will review authorizations to hold Title IV credit balances and note patterns that suggest a school is pressuring students to allow it to hold Title IV credit balances improperly and/or using those balances to pay charges for periods that begin after the end of the loan period or last payment period in the award year. See 34 CFR 668.165(b)(2)(i) and (b)(5)(iii).

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 current FSA credit balance of $2,500 was created by funds from the Federal Pell Grant and Direct Loan Programs for the fall term.

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 (the student or parent, as applicable), authorizes TKMU to retain an FSA credit balance and pay it to you 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 or transferring the funds to a "stored-value" or debit card that you designate.

You have 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 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

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

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

THIRD-PARTY SERVICERS DISBURSING 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 stored-value or prepaid debit 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 Title IV credit balance within 14 days and to any FWS wages at least once per month.

Notifying the Department about third-party servicers

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

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

The school must notify the Department (by updating Section J of the E-App) 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.

This notification must include the name and address of the servicer and the nature of the change or action.

A school is only required to submit a copy of its contract with a third-party servicer if the Department requests it; the contract is not required as part of the recertification process. (See *Volume 2* and 34 CFR 668.25 for more information about third-party servicer contracts.)

Third-Party Servicer Agreements

A third-party servicer is an individual or a state or a private, for-profit or non-profit organization that contracts with a school to administer any of the school's responsibilities under the FSA programs.

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 servicer. The contract must provide that the servicer agrees to the following:

- comply with all Title IV provisions, including those that refer solely to schools as well as those that explicitly refer to third-party servicers;
- be jointly and severally liable with the school for any violation by the 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 fraud or criminal conduct in the Title IV programs by the school or by an applicant or student to the Department's inspector general;
- return to the school all Title IV funds and records related to the servicer's administration of the Title IV programs if the contract is terminated, 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 in 34 CFR 668.23. For a servicer that contracts with several participating schools, a single compliance audit can be performed that covers its administrative services for all the schools. Read more on these requirements at the Department's Office of the Inspector General's website.

34 CFR 668.25
34 CFR 668.23(a)(3) & (c)
34 CFR 99.31(a)(1)(i)(B)
34 CFR 668.2
DCL GEN-12-08; GEN 15-01 and GEN-16-15

Note: Questions or concerns about third-party servicers can be directed to the Third-Party Servicer Oversight Group by e-mail at FSAPC3rdpartyserviceroversight@ed.gov or by telephone at (816) 268-0543.

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

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

- 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;
- ensure that student options for receiving direct payments are described and presented in a clear, fact-based, and neutral manner;
- ensure that initiating direct payments by EFT to students' existing financial accounts is as timely and no more onerous to students than initiating an EFT to accounts provided under Tier 1 and Tier 2 arrangements;
- 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;
- ensure that no account option is preselected; and
- 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.

In describing the options under its selection process, a school:

- must prominently present, 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 under Tier 1 and Tier 2 arrangements (see the *Federal Register* of July 18, 2017, for the final suggested format for the disclosure of features and fees associated with financial accounts under T1 and T2 arrangements);
- must provide a URL for a webpage on which the terms and conditions associated with each account are provided;
- may provide, for the benefit of the student, information about

available financial accounts (other than those provided in Tier 1 and Tier 2 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).

A school that does not offer or use any financial accounts under Tier 1 or Tier 2 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.

TIER ONE AND TIER TWO ARRANGEMENTS

The Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) changed consumer protections available to college students to address concerns about the marketing practices and financial incentives related to contractual relationships between institutions and credit card providers. The CARD Act authorized 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.

In 2015 the Department published regulations supporting the CARD Act protections and identified two types of agreements between schools and financial service providers: Tier 1 and Tier 2 arrangements.

Tier 1 arrangements (T1)

Tier One Arrangement
34 CFR 668.164(e)

A 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 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—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—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)—a transaction initiated electronically instructing the crediting or debiting of a financial account or an institution's depository account. For transactions initiated by the Department, EFT includes all transactions covered by 31 CFR 208.2(f). For transactions initiated by or on behalf of an institution, EFT includes, from among the transactions covered by 31 CFR 208.2(f), only Automated Clearing House transactions.

Financial account—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—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—the parent borrower of a Direct PLUS Loan.

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. 34 CFR 600.2

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

Privacy and security in T1 accounts

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

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,* such as informing students of the terms and conditions of each financial account offered.

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.

Student access to and costs for T1 accounts

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

- 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;
- do not incur any costs associated with:
    - 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;
    - conducting point-of-sale transactions in a state (assessed by the institution, third-party servicer, or a financial institution associated with the third-party servicer);
- have no credit extended or associated with the financial account; and

- 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 offering 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 receives T1 payments is no longer enrolled

Except for the disclosure requirements about students enrolled during the award year, the T1 requirements cease when the 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 servicer so that it can comply with the regulations.

Tier 2 arrangements (T2)

Tier Two Arrangement
34 CFR 668.164(f)

A Tier 2 arrangement is one where a school contracts with a financial institution or other entity to offer financial accounts that are marketed directly to students.

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 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 5% 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.*

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 more information related to the GLB Act, see "FTC standards for safeguarding customer information" in *Volume 2*.

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 1 and Tier 2 arrangements; and
- provide a URL for a webpage on which the terms and conditions associated with each account are provided.

Student access to and costs for T2 accounts

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

- 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
- do not incur any costs associated with:
  - 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 offering 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 school documents that it conducts reasonable due diligence reviews at least every two years to ascertain whether the fees imposed under the T2 arrangement are, on the whole, consistent with or below prevailing market rates; and
  - All contracts for the marketing or offering of accounts to students allow the school to end the arrangement based on complaints from students or a determination in a school review (see the previous bullet) that the fees assessed under the T2 arrangement are not consistent with or are above prevailing market rates.

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

When a student who receives T2 payments is no longer enrolled

Except for the disclosure requirements regarding students enrolled during the award year, the T2 requirements end when the 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 (to meet all requirements)

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 later in this chapter, though the Department encourages schools that fall below the threshold to comply voluntarily with those requirements;
- 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 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.

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.*

Disclosure Requirements for T1 and T2 Arrangements

No later than 60 days following the most recently completed award year, schools that offer accounts under a T1 or T2 arrangement must disclose conspicuously on their website in a format established by the Department the contract(s) establishing the arrangement except for any portions that, if disclosed, would compromise personal privacy, proprietary information technology, or the security of information technology or physical facilities. In addition, schools must provide to the Secretary an up-to-date URL for the contract disclosure for publication in a centralized database accessible to the public.

No later than 60 days following the most recently completed award year, schools with T1 and certain T2 arrangements (those above the credit balance threshold) must also disclose on their website the total consideration for the year, monetary and non-monetary, paid or received by the parties under the terms of the contract. A school must also include, for any year in which its enrolled students open 30 or more financial accounts under the T1 or T2 arrangement, the number of students who had financial accounts under the contract at any time during the year, and the mean and median of the actual costs incurred

by those account holders. If a school is subject to this requirement to report information about student account holders, it includes information on **all** enrolled students that had financial accounts at any time during the most recently completed award year, not just those who opened an account during that year.

In doing this, schools should follow these rules:

- Prominently place first the number of student account holders and the information on the mean and median costs they incurred.
- Place information on the total monetary consideration paid or received by the contracting parties directly below the information on student accounts.
- Place any non-monetary consideration between the contracting parties directly below the monetary consideration.
- Display the monetary consideration and the mean and median fees charged to students in a format that includes a dollar sign, the amount in whole dollars, and a comma after the thousands place (e.g. $1,234).

See DCL GEN-16-16 for more about the cost disclosure requirements above, including suggestions on calculating cost disclosure information, and the June 16, 2017, electronic announcement, which has more information about the format schools should use in making the disclosures. This information must also be included on the website where the contract information was posted.

Federal participation in the ACH
34 CFR 668.164(g)
31 CFR 210.5(a) and (b)(5)

T1 and T2 accounts must meet the regulations on federal participation in the Automated Clearing House (ACH)

When T1 and T2 accounts are opened through outreach to a school's students and made through ACH credit of Title IV funds, those are federal payments and as such must be deposited into an account at a financial institution 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 (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF) 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.

Situations that are neither T1 nor T2 arrangements

Examples of circumstances that are neither T1 nor T2 arrangements and therefore not subject to the regulations include:

- 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
- 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

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 a third-party servicer (Tier 1).

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 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

CHAPTER 3

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; see Volume 5 *for that discussion. See* Volume 3 *for avoiding overawards during packaging.*

OVERAWARDS

An overaward exists when a student's aid package exceeds his or her need or overall cost of attendance (COA). Remember when packaging subsidized or need-based aid, the basic formula is COA minus Expected Family Contribution (EFC) minus Estimated Financial Aid (EFA) equals need. When packaging unsubsidized or non-need based aid the formula is simply COA minus EFA (unsubsidized aid can replace all or part of the EFC).

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 Title IV aid in the student's package in order to eliminate the overaward.

Overawards only become overpayments if a school cannot correct the overaward 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;

Overpayments
FSA debts 34 CFR 668.35
Pell Grants 34 CFR 690.79
Direct Loans 34 CFR 685.303(g)

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

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

Recovery of interim disbursements
34 CFR 668.61

- student's award exceeds 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 the school is liable, the student is liable for any overpayment made to the student that is greater than $25. Also, when a student's aid package includes assistance from multiple programs that have different overpayment regulations/requirements, a school must apply the most restrictive requirements.

Also, remember before reducing a student's need-based aid or establishing an overpayment, the school should reevaluate the student's COA to determine whether the student has increased costs that the school did not anticipate when he or she was originally awarded aid. If the student's costs have increased and his or her total aid package does not exceed the revised COA, the school is not required to take further action. If the student's aid package still exceeds the revised COA, the school must resolve the overaward or overpayment.

The school should first reduce the student's level of borrowing, beginning with any unsubsidized loans. Once the student's loans have been reduced or if the student has no loans, it may be necessary for the school to reduce other Title IV aid or other aid it has control over.

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 Title IV aid or other aid your school controls.

However, a Pell Grant awarded to an ineligible student or based on an incorrect enrollment status greater than that for which the student is enrolled is an overaward.

Iraq and Afghanistan Service Grants

The following 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 the status for which the student is enrolled, and
- an award that by itself exceeds the student's COA.

Iraq and Afghanistan Service Grants, like Pell Grants, are not adjusted to take into account other forms of aid. But unlike Pell Grants, they are not considered estimated financial assistance (HEA 420R(e)

specifically excludes them from EFA). If a student's aid package includes an Iraq and Afghanistan Service Grant that was awarded correctly and by itself does not exceed the COA, an overaward will occur only if the other aid in the package exceeds the student's financial need or COA. In such cases you must reduce the other aid to eliminate the overaward.

If an Iraq and Afghanistan Service Grant recipient becomes eligible during the award year for a Pell Grant instead of the IASG (adjusted EFC becomes Pell eligible), then the school must treat the Pell Grant as estimated financial assistance and adjust the student's aid package, including the other aid, as necessary. Schools must have a process to identify those Iraq and Afghanistan Service Grant recipients who become Pell Grant-eligible during the year.

Teacher Education Assistance for College and Higher Education Grants

TEACH Grants are not considered to be need-based aid. **If a student is not receiving any need-based financial assistance**, the EFC is not used to determine whether a student is in an overaward status. However, a student's TEACH Grant in combination with his or her other non-need-based estimated financial assistance (EFA) may not exceed the COA. If the combined aid does exceed the COA, the student is in an overaward situation that must be resolved.

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

As with Direct Unsubsidized Loans, PLUS loans, and nonfederal education loans, TEACH Grants can be used to replace the EFC. For instance, if a student's EFC, plus his or her TEACH Grant and other EFA exceed the COA, the school may choose to replace some or all of the EFC with TEACH Grant funds. If the TEACH Grant amount exceeds the EFC, the amount in excess of the EFC is considered EFA when determining the student's eligibility for aid under the other FSA Programs. If the school replaces the EFC with TEACH Grant funds, but the EFC plus any TEACH Grant amount in excess of the EFC, plus any other EFA still exceed the student's COA, the student is in an overaward status that the school must resolve.

If a school chooses not to use the TEACH Grant to replace the EFC, then all of the TEACH Grant is considered EFA that must be considered when determining the student's eligibility for aid under need-based federal student aid programs. The Department strongly encourages schools to replace student EFCs with TEACH Grants where appropriate.

COA may not be exceeded (TEACH)
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)

Campus-Based overaward tolerance
34 CFR 673.5(d)

Campus-Based Programs

If a school learns that a student received financial assistance that was not included when calculating his or her eligibility for Campus-Based aid and that resulted in the student's total aid exceeding his or her financial need by more than $300, the school must resolve the overpayment.

The $300 tolerance includes situations where a student with need ends up with an overaward of up to $300 above COA as well. For example, a student with a 0 EFC and a $10,000 COA originally receives $9,800 in EFA which includes Pell Grant, FSEOG and private scholarship funds (the student did not receive any loan funds). Later in the payment period, the student reports to the school that he or she just received a $500 merit scholarship from his or her parent's employer. Though the $500 exceeds the student's COA, it only exceeds the student's need by $300. $200 of the merit scholarship is used to fully meet the student's need and package the student up to the full COA of $10,000 ($9,800 + $200 = $10,000). The remaining $300 of the merit scholarship, though over the COA, is within the $300 tolerance over the student's need ($10,000 + $300 = $10,300).

Before reducing the student's Campus-Based aid, the school should determine if the student has increased need that was not anticipated when he or she was initially awarded aid. If the student's need has increased and the total financial assistance does not exceed the revised need by more than $300, the school is not required to take further action. If the student's need has not increased or it has increased but the total financial assistance still exceeds his or her need by more than $300, the amount over the $300 threshold is an overpayment that the school must eliminate.

The $300 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 aid, exceeds the student's financial need.

Federal Work-Study Program

Because students can't be required to repay wages earned, you can only adjust FWS by reducing the hours students can work in the future thus reducing future earnings. You can continue to employ the students, but they 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.

Direct Loans

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 toward 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 any outstanding loan funds so that the Department can issue a 30-day demand letter to the student.

Example: Hector's cost of attendance is $12,000 and EFC is 4,000. He is supposed to receive a subsidized Direct Loan of $5,000 and an unsubsidized Direct Loan of $3,000, which completely meet his need. Before he receives his first loan disbursement, Guerrero University also gives him a $2,000 scholarship. 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.

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.

Replacing Subsidized and Unsubsidized loans

If a school discovers that a student received *Direct Subsidized Loan funds* in excess of need, the school must correct the error by replacing the excess subsidized amount with an equal amount of Direct Unsubsidized Loan funds if:

- the student is still enrolled for the loan period, and
- the school obtains the student's agreement to accept the replacement unsubsidized loan amount.

If the student declines to accept the unsubsidized loan, the school must return the excess subsidized loan funds. If the error isn't discovered until *after* the loan period is over, no action is required to eliminate the subsidized overaward.

If a school discovers that a student received *Direct Unsubsidized Loan funds* in error (unsubsidized loan funds that should have been subsidized loan funds), the school must fix the error, ***even if the loan period has ended.*** Switching from unsubsidized to subsidized loan funds doesn't require the student's approval. In this situation, the school can originate a replacement subsidized loan even if the loan period has ended. The replacement subsidized loan should have the same loan period and disbursement dates as the unsubsidized loan that it replaces. Disbursements of a replacement Direct Subsidized Loan in this circumstance are not considered to be late disbursements.

For information about resolving inadvertent overborrowing in excess of annual or aggregate loan limits, please see *Dear Colleague Letter GEN-13-02.* This letter provides clarification to institutions on how students who have inadvertently received loan funds under the Direct Loan or FFEL programs in excess of annual or aggregate loan limits may regain Title IV eligibility. It also explains the procedures that institutions must follow when a student who has received a Direct Loan disbursement fails to begin attendance.

A resolved overaward may become an overpayment

If a school has resolved an overaward 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 overaward must now be repaid as an overpayment outside of any amount that may have to be returned under an R2T4 calculation as required under 34 CFR 668.22. Regardless of whether the student or school owes back the overpayment, the overpayment amount is NEVER included as aid disbursed or could have been disbursed in the R2T4 calculation (because the student never established eligibility for those funds).

If the school is responsible for repaying the overpayment, the school must repay the overpayment AND any amount it is required to return under the R2T4 requirements.

If the student is responsible for repaying the overpayment, and the student withdrew *before the 60% 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.

As mentioned earlier, when performing the R2T4 calculation, the school will 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.

If a student is responsible for repaying the overpayment and the student withdrew *after the 60% 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.

WHEN A STUDENT FAILS TO BEGIN ATTENDANCE

A school may not ignore information available to any office at the school indicating that a student failed to begin attendance. A student is considered not to have begun attendance if a school is unable to document his or her attendance in any class.

If your school disburses Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, or FSEOG funds to a student who never begins attending classes, you must return the disbursed Title IV funds to the appropriate FSA programs even if the funds were disbursed directly to the student.[1] For credit-hour term based programs, if the student began 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 in any courses during the payment period, 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 pe-

Returning funds for students who do not register or fail to begin attendance
34 CFR 668.21
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)

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

[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 in the same program and award year or by returning them to the appropriate FSA program using the refund function in G5.

riod 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 he or she would not begin attendance* (for example, if the 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).

For any remaining loan funds disbursed directly to a student—and if the school does not choose to repay those funds on the student's behalf—the school must notify the appropriate loan servicer (as identified in NSLDS) of the loan funds that are outstanding so the Department can issue a 30-day demand letter to the student. To identify the current servicer of an FSA loan, use the National Student Loan Data System (NSLDS) and select "Aid." Identify the student and select "Loan History"; the current loan will be listed at the top. Use the "Servicer" field 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 the Information for Financial Aid Professionals (IFAP) website under the Help menu (Contact Information > Service Centers for Schools > Loan Servicing Centers for Schools).

Schools must return funds disbursed to a student who failed to begin attendance as soon as possible but ***no later than 30 days*** after the date they become aware that the student has not begun and will not begin attendance.

Among schools that have a census date to establish that a student commenced attendance in a course(s), some take attendance and some do not. At a school that is not required to take attendance but that 1) has a census date that requires ensuring that students have begun attendance, and 2) uses that census date to report its enrollment levels to a state, local jurisdiction, or outside agency, it is reasonable to expect the school to return funds for students who fail to begin attendance as soon as possible, but no later than 30 days after the census date. (Note that a student begins earning FSA funds on his or her first day of attendance. Therefore, if he or she withdraws after starting classes but before the census date, the school must perform a return calculation; see *Volume 5*).

Reporting enrollment changes in NSLDS
34 CFR 685.309(b)
DCL GEN-13-02

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

Disbursing Direct Loan funds when a student begins attendance on a less than half-time basis

Neither the school nor the student is required to return any loan proceeds disbursed to a student or parent for a payment period as long as:

- the student commenced attendance in at least one course during the payment period; and
- at the time of the loan disbursement the student was enrolled (registered) for classes on at least a half-time basis.

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 a SAR/ISIR contains a disqualifying comment code

If a student's SAR/ISIR contains a comment code that requires resolution (e.g., 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 since the funds were provided to an otherwise ineligible student.

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.

TREATMENT OF OVERPAYMENTS

Overpayments for which the school is responsible

Your school is liable for any amount of a Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant or FSEOG overpayment (including amounts under $25) that occurred because your school failed to follow the requirements in 34 CFR parts 668, 673, 676, 686, or 690, as applicable. If your school makes an FSEOG overpayment in any amount for which it is liable, you must immediately restore (to your FSEOG account) 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 the school was required to return. However, an overpayment for which *a school is responsible* can never result in a student losing Title IV eligibility and must never be reported to NSLDS or referred to the Department for collection. As a result, an overpayment for which a school is responsible can never become a student's FSA debt.

Examples of overpayments due to school error:

- Allen received a Pell grant at Sarven Technical Institute, which had the correct EFC on Allen's ISIR but looked at the wrong chart and used a different EFC in the Pell calculation, causing Allen to receive too much money. Because Sarven erred, it 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 could apply the payments properly but didn't notify the financial aid office, which awarded Owen a TEACH Grant without taking the scholarship into account. When the aid office finds out about the scholarship, it discovers that Owen has a $600 TEACH overpayment. Because the school had information about the scholarship—even though the financial aid office didn't—the overpayment is due to school error.

Recovery of funds from interim disbursements
34 CFR 668.61

Interim disbursements - school responsibility

If an overpayment is the result of an interim disbursement of Pell or FSEOG funds (see the *Application and Verification Guide*) to the extent that the overpayment is not recovered by reducing subsequent disbursements to the student for the award year, the school must eliminate the overpayment by reimbursing the appropriate account by:

- asking the student to return the overpayment (though it can ask the student for payment, the school is ultimately responsible for returning the interim disbursements), or
- making restitution from its own funds.

Reimbursement must be made 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 interim disbursements were made at the school's discretion, the school is ultimately responsible for repaying it. Therefore, in this situation, a student does not owe a Title IV overpayment, and must not be reported to NSLDS or referred to the Department for collection.

Pell Grant overpayments - COD, NSLDS, and G5

The Department found some schools misreporting Pell overpayments, so we issued an electronic announcement to clarify the actions schools should take when there is a Pell overpayment. How Pell Grant overpayments should be reported depends on whether the school or student is responsible for the overpayment and on how much (if any) of the overpayment the school has collected or is collecting. Please see the September 6, 2016 electronic announcement and linked table that summarizes the reporting requirements for NSLDS, COD, and G5 for more information.

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

Pell Grant payment from more than one school
34 CFR 690.11

Students may not receive more than 100% (or 150% if qualifying under "Year-round" Pell) of their scheduled award for a Pell Grant during an award year. Moreover, they may not receive a Pell Grant for concurrent attendance at two or more schools.

If a student has identified himself or herself as a mid-year transfer student, or if a school has any information that indicates the student might have previously attended another postsecondary school during the award year, the school must request transfer monitoring of the student in NSLDS (transfer student monitoring process). 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.

Calculating remaining eligibility
34 CFR 690.65

If a student has not self-identified as a transfer student, data 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 zero, the school

should request transfer monitoring of that student and wait until it has received the results of that process through NSLDS before creating a Pell award for that student in the COD System.

In their award of Pell Grant 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% or 150% (if qualifying under "Year-round" Pell) 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.

The COD System sends the school that submitted the second or subsequent disbursement information a response document that contains warning edit 69. Warning edit 69 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. The COD System also sends a multiple reporting record (MRR) to all the schools with accepted disbursement information in the COD system for the student and the award year. The MRR alerts the schools to a possible overlap in enrollment.

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 the COD System, for the schools involved.

Pell Potential Overaward Process

A student may receive disbursements from more than one school during an award year. When more than one school reports disbursements for a student, the COD System checks to make sure the student has not received more than 100% (or 150% if qualifying under "Year-round" Pell) of his or her eligibility for a Pell Grant.

If the COD System receives disbursement information that will cause a student to receive more than 100% (or 150% if qualifying under "Year-round" Pell) of his or her "total eligibility used" or TEU, the student has entered a potential overaward (POP) situation. Remember, to certify eligibility for the "Year-round" Pell provision, the Additional Eligibility Indicator (AEI) must be submitted in order for disbursements exceeding 100% of the Scheduled Award to be accepted in the COD System.

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% (or 150% for "Year-round" Pell) TEU for the year warning edit 68 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.

Warning edit 68 informs the school that submitted the disbursement that caused the student to exceed the 100% (or 150% if qualifying under "Year-round Pell) TEU for the year that:

1. Pell disbursements for a student have been received from two or more schools.
2. The student's TEU is greater than 100.000% or 150.000% as applicable.
3. The POP situation must be resolved within 30 calendar days.

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, the COD System will reduce all schools' authorization for the student to zero, and the issue will have to be addressed with the involvement of the Department.

Schools, along with the student, must work together to resolve the POP before contacting COD School Relations for help.

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, the COD System will accept and post disbursements that decrease or increase the student's year-to-date disbursement amount. 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 150% for "Year-round" Pell) or below based on downward disbursement adjustments submitted by the schools.

If after 30 calendar days the situation has not been resolved, the COD System generates a negative disbursement that reduces all accepted and posted disbursements to $0 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 the COD System;
- 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 the Department taking action to limit, suspend, or terminate a school's participation in the Federal Student Aid programs.

Regarding COD processing and POPs:

- The COD System accepts Disbursement Information from a maximum of three schools for a student in a POP situation.
- The COD System does not prevent the same schools from creating another POP situation for the same student.
- 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.
- The COD System accepts downward adjustments to disbursement or award information at any time.
- 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.

Overpayments for which the student is responsible

In some instances a student, rather than the school, is responsible for repaying the overpayment. A student who has an overpayment of an FSA loan or grant loses eligibility for FSA program aid but may re-establish eligibility by repaying the excess amount or making arrangements satisfactory with the school (optional) or Department to pay the excess amount. Remember that if the school chooses to set up satisfactory payment arrangements with the student, the overpayment must be resolved within two years.

If a student received more Pell or Iraq and Afghanistan Service Grant funds than he or she was eligible for because his or her eligibility for the grant decreased, you can try to eliminate the 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 and FSEOG overpayments, you can also 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 he or she fails to repay the overpayment or to make satisfactory repayment arrangements, the student 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 the student 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 Title IV grant overpayments.

A student is not liable for overpayments of less than $25 (the threshold for overpayments *resulting from withdrawal and R2T4 requirements is $50)*.

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.

However, this does not include remaining balances of overpayments, i.e., when the overpayment amount was originally $25 or more but is now less than $25 because the student has made payments. In addition, a student is also liable for overpayments of less than $25 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, the $314 is an overaward. When the school applies the $300 overaward tolerance, the student only has a Campus-Based overpayment of $14. The student is responsible for repaying the $14 because the initial amount of the overpayment before the $300 tolerance was applied was $314, which is in excess of the less than $25 *de minimis* amount.

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 all other FSA eligibility criteria.

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 later in this chapter under *Reporting Overpayments to NSLDS*.

Examples of overpayments due to student error

1. When Chavo filled out his FAFSA, he had not filed a tax return because he didn't think he had to. After he received his aid from Sarven Technical Institute in June, he told the aid office that he had to file a return after all. 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. Sarven allowed Chavo to agree to repay $25 a month for four months so that he'd still be eligible for other aid for the rest of the year.
2. On his 2020–2021 FAFSA, Meurig didn't report any assets for his father. However, Meurig's application is selected for verification and Brust determines that Meurig should have reported his father's business assets for 2020-2021 and on the 2019–2020 application. In both cases Meurig's EFC increases and it is determined that Meurig received an overpayment for the 2019–2020 award year. Because he's received all his aid for that year, he has to either pay the overpayment or negotiate a satisfactory repayment agreement.

What a school must do when it has disbursed to an ineligible student…

a Title IV grant

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 website 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 notify the student of the following:

1. Owes an overpayment of Title IV grant funds.
2. Eligibility for additional Title IV funds has been suspended.
3. Failure to repay the debt in full ***within 30 days*** will result in being referred to the Department's Default Resolution Group for collection (referral to the Department's Office of the Inspector General may occur if there is suspected fraud).

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 the 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 later in the chapter under 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.

a Title IV loan

If a school has disbursed a Direct Loan to an ineligible student, it must return any part of the loan it retained, and for any part of the loan it disbursed directly to the student, it must notify the appropriate loan servicer of the loan funds that are outstanding so that the servicer on behalf of 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 find the current servicer of record. 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).

Exceptions to student liability

There are some exceptions to holding a student liable for a Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, or FSEOG overpayment. Generally, a student is liable for any such 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 and is not a remaining balance or, in the case of an FSEOG, is the result of the application of the $300 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.

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. See DCL GEN-13-02.

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, 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 the school, another school or the borrower, it must notify its school participation division and provide the necessary evidence. If the school suspects fraud involving federal student aid, it must also 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, the student is considered to have made satisfactory arrangements to repay the debt since by signing the consolidation loan promissory note the student has agreed to repay any excess loan amount. This is true regardless of the type of loan consolidated—Federal Family Education Loan (FFEL) or Direct Loan— or the type of consolidation loan. No additional action on the student's part is required.

A student who is not in default on an FSA loan but who has inadvertently received FSA loan funds that exceed the annual or aggregate loan limits is ineligible for any further FSA funds until he or she (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.

However, please keep in mind that when a borrower with an inadvertent overpayment advances to a higher undergraduate grade level or becomes a graduate student (thus gaining higher annual or aggregate loan limits), the inadvertent overpayment is NOT simply resolved due to the new higher loan limits. The inadvertent undergraduate overborrowing must first be resolved before he or she can receive any Title IV aid at the undergraduate or graduate level.

Also, a student who received subsidized loan funds in excess of the applicable subsidized annual or aggregate loan limit cannot 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 held by the Department, the student must contact the federal servicer of the loan to resolve the overborrowing. If the loan that caused the overborrowing is a FFEL Program loan held by an entity other than the Department (a "commercially held" FFEL Program loan), the student must contact that loan holder or the servicer of the loan to resolve the 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 also regain Title IV eligibility by making satisfactory repayment arrangements acceptable to the servicer of the loan. This 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 July 18, 2019 electronic announcement includes the must current reaffirmation form. 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.
5. The inadvertent overborrowing is considered to have been resolved as of the date the servicer receives the student's signed reaffirmation agreement.

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.

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.

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).

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.

Because you're responsible for knowing about the student's prior FSA loans before disbursing additional loan funds to the student, ***inadvertent overborrowing should not occur often.***

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 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 Direct Loan 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.

Direct Loan processing for an award year generally remains open in the COD System for 13 months following the end of the award year (until July 31 of the next 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 the year is closed in the COD System before the 13-month period is over, the school should contact COD School Relations for help in reopening the award year. Once the 13-month period is over and the COD System 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*.

Updating Direct Loan disbursement data in the COD System

If a school has confirmed closeout but then needs to submit additional student level data to the COD System (and the data submission deadline has not yet passed), the school contacts COD Customer Support and asks that the year be reopened.

If the data submission deadline has passed, the school uses the request post deadline/extended processing screen in the COD System to request an extension. If the request is granted, the school may submit data to the COD System until the end of the 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 the school must provide its full name as it appears in the COD System, its DL ID number, the award year, and the number of records it needs to process. The school will receive an email telling them how to submit the necessary data and how that data should be processed.

If a school needs to report a decrease to a FFEL Program loan held by a lender or guaranty agency (i.e. loan not owned or serviced by the Department), the school should work with the current holder/servicer of the loan identified in NSLDS to return funds.

Recording student payments and reductions in the Pell, TEACH, and Iraq and Afghanistan Service 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: that amount the school is responsible for returning *plus* any portion of the grant overpayment that would be the responsibility of the student but which the school has chosen to return for him or her *plus* 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)**.

If a school receives a payment for a current-year overpayment that has not been referred to the Default Resolution Group, the school should NOT send the payment to the Default Resolution Group. Instead, after you have reduced the student's disbursement in the COD System, 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 would deposit the funds in their federal funds account and then either return the funds through G5 to the appropriate FSA grant program account or award the funds to

another eligible student within the required three business day time frame.

- 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.

If, through its return of Title IV funds calculation for a student who has withdrawn (*see Volume 5*), 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.

Since each disbursement transaction (positive or negative) of a student's Pell Grant in COD affects his or her lifetime eligibility for Pell funds, schools should ensure that adjustments are made in a timely manner. See *Volume 3* for a discussion of Pell lifetime eligibility.

The deadline for updating Pell Grant student data in COD is the last business day of the fiscal year five years after the award year in question, for example, September 30, 2021, for the 2015–2016 award year. If that deadline has passed, but you have an adjustment to submit that affects a student's Pell Grant Lifetime Eligibility Used (LEU), contact COD support for instructions on updating the student's LEU information. If your school has funds it needs to return to the Pell Grant program, contact the G5 Hotline for help at 888-336-8930.

REPORTING OVERPAYMENTS TO NSLDS

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 of Title IV funds 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 those that are a result of school error***; instead, as explained previously, you must repay the overpayment with school funds.

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 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 SAR/ISIR output documents will show that he or she has an overpayment 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.

Anytime a school receives funds (including the application of an FSA credit balance) that the school will apply to satisfy an overpayment in full, the school must also update its original submission to NSLDS by changing the entry for the indicator field on the "Overpayment Update Screen" to "Repaid."

For more information on how to properly report overpayments in NSLDS, please contact NSLDS directly at 800-999-8219 or nslds@ed.gov or review the various NSLDS reference materials available on IFAP under the "Processing Resources" section.

REFERRING OVERPAYMENTS

Referring overpayments to the Default Resolution Group

If you have tried but not succeeded in collecting a Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, or FSEOG overpayment for which the student is liable, you must refer the overpayment to FSA's Default Resolution Group. ***You must make this referral in addition to reporting the overpayment to NSLDS.***

To be referred, the **initial amount** of the overpayment must be at least $25. You would still refer a student debt of less than $25 to the 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.

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.

If your school elects not to refer an overpayment to the Default Resolution Group, your school is liable for and 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 reported the overpayment in NSLDS. 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 the Default Resolution Group has accepted a referred student overpayment, it 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, a school must provide its Pell identification number. It should NOT enter its routing identifier.

If a student claims that a school's overpayment determination is wrong, the school must consider any information the student provides and determine whether the objection is warranted before referring the case for collection.

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 the 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 the Default Resolution Group at:

Department of Education
National Payment Center
P.O. Box 790336
St. Louis, MO 63179-0336

If a school accepts a cash payment from one or more students who owe overpayments and who have been referred to the 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 DUNS number.

If a school receives a payment for an overpayment **previously referred** to the Default Resolution Group for the **current award year** and the payment will repay 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 the 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

903-454-2243

Note: This process cannot be performed via email.

In the fax or letter, a school must include the following:

- 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.

If a student whose overpayment case has been accepted by the Department wishes to establish a repayment schedule, he or she should call the Default Resolution Group at **800-621-3115**. The student can send an email by going to **https://myeddebt.ed.gov** and selecting the borrower tab > "Contact Us" (at the bottom of the page) > "Click here" under "Send email**."**

Responsibilities of the 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.

The Default Resolution Group will then try via letters and telephone to establish a repayment schedule or to secure payment in full. It 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 the Default Resolution Group instead of the school. Finally, the 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 Grant overpayment status will be tracked and reported manually.

Payment in Full

Anytime a school receives funds (including the application of an FSA credit balance) that will satisfy an overpayment in full, the school must also update its original submission to NSLDS by changing the entry for the indicator field on the "Overpayment Update Screen" to "Repaid."

Information Required When Referring Student Overpayments to the 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] 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

903-454-2243 ← FAX

Returning FSA Funds

CHAPTER 4

This chapter provides 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 (R2T4). For information about those returns, 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;
- the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment (R2T4);
- having FSA funds with no expectation they can be disbursed to other eligible students within three business days (excess cash);
- owing the Department for expenditures disallowed during a program review or audit; and
- having earned interest in excess of $500 on its federal funds (other than in its Perkins account). As noted in *Chapter 1*, schools must remit any interest over $500.

Returning funds in a timely manner is one of the factors examined by the Department in evaluating a school's financial responsibility.

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.

Please keep in mind that the excess cash rules (discussed in *Chapter 1*) must be adhered to once Title IV funds have been placed in the

school's federal funds account. Within three business days after being deposited, the Title IV funds must be disbursed to other eligible students or returned to the appropriate FSA program via G5.

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 within all required time frames (e.g. 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.*

Returning funds through G5

Schools must return funds electronically using G5 except in unusual circumstances. If a school is required to return funds as part of a liability assessed in an audit or program review, it must follow the instructions provided by the issuing school participation division (discussed later in this chapter). In addition, all returns of FSA grants and Direct Loan funds previously disbursed (unclaimed credit balances) will also be made through G5.

For help with G5, go to **https://g5.gov** or call the G5 help desk at 888-336-8930 Monday through Friday, 8:00 a.m. to 6:00 p.m., EST. You can also email G5 at **edcaps.user@ed.gov**.

Title IV funds and nonattendance
34 CFR 668.21

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 school must return any Title IV funds no later than 30 days after the date that the school became aware that a student will not begin or has not begun attendance.

The Department considers a school to have returned FSA funds timely if, no later than 30 days after the date that it became aware that a student will not begin or has not begun attendance, it:

- deposits or transfers the funds into its federal funds account,
- initiates an electronic funds transfer, or
- issues a check.

A school does not satisfy this requirement if

- its records show the check was issued more than 30 days after the date it became aware the student would not begin or had not begun attendance, or
- the date on the cancelled check shows that the bank used by the Department endorsed the check more than 45 days after the date the school became aware the student would not begin or had not begun attendance.

RETURNING FUNDS FROM AN AUDIT OR PROGRAM REVIEW

If a school is required to repay FSA funds due to a program review or audit, a copy of its final audit determination letter (FADL) or final program review determination (FPRD) letter is sent to the Accounts Receivables and Bank Management 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.

- 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 $1,000 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. If an FADL or FPRD letter requires that you return FSA funds by check, you must make the check payable to the U.S. Department of Education and include the following with your payment:

- the amount of the liability,
- the school's DUNS number,
- its 9-digit tax ID number, and
- the program review or audit control number.

DOWNWARD ADJUSTMENT OF FSA GRANT AND DIRECT LOAN DISBURSEMENT RECORDS REQUIRED

Returns of FSA grant funds (except FSEOG and Iraq and Afghanistan Service Grants) and Direct Loan funds, other than funds not associated with a student that are being returned to stay in compliance with any excess cash requirements, must be offset by downward reductions to a student's record in the COD System. This helps ensure a school is able to properly reconcile its Title IV program accounts (see *Chapters 5 and 6* for more information on reconciliation).

In addition, when all or a portion of a Direct Loan (DL) 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.

RETURNING DIRECT LOAN FUNDS

If a school has 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 the funds to the Department through G5 following the same procedures used when making other G5 refunds/returns.

All Direct Loan funds that are not disbursed to student or parent borrowers within three business days after the date that the drawdown is received (or within the additional seven calendar day tolerance period as

permitted) must be returned to the Department in accordance with the cash management regulations regarding excess cash (34 CFR 668.166).

However, Direct Loan funds are not student-specific but are school-, program-, and award year-specific. This means a school can disburse the funds to other eligible students who will be receiving Direct Loans for the same award year if it can disburse the funds within three business days. If the school cannot disburse the funds within the required time frames, the funds must be returned.

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 should not be netted with a drawdown from another school, program, or award year.

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 more information about returning Direct Loan disbursements and making disbursement adjustments, please see the February 12, 2015 and November 21, 2011, electronic announcements on the IFAP website.

Direct Loan disbursements, disbursement adjustments, and refunds of cash should be reported or submitted in whole dollar amounts only. Using pennies in Direct Loan processing may affect a school's ability to successfully complete monthly reconciliation because net drawdowns may not match net disbursements reported to the COD system.

For questions about adjusting student loan amounts, call the COD School Relations Center at 1-800-848-0978 or email **CODSupport@ed.gov**.

RETURNING PELL GRANT AND CAMPUS-BASED FUNDS

If Pell Grant funds are required to be returned, a school must:

- enter the student's revised Pell Grant award in COD; and
- either return the funds to the Department through G5, or if applicable, disburse the funds to other eligible students.

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.

In addition, if Pell funds are returned after the FISAP has already been filed, the school must make any appropriate changes to the Pell Grant expenditures section of the corresponding FISAP.

If FSEOG funds are required to be returned, a school must:

- enter the student's revised FSEOG award both in the individual

student's account and the school's FSEOG ledger; and

- return the funds to the Department through G5, disburse the funds to other eligible students as applicable or carry the funds forward to the next award year.

The school must ensure that all changes and adjustments to FSEOG disbursements are properly accounted for in the initial or corrected FISAP.

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.

If Perkins Loan funds from a *prior award year* are required to be returned (schools are no longer permitted to award new Perkins Loans), a school must:

- reimburse its Perkins Loan fund;
- report those funds as income in Part III, Section A of the FISAP;
- 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; and
- update NSLDS to reflect the Perkins Loan amount that the student received.

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

In addition, as discussed in *Chapter 2*, schools must ensure that all unclaimed credit balance funds are returned no later than 240 days after the date it issued the first check. If an EFT to a student's or parent's financial account is rejected, a school may make additional attempts to disburse the funds, provided that those attempts are made no later than 45 days after the EFT was rejected (attempts cannot exceed the overall 240 day time frame). 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.

Amending a FISAP after the close of an award year or after the December 15 correction deadline

Note: The deadline for submitting data corrections is in December of the year in which a school submits its FISAP. This is usually the 15th except in years when that day falls on the weekend, in which case it is the Friday before. The time between the October 1 submission deadline and the December correction

deadline provides schools an opportunity to review and correct their submitted FISAP data.

If a school needs to amend a prior-year's FISAP or its current FISAP after the correction deadline, it must use the Change Request Process. The 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 COD and selects the appropriate FISAP from the FISAP Dashboard page. After the school has made the appropriate changes and saved the data, the school selects "Submit."

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 R2T4 requirements).

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 school's financial aid director indicating 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 contact the COD School Relations Center at **1-800-848-0978 or CODSupport@ed.gov**.

RETURNING FEDERAL PERKINS LOAN PROGRAM FUNDS TO THE DEPARTMENT

The preferred method for returning Perkins funds is to use the G5 website, which allows you to electronically refund the money directly to the Department using the "Miscellaneous Refunds" option. Using G5 reduces chances for human error and processing delays.

Please be advised that before submitting a refund via G5, the customer should notify their bank that they will be doing so as some banks will not release the funds unless notified in advance. The bank should be provided with the following ACH Company ID for the U.S. Department of Education: 910 200 0102.

A User with the "Payee" role in G5 can then submit the refund via G5 by following these steps for returning Perkins Loan funds to the Department:

1. Log in to G5: **https://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 distribution of assets
        - 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

NOTE: In order to initiate a refund in G5, the Payee user must have already entered refund banking information under Payments> Refund Bank Account Maintenance, even if there is already a bank account connected to the Payments functionality.

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:
    - Distribution of Assets—when returning the federal share of the distribution of assets;
    - 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 this address:

   U.S. Department of Education
   P.O. Box 979053
   St. Louis, MO 63197-9000

5. Notify the Campus-Based Division that a check was sent by sending an email to **perkinsliquid@ed.gov**.

If you have questions or need help, contact the G5 Help Desk by email at **edcaps.user@ed.gov** or by phone at **1-888-336-8930**.

RETURNING FUNDS THROUGH G5 FOR BOTH OPEN AND CLOSED AWARD YEARS

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: "Your Open Awards" and "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

Note: Federal Student Aid uses the term "return" for the process of sending money back to the program the funds were drawn from. G5 uses the term "refund" for that process.

Awards that are in the performance, liquidation, and suspension periods will appear under "Your Open Awards." When you are returning funds for an award year 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 the bank account from which you want the funds drawn from the drop down menu.

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 year, 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 the account from which you want the funds drawn from the drop down menu. In the column "Refund Type," select the type of refund you wish to make from the drop down menu. 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 servicing 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 Servicing Centers for Schools—the "MORE" button).

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, along 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

Reconciliation in the Pell Grant and Campus-Based Programs

CHAPTER 5

THE IMPORTANCE OF TITLE IV RECONCILIATION

Reconciliation and fiduciary responsibility

Cash management regulations
34 CFR Part 668 Subpart K
668.162 Requesting funds

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, managing, and returning 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.

Financial responsibility regulations
34 CFR Part 668 Subpart L

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 is required to have documented reconciliation procedures that describe who, how, and when your school performs Title IV reconciliation. 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.

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 (COD, G5, NSLDS) 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 process and retain any reconciliation documentation for audit and review purposes.

Excess cash
34 CFR 668.166

If completed on a regular basis, reconciliation can assist schools in determining whether disbursement reporting and excess cash deadlines are being met, and whether any additional data needs to be submitted in the various Department systems to ensure all school data is reflected correctly.

A school performs ***internal reconciliation*** when it compares business office records of funds requested, received, disbursed, and returned to financial aid office records of funds awarded to students. 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***. A school ensures that the Department's records reconcile with the school's records, both at the cumulative and individual student levels, when it performs external reconciliation.

At a minimum, your school should reconcile its FSA financial records monthly. However, the more often you perform reconciliation, the more likely you will be able to identify and resolve issues before they become a bigger problem. *Frequent reconciliation is an important internal control that can increase the overall integrity of the FSA programs at your school.* In addition, schools that have a system to identify discrepancies between school internal records and data contained in Department records will find that monthly reconciliation is easier and the year-end closeout less time consuming.

Schools should work with their administrative software systems specialists to create 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

- report exceptions found during the comparison process.

Common discrepancies you may be able to identify using COD reports in your school's reconciliation process include:

- recipient's disbursement data appears on the school's records for an award amount less than the amount shown in the COD System;
- recipient's data appears on the school's records for an award amount greater than the amount shown in the COD System;
- recipient's disbursement data appears on the school's records but does not appear in the COD System.

See the electronic announcement of November 19, 2019, for a summary and reminder of the general requirements regarding disbursement reporting, excess cash, and reconciliation.

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 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.

Internal controls in automated systems

Since no one person or office may have the ability to both authorize and disburse Title IV funding (see *Volume 2, System of checks and balances*), 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).

Who is responsible for reconciliation?

More than one office has access to and expertise with data needed to facilitate the Title IV reconciliation process. For instance, 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 COD System information, while the business office is generally responsible for G5 data and student account information.

Though it is possible and even advisable for financial aid and business office staff to be able to view information in each other's systems (e.g. G5, COD, etc.), there is no substitute for the direct involvement of professionals in each office in the reconciliation process. *Reconciliation is a shared responsibility: the business office and the financial aid office are equally responsible for reconciliation.* This responsibility involves much more than the mere sharing of reports; it requires joint action by the financial aid and business office to identify and correct discrepancies in a timely way.

Reconciliation and a school's coordinating official

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 with FSA-related information no matter where it occurs at the school. Note that resolution includes not only determining what information is incorrect, but actually correcting the inaccurate data. Since the resolution of discrepancies with 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.)

Coordinating official
34 CFR 668.16(b)(1)

The Department does not specify the office in which your school's coordinating official must work, nor do we specify the type of system your school must have to reconcile its data internally and externally. However, the Department does require your school have a coordinating official and perform regular 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 FSA program and award year;
- ensure that all batches have been sent to and accepted by the

COD System, all disbursements and adjustments are accurately reflected in 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 and TEACH;
- 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 (Pell, DL, TEACH) or reported as expenditures on your FISAP (Campus-Based Programs).

Your school is ultimately responsible—including when it uses a third-party servicer—for meeting all regulatory requirements and reconciling on a regular basis. Reconciliation should include ensuring that your school's internal records match what is at the servicer as well as what is in the Department' systems.

Contact information

Each school is assigned a COD reconciliation coordinator who can help answer reconciliation questions. If reconciliation issues arise that require your school's immediate attention, your COD reconciliation coordinator may contact your school directly.

For disbursement reporting, excess cash, or reconciliation questions, or to speak with your COD reconciliation coordinator, please contact the COD School Relations Center at 1-800-848-0978, or **CODSupport@ed.gov**.

Internal reconciliation

Discrepancies that occur between financial aid and business office data 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 records, or in the comparison of drawdowns/returns between the business office and the 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 the COD System. 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 the COD System 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 financial aid office. Thus, the original amount will still be included

as a disbursement but will not be reflected in the net Cash Receipts.

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. Both offices should also agree on the amount of funds that should have been drawn down from G5 to cover the funds disbursed to students.

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 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 to cover immediate need (excess cash) have been returned to the Department.

So, you could begin the internal reconciliation process by comparing a monthly financial aid office roster of scheduled Title IV disbursements to a monthly business office cash detail report that reflects Title IV funds drawn down and Title IV funds disbursed for the month. If you discover discrepancies, you must resolve them.

In addition, you should also compare business office and financial aid office records of adjustments (refunds of cash) made during the month. At times, returns of cash due to withdrawals performed by the financial aid office aren't applied by the business office. In addition, sometimes 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.

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.

Schools may perform internal and external reconciliation in any order. However, if internal reconciliation is completed first, there will be fewer discrepancies to resolve during external reconciliation. The Department offers various tools to assist schools with external

reconciliation (*explained later in this chapter and Chapter 6*).

RECONCILIATION IN THE PELL GRANT PROGRAM

Although 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 published in the Department's annual Federal Register notice (most recent example can be found in the July 14, 2020 Federal Register for 2020-2021 award year deadline dates) 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 disbursements 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.

Monthly reconciliation for the Pell Grant Program should include verifying that individually and cumulatively:

- 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);
- cumulative school and COD records of Pell Grant disbursements match net draws (drawdowns minus refunds of cash) in G5 for the award year in the Pell Grant Program;
- any remaining excess cash balances have been returned to the Department per cash management regulations; and
- all reconciliation efforts have been documented for future reference, and all identified balance issues have been resolved in a timely manner.

Pell Grant reconciliation defined

Pell Grant reconciliation *is when a school reviews and compares Pell Grant data in its internal records with information in the Department's systems.* This should occur regularly and is recommended at least monthly. See the annual Pell Grant reconciliation reminder, for a summary of Pell reconciliation, including an attachment of Q's and A's.

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 business office records and the financial aid system. The school should document any discrepancies 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 monthly to ensure that data is correct in all systems and that cash management and disbursement reporting timelines are being met.

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 should be a routine process that is not complex. If awards recorded by the financial 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 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.

Reconciling school-level data with COD Pell Grant data

Your school should reconcile all internal cash (drawdowns and refunds of cash) and disbursement records (actual disbursements and adjustments) with information in the COD System 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.

In reconciling school-level Pell Grant records of individual student awards with individual student records in the COD System, you can use the following tools:

- *Pell Grant school account statement (SAS) and SAS disbursement detail on demand*

  The COD System produces the Pell Grant SAS monthly. This is similar to a bank statement and summarizes processing activity (both cash and disbursement data) for that month and/or year-to-date (YTD). It can be used as a reconciliation tool to compare to financial aid and business office records.

  Schools may also request Pell Grant SAS disbursement detail on demand files through the report requests page on the COD website. This report contains disbursement level detail for schools to use for interim reconciliation as needed.

- *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 YTD disbursement amount per student as it is in the COD System.

- *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 administrative cost allowance (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.

For a sample ESOA, go to the 2020–2021 COD Technical Reference and click on Volume VI, Section 7, and go to pages 24 and 25.

- *Pending disbursement list report*

  The pending disbursement list report contains disbursements not yet funded in the COD System. 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 and can be used to replace a corrupt database or to reconcile records with accepted data on the COD System.

  The YTD record shows the award information that the COD System is using for each student. You can view each disbursement as well as the total disbursed to a student for the year. The YTD summary shows the total number of recipients at your school, the number of awards, and the disbursements accepted, rejected, or corrected. The details in a YTD record can help you resolve discrepancies between school and COD data.

You can also use the following COD website screens:

- *Funding Information screen and school funding history report*

  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.

  Schools can access the school funding history report through a link at the bottom of the funding information screen. This report displays YTD funding authorization (current funding level or CFL) information for the selected school, program type, and award year. This report also contains a history of cash activity transactions for the school.

- *Cash Activity screen*

  The cash activity screen shows all individual drawdown, refund of cash, and drawdown adjustment transactions received in the

COD System from G5. This information can be used to reconcile to internal bank statements and cash transactions.

- *Anticipated Disbursement Queue*

  This page allows schools to search—by award year, program, disbursement date range, and SSN—and view anticipated disbursements currently on file in the COD System. They can select up to 100 records at a time and submit them as actual disbursements and can also export the anticipated disbursement list. While schools no longer use the action queue to release pending disbursements, it continues to be available on the COD website.

COD reports

The COD Technical Reference, Volume VI, Section 8—COD Reports can be found at https://ifap.ed.gov/publications. Click on *COD Technical Reference* and choose the appropriate award year.

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. 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 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. Schools can close out via the COD School Balance Confirmation page when they have a zero ending cash balance or are within the established tolerance and have $0 in total net unbooked disbursements.

This final reconciliation should ensure that all data are correct and that total net drawdowns equal net accepted and posted disbursements (NAPD) in the COD System (cash > NAPD balances should equal $0). This process must be done by the applicable data submission deadline defined below, as well as immediately following processing of any additional data by the school (for example, returns of unclaimed credit balance checks, eligible late disbursements, or disbursement adjustments made within regulatory time frames but which occur after the data submission deadlines).

There are two deadlines which affect this process -

Data submission deadline

Schools must finalize reconciliation of cash and reporting of Pell Grant and Iraq and Afghanistan Service Grant disbursements and disbursement adjustments by the data submission deadline, which is published annually in the *Federal Register* and is the last business

day of September following the official end of the award year (e.g., for 2020–2021, the deadline will be September 30, 2021). After this date the COD system will not accept upward awards or disbursement adjustments without approval for extended processing (downward adjustments will continue to be accepted). Your school can request an extension to the data submission deadline via the COD website on the Request Reopen/ Extended Processing page.

Funding cancellation deadline

Pell Grants and Iraq and Afghanistan Service Grants are completely closed and funding is cancelled (no longer available) five years after the award year on the last business day of September (e.g., for 2020–2021, funding will be cancelled on September 30, 2026). After that time, schools will be unable to draw down or adjust 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. Schools must complete all final reconciliation activities well before this final deadline, in accord with disbursement reporting timelines and the data submission deadline. After the five-year period, funds must be returned directly to the Treasury. If you need help returning funds after the five-year closing date, please contact G5 customer service at **1-888-336-8930**.

The data submission and funding cancellation deadline dates appear in the same *Federal Register* notice mentioned earlier in the chapter. For 2020–2021 deadlines, please see the *Federal Register* Volume 85, Number 135, July 14, 2020.

RECONCILIATION, RECORDS, AND INTERNAL CONTROLS IN THE CAMPUS-BASED PROGRAMS

A school is required to reconcile its Campus-Based program and financial records at least monthly. A school may be required to provide records of its monthly reconciliations during the required annual audit or during a program review. In addition, the school performs annual reconciliation of its annual participation in the Campus-Based programs when it completes 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.

Monthly Reconciliation Required

Perkins 34 CFR 674.19(d)(1)
FWS 34 CFR 675.19(b)(2)(iv)
FSEOG 34 CFR 676.19(b)(2)

Your school must reconcile, at least monthly, your Campus-Based funds drawn down through G5 to your designated bank accounts accounting for any discrepancies.

In addition, your school must have a system that reconciles your drawdowns for the award year at least monthly in the individual Campus-Based Programs plus any funds provided by your school or received from other sources to the amounts expended in the Campus-Based programs.

Reconciliation and the Federal Perkins Loan Program

Though the Perkins Loan Program has officially ended and no new Perkins Loans can be made to students, schools that have not liquidated their Perkins portfolio **must have a system that, on at least a monthly basis,** reconciles and accounts for any discrepancies in:

- cash on hand in your Perkins fund at the start of the period;
- payments of principal, interest, late charges, and collection charges received during the period;
- expenses paid from the fund during the period (permissible collection costs not paid by the borrower);
- repayments of fund capital to the federal government paid from the fund;
- repayments of fund capital to the institution paid from the fund;
- 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 (FSEOG) Program

Your school must have a system that at least monthly reconciles and accounts for any discrepancies between FSEOG awards made to students during an award year plus the administrative cost allowance (ACA) and any:

1. federal funds drawn down during the award year for FSEOG awards; plus
2. funds carried forward from the prior year, carried back from the upcoming year, or transferred from FWS during the award year; plus
3. any nonfederal funds (both institutional and noninstitutional) made available for grants to students during the award year; plus
4. any other resources designated as FSEOG awards to students.

Reconciliation and the Federal Work-Study (FWS) Program

Your school must have a system that reconciles at least monthly the amount of funds drawn down and received to the amounts disbursed to

students or returned to the Department. Specifically, these are the federal funds drawn down during the award year for FWS awards, plus funds carried forward or back, or transferred from FSEOG for that award year, plus any nonfederal (both institutional and noninstitutional) funds made available for FWS payments to students during the award year versus FWS funds paid to students during the award year, plus ACA, plus job location and development expenditures. Your school must account for any discrepancies.

In addition, you should examine your FWS program and fiscal records at the start of the award year and monthly thereafter. The following questions might help you develop procedures that will enhance the effectiveness of reconciliation within your FWS program:

- 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 of your FWS program to the reports submitted by employers?

Closeout information for the Campus-Based Programs

See the February 21, 2020 electronic announcement for more information about closeout procedures for the Campus-Based Programs. This announcement outlines the closeout procedures for the 2018-2019

Campus-Based programs. Information provided includes where to find closeout amounts in the G5 system, the closeout amount determination process and the notification method if an award decreases.

CONTACT INFORMATION FOR RECONCILIATION

For disbursement reporting, excess cash, or reconciliation questions about the Pell Grant, TEACH Grant, FWS, FSEOG, Perkins Loan, or Direct Loan programs, call the COD School Relations Center at 1-800-848-0978 or e-mail **CODSupport@ed.gov**.

Reconciliation in the Direct Loan Program

CHAPTER 6

OVERVIEW OF DIRECT LOAN RECONCILIATION

Regulations
34 CFR 685.300(b)(5) Direct Loan monthly reconciliation required
34 CFR 668.162 Requesting funds
34 CFR 668.166 Excess cash

A school that participates in the Direct Loan Program is required to reconcile cash (funds it received from the G5 system to pay its students) with disbursements (actual disbursement records) it submitted to the Common Origination and Disbursement (COD) system monthly.

Direct Loan schools are also required to complete a year-end closeout or final reconciliation of their Direct Loan (DL) accounts. This should be done as soon as possible after the end of the schools' latest award period (loan period) end date but no later than the program year closeout date.

Note: Exceptions to the last processing day of the program year may be made on a case-by-case basis if a school's processing period extends past the closeout deadline. Schools in this category should contact the COD School Relations Center for further help. Once the closeout deadline has passed, requests may be made directly via the COD website.

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. Your school should not wait until the closeout deadline. The Direct Loan Program year closeout date is the last processing day of July in the year following the award year, which for 2020–2021 will be Friday, July 29, 2022.

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.

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.

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 non-zero ECB.

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. To have a common set of figures to reconcile against COD, schools should complete an internal reconciliation before beginning the required external monthly reconciliation.

Definitions

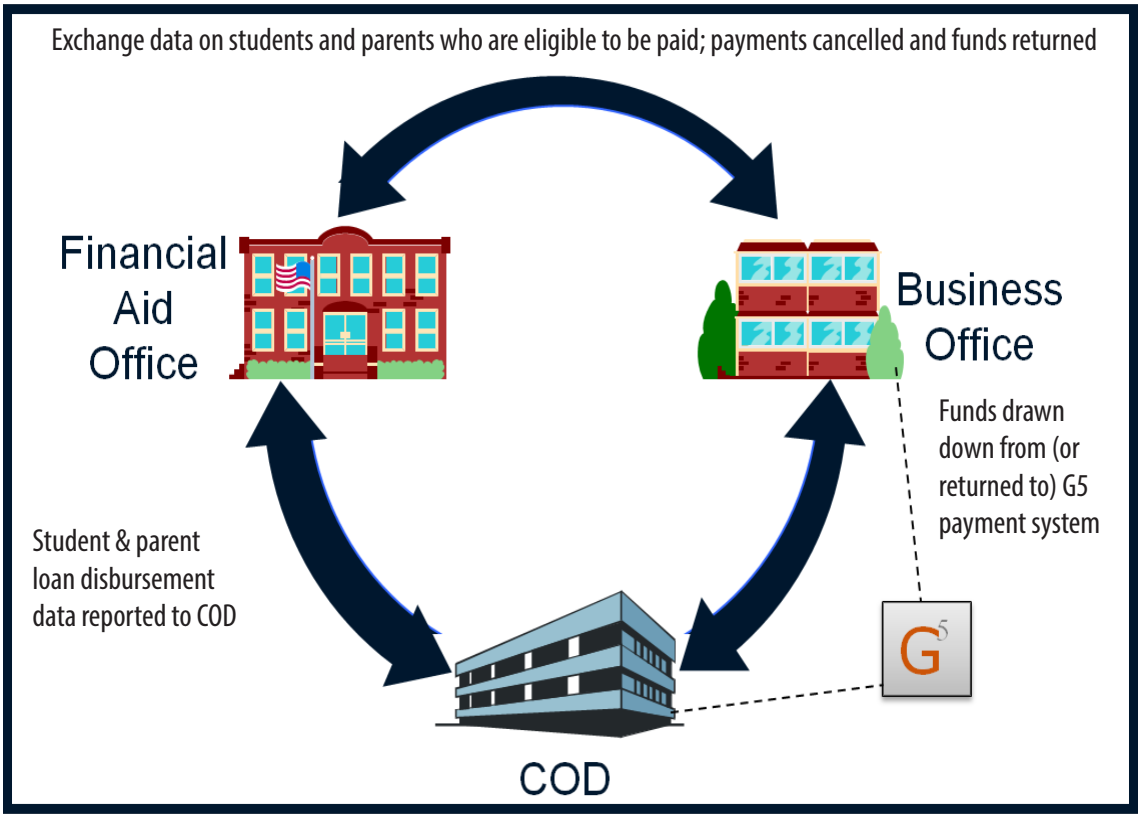
Ending cash balance—beginning cash balance + net drawdowns/payments – total net booked disbursements

Net drawdowns/payments—cash receipts (drawdowns + drawdown adjustments + returns) – refunds of cash (refunds)

Total net booked disbursements—booked disbursements + booked adjustments (upward or downward)

Reconciling ED and School Records

The SAS (sent by COD) includes both disbursement data and cash transactions from COD. This ED system data must be reconciled with data in the school's financial aid and business offices.



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, drawdown adjustments, or refunds of cash made in the wrong award year.
- Disbursement batches not yet sent to COD (or sent to COD but not acknowledged).
- Rejected disbursements/adjustment to disbursement records that have not been resolved.
- Disbursements reported to COD but unbooked because of future disbursement date.
- Downward disbursement adjustments made and accepted in COD but funds are not returned or used for other eligible borrowers within regulatory time frames 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 (*internal reconciliation*).

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.

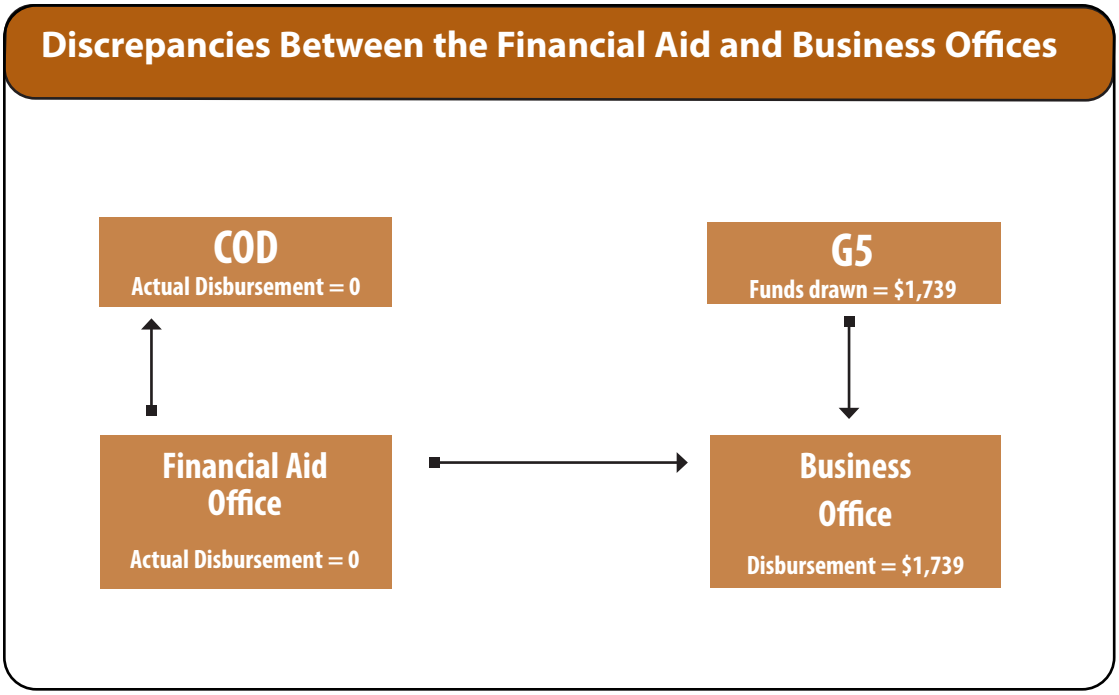
Unbooked disbursements include any future-dated transactions with disbursement dates falling after the end of the report.

Who is responsible for Direct Loan reconciliation?

Reconciliation is a team effort by the business and financial aid offices. Since both have information that is needed for reconciliation, cooperation between these offices is essential for successful reconciliation of DL funds. For example, the financial aid office will likely have the information sent to and reports received from the COD System, while the business office is generally responsible for G5 and student accounts. It is possible, and even advisable, for financial aid and business office staff to be able to view information in each other's systems (including COD and G5), but there is no substitute for the direct involvement of each office in reconciliation.

Possible sources of discrepancies between financial aid and business office records are:

- The aid office calculates a return of Title IV aid (R2T4) but doesn't notify the business office.
- The aid office schedules a disbursement with the business office but does not create an "actual disbursement" record to send to the COD System. (Or the "actual disbursement" record sent by the aid office is rejected by the COD System.)
- The business office cancels a disbursement but does not inform the financial aid office.
- The business office makes a refund of cash to the G5 system but does not inform the aid office.



TYPES OF DIRECT LOAN RECONCILIATION

There are two types of reconciliation, which can be performed separately or simultaneously during the month.

Internal reconciliation for Direct Loans

Internal reconciliation *is the process in which the business and financial aid offices compare their Direct Loan records to ensure that they match, including disbursement dates and amounts.* Though a school decides the frequency and methods it will use for internal reconciliation, Direct Loan reconciliation must occur at least monthly and should occur 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 timely.

To be in compliance with reporting disbursements and disbursement adjustments in the COD System 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 the COD System.** This date is reported to the Direct Loan servicers and is the point at which 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, and they often do not show up in a comparison of the financial aid office's records with COD or in a comparison of drawdowns/returns between the business office and the G5 payment system. For example:

- 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 the COD System. 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 the COD System 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 a daily or weekly communication between the financial aid and business 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.

External reconciliation

External reconciliation *is when a school compares its reconciled internal records to the Department's records of funds received and returned and loans originated and disbursed to students at the school.* At a minimum, this reconciliation must 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. Schools may perform internal and external reconciliation in any order, but when internal reconciliation is completed first, there will be fewer discrepancies to resolve during external reconciliation. The Department offers various tools to help with external reconciliation that will be reviewed later in this chapter.

Documenting monthly reconciliation

A school has completed its monthly reconciliation when all differences between the Direct Loan SAS and the school's internal records (Direct Loan system, financial aid office, and business office system) have been resolved or documented and the school's ending cash balance is zero. Schools should clearly outline their reconciliation process and documentation in both the business office and financial aid office procedures.

The Department does not mandate or prescribe any particular method of documentation, which allows your school the flexibility to determine the type and method that best suits your internal processes.

Monthly Reconciliation Process

Steps in Monthly Reconciliation

► Compare financial aid office records with business office disbursements. Look for:

- Refunds of cash made by the business office to G5 but not recorded in the financial aid office system
- Disbursements made by the 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 subtotals 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 years
- 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 dates

Remember, you must document reasons for any discrepancies in your ECB.

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. Also, keep in mind that historical records of reconciliation issues can be useful for later review or to update new or returning staff members.

Each month you should:

- Identify, resolve, and document all discrepancies. Track those due to timing 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, including any reasons for an ending cash balance, for future reference.

THE SCHOOL ACCOUNT STATEMENT

The SAS is similar to a bank statement and gives the Department's official cash balance as of the end date of the reported period, based on data submitted by the school. It also gives detailed cash and loan or disbursement transactions for that reported period.

The SAS is the primary tool for reconciliation and program year closeout. Your school is required to reconcile the information on the SAS to its internal records monthly. If more frequent reconciliation is needed, you can also request an SAS disbursement detail on demand report on an as-needed basis. More information on the content and formats available for the SAS can be found in the *COD Technical Reference, Volume VI, Section 8 (COD Reports)*.

Each month the COD System sends the SAS to your SAIG Mailbox. This report is generated by the COD System during the first full weekend (Saturday and Sunday) of the month with data through the end of the previous month (for example, the first weekend in September, the COD System generates a report for August and sends it to your school). The SAS reflects all cash transactions performed in G5 as reported to the COD System and all loan and disbursement detail reported by your school and accepted in the COD System.

Note that your school will receive a separate SAS for each award year that it participates in the Direct Loan program until you have completed processing and the award year is closed out as directed by ED. Since schools often have multiple award years open at the same time, they may receive more than one SAS for a 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 the 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

Three sections of the SAS are particularly useful for reconciliation:

- cash summary—compare to summary school data in both the business office and financial aid system

- cash detail—compare to business office records
- loan disbursement detail—compare to the financial aid system

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 (YTD) 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 the COD System 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 the COD System 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 in the COD System 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 the school options chosen. 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 the COD System.

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 the COD System and your financial aid system,

you will be able to resolve the differences.

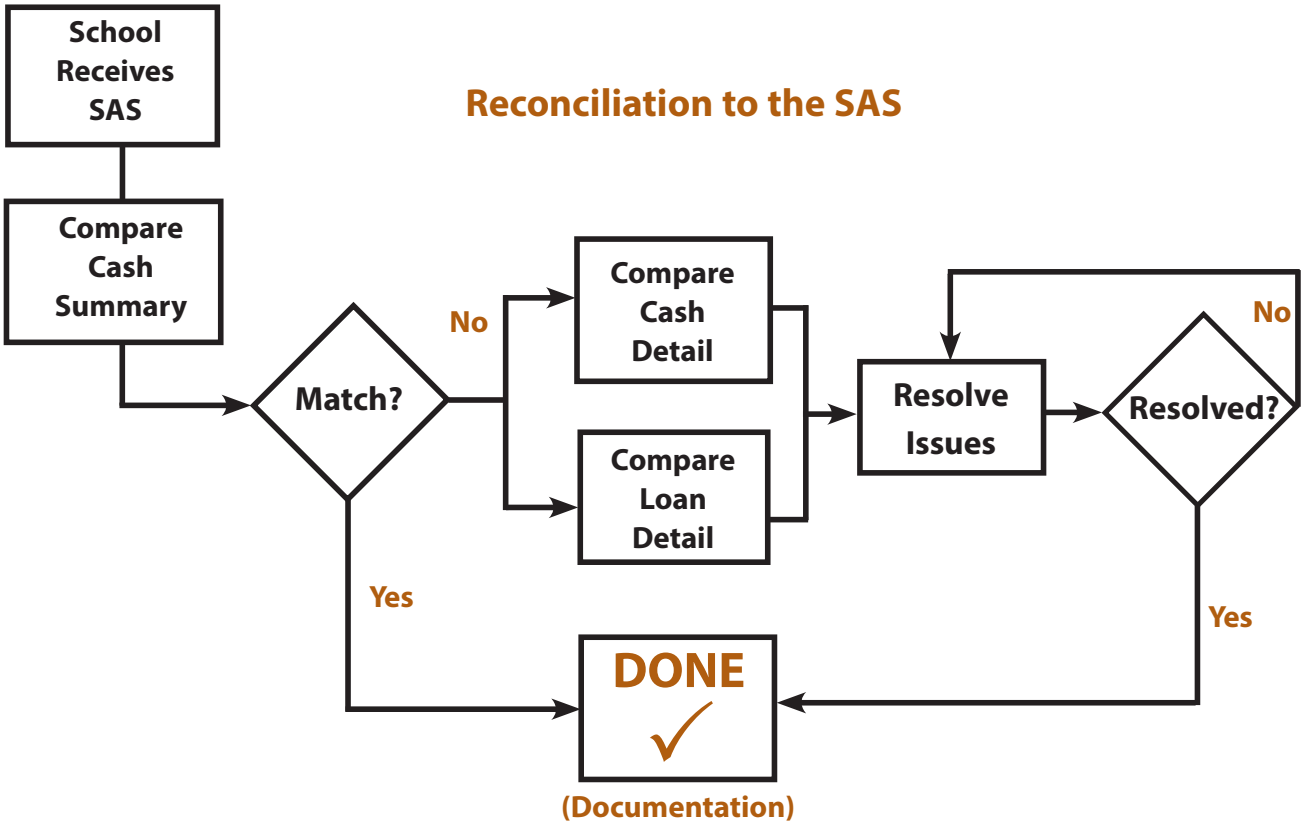
In the following sections, we'll explain how to compare the summary and detail reports to your school data to identify any underlying discrepancies that may be affecting the ECB.

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. Note that the YTD report is needed to run the comparison. If you plan to open your SAS in Excel, you should select comma-delimited **without** headers for a data-only report, or comma-delimited **with** headers for a more formatted report. 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. Go to https://ifap.ed.gov/publications, choose the COD Technical Reference link, select the appropriate award year, and then review *Volume VI, Section 8* (COD Reports) for more information on available SAS options.

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. But 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 reflect 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 reflect booked disbursements plus or minus booked adjustments.

Many differences between your drawdowns from G5 and the disbursements reported to the COD System 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 the COD System.

Keep in mind that loan disbursement records sent to the COD System near the end of the month may not be processed and acknowledged until the beginning of the next month.

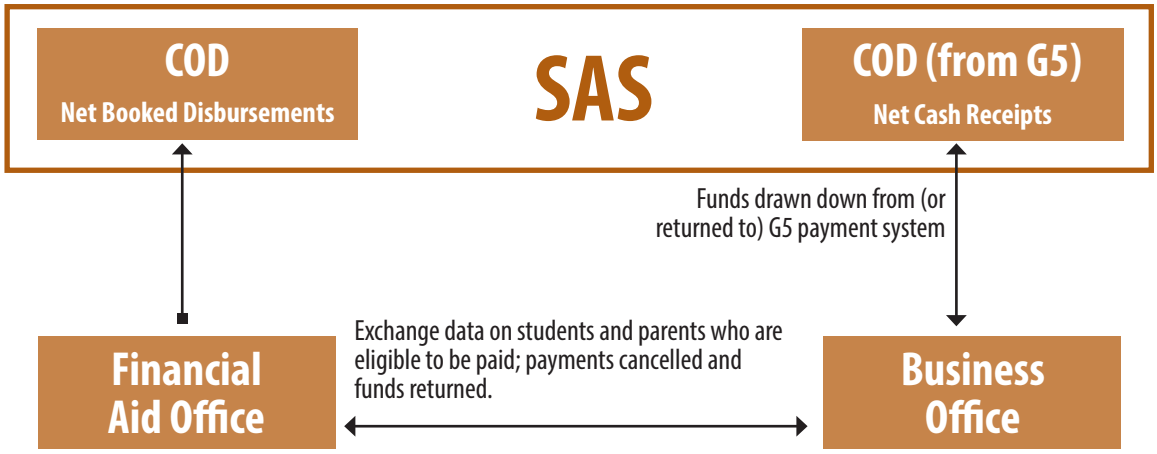
If you can identify such discrepancies and account for any remaining cash balance (positive or negative) at the cash summary level, then you've successfully completed reconciliation for the month. Remember that a school must document its reconciliation process and the results of each monthly reconciliation.

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 the COD System.

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: 09/30/2020
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 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	09/06/2020	$12,800	09/06/2020	2005091212345 (1)
Receipt	09/12/2020	$12,024	09/12/2020	2005091267890
Refund	09/15/2020	$725 (2)	09/22/2020	10000001011001
Receipt	09/26/2020	$8,250	09/25/2020	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 time frame.

(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 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 the COD System during that month based on the date each individual transaction booked 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.

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 and EDExpress web-based training and the COD Computer-Based Training (CBT) modules available on IFAP under the "Tools for Schools" section ***(https://ifap.ed.gov/tools-for-schools)***.

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 the COD System 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 the COD System 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 the COD System, 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: 09/01/2020 U.S. DEPARTMENT OF EDUCATION PAGE: 1
Report Time: 12:01:01 DIRECT LOAN TOOLS—2020–2021

SAS Loan Detail

Sort by: Loan ID

THIS DOCUMENT CONTAINS SENSITIVE INFORMATION PROTECTED BY THE PRIVACY ACT
****

Date Range: 08/01/2020 to 08/31/2020

School Code: G99999 Booked Status: Booked and Unbooked

End Date: 08/31/2020 Loan Type: All

Student's Name / PLUS Borrower's Name / Loan ID / Servicer Name	Disb #	Seq #	Record Type	Disb Date	Gross Amount	Fee Amount	Int. Rebate Amount	Net Amount
BLUE, BILL G								
999990002S13G99999001		1	Booked		$750	$7	$0	$743
DEPT OF ED PHEAA								
	1	1	D	08/15/2020	$750			$743
ILLINOIS, ILENE								
999990065U13G99999001		3	Booked		$500	$5	$0	$495
DEPT OF ED MOHELA								
	1	1	D	08/15/2020	$600			$595
	1	2	A	08/15/2020	$500			$495
OHIO, OLIVIA M								
999990070S13G99999001			Unbooked		$1,250	$12	$0	$1,238
DEPT OF ED NAVIENT								
	1	1	D	08/15/2020	$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.

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 that 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 are not 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.

OTHER TOOLS AND REPORTS FOR DIRECT LOAN RECONCILIATION

The Department provides several tools to assist your school in completing its Direct Loan reconciliation responsibilities. Among them are COD reports, report readers, COD webpages, and Direct Loan tools.

COD reports and webpages

The COD System provides a variety of reports and webpages (available at **https://cod.ed.gov**) to help you in your Direct Loan reconciliation. For more information on COD reports, including message classes, record layouts, and delivery methods for all Direct Loan reports, refer to the latest *COD Technical Reference*, *Volume VI, Section 8,* available at https://ifap.ed.gov/publications. 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."

COD reports

Highlighted here are a few reports and COD web screens useful for reconciliation:

- ***School account statement***—The Department issues an award-year-specific 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 later in this chapter and 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 website.
    - 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 website page.
- ***Pending Disbursement Listing***—This report provides a list of all pending disbursements reported by your school and can help identify future funding needs, identify pending disbursements that should be reported as actual, and identify awards or disbursements that need to be deactivated (reduced to zero).

- ***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 report readers

The Department provides three report readers that offer a simplified way of importing the COD report files into an Excel spreadsheet. A school that does not already have a process 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 readers for the following reports:

- Pell Grant reconciliation file
- Pell Grant YTD file
- SAS disbursement detail on demand file

The readers and instructions on using them are on the COD website under the COD Resources link. For questions call the COD School Relations Center at 1-800-848-0978 or email **CODSupport@ed.gov**.

COD webpages

- ***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 confirm that your school is reporting disbursements in a timely manner to substantiate the funds drawn.
- ***School Funding Information and School Funding History Report***—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.

  Schools can access the school funding history report through a link at the bottom of the school funding information screen. This report displays year-to-date funding authorization (current funding level or CFL) information for the selected school, program type, and award year. This report also contains a history of cash activity transactions for the school.

- ***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***—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.
- ***Anticipated Disbursement Queue***—The anticipated disbursement queue page on the COD website allows schools to view anticipated disbursements currently on file in the COD System and to search by award year, program, disbursement date range, and SSN. They can select up to 100 records at a time and submit them as actual disbursements and can also export the anticipated disbursement list. While schools no longer use the action queue to release pending disbursements, it continues to be available on the COD website.

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 Software and Other Tools website located at https://ifap.ed.gov/software-and-other-tools.

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

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 and 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. DL Tools runs on Windows-based PCs and can be downloaded free at https://ifap.ed.gov/software-and-other-tools.

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 **https://cod.ed.gov**. 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 IFAP: click on Tools for Schools > COD Computer-Based Training and EDExpress Online Training.

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:

- the average time from actual disbursement date to sending the actual disbursements in a batch to the COD System and
- the 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 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.

BEST PRACTICES FOR RECONCILIATION

Establishing preventive procedures

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 the COD System by regularly checking your financial aid database for any unsent or rejected batches and/or 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.

Before you begin reconciliation, be sure to back up all Direct Loan and other data files that may be affected by reconciliation.

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 the COD System 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 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.

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 online, or by contacting the COD School Relations Center.

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.

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	9/05/2020	$2,407.00	$2,407.00	0.00	R	
222334444U13G09009001	DB	Staff UnSub Disb	1	9/12/2020	$1,739.00		$1,739.00	R	Still "anticipated" in FA Ofc Sys 1
222335555U13G09009001	DB	Staff UnSub Disb	1	9/19/2020	$1,413.00		$1,413.00	R	Still "anticipated" in FA Ofc Sys
222334444S13G09009001	DB	Staff Sub Disb	1	9/21/2020	$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. 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.

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.

For each loan, schools should zero out all pending disbursements they will not be making. They should reduce loan amounts to the sum of the actual disbursements they made. Loan periods must be updated to remove any terms/payment periods for which an actual disbursement was not made and retained.

You will be notified of the closeout requirements through electronic announcements and COD system-generated closeout correspondence. As part of the closeout process, the COD System will send ongoing notices via zero balance confirmation or remaining balance confirmation emails. In addition, the COD System 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 president and financial aid administrator will receive a program year closeout letter to keep for your records.

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 blank version of this form is available at the end of Appendix B.***

Reconciliation Worksheet

School Systems to COD School Account Statement

As of Date: 9/30/20

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**		❹ **-$725**	$725 refund entered on G5 on Sept 29; 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**		❺ **$1,250**	$1,250 (net) in adjustments done via COD Web site; not entered in Fin Aid Ofc system at school.
Ending Cash Balance	❶	**$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	❷	**$2,126**		**$1,264**		❻ **$862**	$862 disbursement not yet sent to COD (unbooked).
							REASONS - EXCESS CASH
Excess Cash (Cash > Net Accepted & Posted Disbursements)	❸	**$3,152**	❼	**$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.

Column 1 shows the data that the school has in its records.

❶ According to the school's records, its Net Drawdowns/Payments are $5,278 more than it has substantiated in Net Booked Disbursements.

❷ The school's Ending Cash Balance includes $2,126 in Total Net Unbooked Disbursements.

❸ 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.

Column 2 is the official ED data (from COD and G5) shown on the SAS.

❼ Excess Cash

Column 3 shows the difference between the school's data (Col. 1) and the SAS (Col. 2).

❹ 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.

❺❻ 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

Schools must be aware of their closeout status even if a third-party servicer handles their Direct Loan processing. Since it is the schools' responsibility for processing to be completed and closeout confirmed timely, we encourage schools to communicate regularly with their third-party servicer.

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 through 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 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. 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 include:

- 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 website and reports
- COD website (particularly the school summary financial information, funding information, cash activity, refunds of cash, and action queue screens)
- DL Tools software/SAS compare program
- COD customer service representative/reconciliation specialist assistance

Please note that the Department publishes various electronic announcements each year on IFAP to assist schools with Direct Loan reconciliation and closeout. The most recent announcement for closeout was on May 7, 2020, for the 2018–2019 program year.

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 Control Systems

Schools participating in the Title IV HEA programs must account for the receipt and expenditure of such funds in accordance with GAAP. On a current basis they must establish and maintain the following:

1. **Financial records that reflect each Title IV program transaction.**
2. **General ledger control accounts and related subsidiary accounts that identify each Title IV program transaction and separate those transactions from all other institutional financial activity.**
3. **Accounting and internal control systems that:**
   - **identify the cash balance of the funds of each Title IV program that are included in the school's bank account as readily as if those program funds were maintained in a separate account; and**
   - **identify the earnings on Title IV program funds maintained in the school's bank 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 (FSA) 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.

This includes 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 funds, by program, in each account, including interest payments attributable to certain programs, such that a clear audit trail exists.

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. While 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, some FSA programs require monthly reconciliations.

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 appendix is designed to help the business office satisfy its accounting responsibilities efficiently and with minimal 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 ledger accounts suggested in the chart of accounts that appears later in this appendix for the Federal Work-Study Program were created to help schools prepare 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, schools also need to consider their fund-accounting needs, especially 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 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 that 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 properly account 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 is under the advance payment method for drawing down FSA funds. The accounting for alternative methods (e.g. reimbursement, HCM2, etc.) will not be covered in this appendix. However, account # 1–2 should be booked as any other account receivable. Each respective subsidiary ledger would also book the receivable.

For a lesson on DL fiscal requirements, follow the link to visit the FSA Assessments page at https://ifap.ed.gov/fsa-assessments/03-12-2019-direct-loans and click on Activity 4.

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 an 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 business days permitted
- Documentation that if the posting of federal cash to a student account created an FSA credit balance, the funds were made available to the student within the 14 days stipulated by regulation (see *Volume 5* for a discussion of FSA credit balances when a student withdraws)
- 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 Educational Opportunity Grant Program (FSEOG), documentation that the awards made to students equal the federal share, plus the institutional share minus any administrative cost allowance (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 monitoring 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 HCM 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, 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 transaction
- 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

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

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 a payment method other than the advance 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 if 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 one. Disallowed expenditures on open, current-year G5 accounts are recorded by reclassifying the expenditures from the specific program account to institutional accounts and reinstating the 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).

ACCOUNT DETAILS

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).

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 for controlling the transfer of cash from the G5 account "Cash Control, G5" to the FSEOG account "Cash, FSEOG." Such cash transfers 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

Note: Students working in FWS jobs on campus while enrolled typically are not subject to FICA (Social Security and Medicare)

tax withholding. However, if they are employed between terms or in the summer, when they are not enrolled, they are subject to FICA taxes.

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.

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).

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 $75,000 or 10% 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).

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 G5 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 appendix, 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 Management 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.

At a minimum, a school's financial management system, including its accounting system, must provide:

- accurate, current, and complete disclosure of the financial condition of each federal aid program or project sponsored by ED;
- 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

- 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;[1]
- comparison of actual expended amounts with amounts budgeted for each FSA program;[1]
- 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.);[1]
- procedures according to the applicable terms of the FSA program for determining reasonableness, allowability, and allocability of costs;[1]
- accounting records that are supported by audit trail documentation;[2]
- 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);[1] and
- examinations in the form of external or internal audits, which must be made according to generally accepted auditing standards and government auditing standards.[1]

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, but 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.**

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.

[1] Financial management system functions
[2] Accounting function

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 President's/CEO's office

Ultimate responsibility for a school's FSA programs resides with the school's CEO or president. 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) [1]
- 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

[1] 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 the financial aid office usually has most of the responsibility for administering the FSA programs, its role in the school's fiscal operation is typically limited.

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)
  - verifying records that have been updated in COD to ensure subsidized usage limit calculations are accurate for students
- Provide entrance and exit counseling to Direct Loan borrowers as part of the award and delivery process

The business (bursar's) office

Most FSA related fiscal operations are handled by a school's business office. 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 key to the success of these operations and properly 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 funds, confirm that new borrowers have completed entrance counseling[2]
- Ensure that Direct 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. For those schools still servicing their Perkins loans, the business office may be responsible for administering other aspects of the Perkins Loan Program such as billing borrowers in repayment, collecting payments, authorizing deferments, cancelling loans, and reporting Perkins Loans to NSLDS.

[2] At some schools the financial aid office does this.

[3] At some schools the financial aid office ensures this.

[4] At some schools the personnel office does this.

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 7% of the federal allocation of their FWS funds to employ students in community service positions (unless a waiver is obtained).
   - 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 (FISAP).
   - Who completes the application? _____
   - Who completes the report? _____

Checks and balances
34 CFR 668.16(c)(1)
34 CFR 674.19(a)
34 CFR 675.19(a)
34 CFR 676.19(a)

INTERNAL CONTROLS—A SYSTEM OF CHECKS AND BALANCES

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:

- Effectiveness and efficiency of operations
- Accuracy of operating data
- Reliability of program reporting
- Protection of funds against fraud and misuse
- 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 stored-value cards and debit 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*—Is 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 functions.

  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

To participate in the FSA 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 federal student aid and disbursing FSA program funds;
- **taking trial balances** (to determine whether accounts are in balance - see below);
- **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.**

A school should use its internal audits and/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 functions, 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 properly separated, collusion (or multiple person involvement) to commit fraud is more easily identified.

Separating functions
34 CFR 668.16(c)(2)

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 [1], who do not together exercise substantial control over the school, and who are organizationally independent.

Definition of control
34 CFR 600.31(b)

Ownership interest
34 CFR 668.15(f)

Individuals responsible for authorizing or disbursing FSA funds may not do both, but they may perform other functions. *If these functions are done by computer, no one person may have the ability to change data that affect both the authorization and disbursement of FSA funds.*

[1] A member of a person's **family** is a parent, sibling, spouse, child, spouse's parent or sibling, or sibling's or child's spouse. See 34 CFR 668.15(f)(3).

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 separation 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, 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 should only 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 School Participation Division 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 deposits;

- 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

Required fiscal records
34 CFR 668.24(b)

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 685.300(b)(5)

Reconciliation of FSA funds is a key component of internal control in the FSA programs. It 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. A school reconciles data when, for example, on the FISAP it reports cumulative FWS data for the relevant year. 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 should 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 school'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 should perform requires examining fiscal and program records to ensure that they agree with and substantiate the reconciled accounting records.

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.

FSA Assessments

The FSA Assessments can help you in reconciling and other fiscal management activities: https://ifap.ed.gov/ilibrary/document-types/fsa-assessments. You can also get there from the IFAP homepage at **https://ifap.ed.gov** by clicking on Tools for Schools > FSA Assessments. Some of the assessments that might interest the business office are those on default prevention & management, Direct Loans, fiscal management, return of Title IV funds, FSEOG, and FWS.

The FSA Assessments can also help schools create a policy and procedure manual through the subtopic - A Guide to Creating a Policies and Procedures Manual.

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 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."

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 electronically transfers funds, records or transmits confidential information, or obtains a student's confirmation, acknowledgment, or approval, the school must adopt reasonable safeguards against possible fraud and abuse. Such 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 logins;
- 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.

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 school's FSA programs.

We encourage those individuals responsible for participating in a school's business operations to join with their colleagues in financial aid in creating a comprehensive FSA policies and procedures manual for the school.

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 school's 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 funds 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 Title 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% 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 disclosure, counseling, records, forbearance, deferment, and due diligence for those schools that continue to service their Perkins loans
- 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 Title IV 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. Verification
4. A Guide to Creating a Policies and Procedures Manual
5. Consumer Information
6. Default Prevention and Management
7. Direct Loans
8. Fiscal Management
9. Institutional Eligibility
10. Return of Title IV
11. FSEOG
12. FWS
13. Federal Perkins Cancellation
14. Federal Perkins Due Diligence
15. Federal Perkins Forbearance and Deferment

To enhance their effectiveness, the Assessment Tools include activities to test compliance and procedures. The FSA Assessments 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.

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.

Direct Loan quality assurance
34 CFR 685.300(b)(9)

See the November 13, 2013, electronic announcement for information about the DL quality assurance requirement. See also Activity 2 in the Direct Loan FSA 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 system for evaluating its FSA participation.

Peer evaluation

Peer evaluation is another technique your school can employ to obtain an independent, objective review of 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 (SAS):	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 FINAID 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.