

# Managing Federal Funds



*Traditionally, the FFEL regulations have referred to the lender’s “disbursement” of funds to a school, and the school’s “delivery” of the loan proceeds to a student. More recently, the Cash Management regulations have used the term “disbursement” to refer to the payment of FSA funds to a student or parent, including the payment of loan funds. In this chapter, we will use “disbursement” in the sense of the Cash Management regulations, that is, all payments to a student or borrower.*

## PURPOSE OF CASH MANAGEMENT REGULATIONS

The cash management regulations are intended to:

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

Except for funds received as an administrative cost allowance (ACA), the FSA program funds received by a school are held in trust by the school for students, the Department, and, in the case of FFEL program funds, for lenders and guaranty agencies. FSA program funds cannot be used as collateral or for any other purpose. These provisions also apply to a third-party servicer.

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

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

### Cash management cite

34 CFR Subpart K



### Purpose of regulations cite

34 CFR 668.161



### The FSA Assessment modules that can

assist you in understanding and assessing your compliance with the provisions of this chapter are

"Cash Management," at   
<http://ifap.ed.gov/qamodule/FiscalManagement/FiscalManagementModulepage4.html>  
"Administrative Capabilities," at  
<http://ifap.ed.gov/qamodule/InstitutionalEligibility/AssessmentApage4.html>  
and "Disbursing Funds," at  
<http://ifap.ed.gov/qamodule/DisbursingAid/AssessmentE.html>  
<http://fsa4schools.ed.gov/help/contacts.htm>

### Not applicable to some programs

The cash management requirements are not applicable to the state grant and scholarship programs. The Special Leveraging Educational Assistance Partnership (SLEAP), the Leveraging Educational Assistance Partnership Program (LEAP), the Robert C. Byrd Honors Scholarship (Byrd) Program, and the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP).

## GRANT ADMINISTRATION AND PAYMENT SYSTEM (GAPS)

### EDCAPS

#### Am I a grantee or a payee?

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

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

The **Education Central Automated Processing System (EDCAPS)** is designed to integrate ED'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 –

- ◆ Financial Management Systems Software (FMSS);
- ◆ Travel Management (TMS);
- ◆ Contracts and Purchasing Support System (CPSS); and
- ◆ Grant Administration and Payment System (GAPS).

GAPS is the EDCAPS module that directly affects schools' participation in the FSA programs.

### GAPS Overview

The Grants Administration and Payments System (GAPS) is a delivery system that supports program award and payment administration. GAPS provides financial management support services for the grant life cycle in a single system. It supports the planning, obligating, authorizing, disbursing, and final closing of Department of Education grant awards.

GAPS is the central repository for payment transactions of schools that receive cash\* from ED through the Office of the Chief Financial Officer (OCFO). GAPS is a system; OCFO is the office within ED that administers the system.

Schools may use GAPS to request payments, adjust drawdowns, and return cash. GAPS 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 GAPS to request cash for –

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

\*GAPS controls cash for both FSA and non-Title-IV programs.

## Accessing GAPS

Schools request federal cash electronically using GAPS. To request cash, a school must access GAPS through e-Payments (formerly GAPSWeb), ED’s new portal page for grant administration. E-Payments is part of e-Grants, ED’s portal site for electronic grant access.

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

- Obtaining a D-U-N-S number,
- Obtaining a Grant Award Number,
- Setting up Bank Information, and
- Obtaining User ID(s) and Password(s).

## Setting up bank information

Funds requested from GAPS 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, GAPS electronically transfers payments through the Federal Reserve Bank network into the payee’s bank account.

To use ACH you must enroll with the Office of the Chief Financial Officer, Department of Education. To enroll you complete a Direct Deposit Sign-Up Form (SF1199A), and send it to the Department. (You can find a copy of SF1199A, and detailed instructions for completing the form in Appendix D of the GAPS Payee Guide.)

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 3:00 p.m. Eastern Time (ET) are deposited the next business day. ACH payment requests made after 3:00 p.m. ET are deposited on the second business day. You can enter payment requests up to 30 days in advance.

### Access to GAPS

GAPS can be accessed through the Internet at the GAPS Web page

<http://e-grants.ed.gov/egHome.asp>

The GAPS Payee Hotline phone number is  
**1-888-336-8930**

### What is a D-U-N-S number?

The Data Universal Numbering System (or D-U-N-S Number) is a unique nine-digit identification code that is assigned to a school. GAPS grantees and payees must have D-U-N-S Numbers. **Within GAPS, D-U-N-S Numbers replace the Entity Identification Number (EIN), the Payee Identification Number (PIN), and the account number used in the past.** You can acquire your D-U-N-S number by calling 1-800-333-0505 or by completing a D-U-N-S-Number Request Form. The form can be obtained via the Internet at

[https://eupdate.dnb.com/requestoptions.html?cm\\_sp=SASGateway\\*FAQ\\*DUNS](https://eupdate.dnb.com/requestoptions.html?cm_sp=SASGateway*FAQ*DUNS)

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

### What is a grant award number?

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

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

P031B051234:

<b>P</b>	Program Office issuing the award
<b>031</b>	Catalog of Federal Domestic Assistance (CFDA) numeric suffix of the program
<b>B</b>	Alphabetic subprogram identifier
<b>05</b>	Last digits of funding fiscal year
<b>1234</b>	Unique identifier

## What is a TIN?

The TIN is the Federal Tax Identification Number given to the grantee organization. The TIN is the unique nine-digit number the organization uses to report activity to the Internal Revenue Service. In other words the TIN is the grantee's social security number. The following is an example of a TIN: 123456789



Each grantee is entitled to five passwords. We encourage business officers and financial aid administrators to get “**read access**” to GAPS to use as a tool in reconciliation.

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 GAPS through the Federal Reserve Bank network 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 Financial Officer in the Department of Education. If the bank is online with the Federal Reserve Bank, you must send the Department a letter containing the –

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

If the bank is not online with the Federal Reserve Bank, send the Department a letter containing the following information:

1. name of the payee's bank; and
2. 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.

## FEDWIRE processing time

Payees may request FEDWIRE payments using e-Payments or by calling the GAPS Payee Hotline. Payment requests completed by 2:00 p.m. ET will be deposited in the payee's bank account the same day. FEDWIRE payment requests made after 2:00 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

ED issues GAPS User ID's and passwords to each individual authorized by a payee. To obtain a User ID, each individual must complete a *GAPS Production System External User Access Request Form*. You can download this form at

**<http://e-Grants.ed.gov>**

First click on the *Continue* button, then click on *e-Payments*, and finally on the gray bar labeled *Download*. Once you have completed the form, fax it to

**202-401-0006**

GAPS User IDs and passwords will be mailed to each authorized user at the payee's business address.

Authorized users cannot change their User ID. If an authorized user no longer needs access to GAPS (e.g., the user leaves the payee organization), you should call the GAPS Payee Hotline immediately at 888-336-8930 to deactivate the User ID. (*Users will also be required to change their GAPS password after log-on once every 90 days as a security precaution.*)

## Using the user ID and password

User ID's and passwords are required to gain access to GAPS or to request cash through the GAPS Payee Hotline. (Note: To enhance GAPS security, payees are required to enter or state additional identifiers to gain access to GAPS.)

You will be requested periodically to validate every User ID assigned to their 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 GAPS e-Payments. Alternatively, payees can also call the GAPS Payee Hotline between 8 a.m. and 6 p.m. Eastern Time (ET) to request cash.

A school may also call the GAPS Payee Hotline for help resolving problems with payments.

## Current Funding Level and GAPS

A school's Current Funding Level is the amount of cash available for a school to draw down from the Grants Administration and Payments System (GAPS) or the amount that can be drawn down for a school. A separate CFL is maintained for each program by award year. Schools operating under advance payment receive an initial CFL against which they can draw funds. Schools operating under reimbursement do not receive an initial CFL.

**Funding methods cite**

34 CFR 668.162, except as noted



**Advance payment method cite**

34 CFR 668.162(b)



**Advance requests for Perkins funds**

Before requesting any funds from its Perkins FCC, a school should compare its anticipated available Perkins funds (cash on hand + expected collections + expected interest + expected reimbursements for cancellations) against its anticipated Perkins disbursements. A school should take into account all of these sources of Perkins funds when determining whether the school needs to draw down any additional amounts to cover disbursements.

**Three-day rule**

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

34 CFR 668.162(b)(3)

**THE WAYS IN WHICH ED PROVIDES FSA FUNDS**

Currently, there are four *payment methods* through which the Department provides funds to participating schools, they are –

- the advance payment method,
- the just-in-time payment method (a pilot project),
- the reimbursement payment method, and
- the cash monitoring payment methods.

The Department has sole discretion in determining the payment method and cash monitoring status under which FSA program funds are provided to a school.

***The advance payment method***

Most schools are permitted to draw down and disburse FSA funds without having to first provide documentation. For advance pay schools, an initial Current Funding Level (CFL) is calculated for Pell Grants and Direct Loans based on the school’s previous disbursement history. A school’s Campus-Based authorization is available for draw down through ***Grant Administration and Payment System (GAPS)*** after the start of the award year.

Under the advance payment method, a school may submit a request for Pell Grant, Direct Loan, and Campus-Based program funds through GAPS at any time — prior to or after disbursing aid to eligible students and parents. If GAPS accepts a school’s request for funds, it will make an electronic funds transfer (EFT) of the amount requested to a bank account designated by the school.

A school may only draw down cash up to the difference between its CFL and any funds already drawn down for a given award year and program. In addition, a school may not request more funds than it needs immediately for disbursements the school has made or will make 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.

A school using the Advance Pay funding method must substantiate each drawdown of Pell and Direct Loan funds with actual disbursements submitted to and accepted by the COD system within 30 days. As the system accepts actual disbursements, it performs a calculation to determine whether a school’s CFL needs to be increased. Therefore, a school that submits timely and accurate Pell and Direct Loan disbursement information that is accepted by COD will see adjustments to its CFL throughout the award year.

## The just-in-time payment method pilot project

As currently implemented by the Department in the Federal Pell Grant Program, under the Just-in-Time payment method, a school submits a disbursement record (which is both a report of a disbursement and a request for funds) no earlier than seven days before the school disburses funds to a student. For each disbursement the Department accepts, the appropriate amount of funds is deposited directly into the school's bank account.

Schools participating in the Just-in-Time pilot are exempt from the following regulatory requirements with respect to Federal Pell Grant funds:

- the three-day-use rule required for and discussed previously under the *Advanced payment funding method*;
- the recertification of student eligibility at the time of disbursement (a school may rely on its determination at the time it submits the disbursement record);
- the requirement that a school maintain federal funds in an interest-bearing bank account (See the discussion under *Maintaining and accounting for funds*.); and
- the excess-cash rules (see the discussion under *Excess cash*).

For pilot participants, this regulatory relief does not extend to FSA programs other than the Pell Grant Program.

### Pushed Cash

For Direct Loans, a school may receive funds under the Pushed Cash method, a form of the advance payment method. The Department automatically deposits cash in the school's bank account based on disbursements that are timely submitted and accepted. Under the Pushed Cash method, the Department accepts a disbursement for a student only after accepting an origination and Master Promissory Note for that student. For further information see the *2005-2006 Common Origination and Disbursement (COD) Technical Reference*.

### Just-in-time pilot project cite

34 CFR 668.162(c)



### Three-day rule cite

34 CFR 668.162(b)(3)



### Recertification not required cite

34 CFR 668.162(c)(3)

### Federal funds account cite

34 CFR 668.163

### Excess cash cite

34 CFR 668.166

## Increased levels of monitoring

If the Department determines that there is a need to more closely monitor a school's use of federal funds or its participation in the FSA programs, it can provide funds to the school using a more restrictive method. A school subject to heightened oversight can be placed on reimbursement, or cash monitoring.

Under these methods the Department releases funds to the school *after* the school has made the disbursement to the student (or parent borrower).

## The reimbursement payment method

A school may be placed on the reimbursement payment method if ED finds that the school's participation in the FSA programs requires increased monitoring. A school may also be placed on the reimbursement payment method if the school has monetary liabilities that need to be recovered by administrative offset (for example, owing funds to ED as a result of an audit or program review determination).

**A school on the reimbursement payment method must credit eligible students' accounts or make cash disbursements to eligible students before it may submit a request to ED for reimbursement.**

The amount a school may request may not exceed the amount of actual disbursements the school has made to students included in the request (plus any ACA, if applicable). As part of its reimbursement request, a school must –

- identify the students and parents for whom it is seeking reimbursement; and
- submit documentation demonstrating that each student and parent included in the request was eligible to receive and has received the FSA program funds for which reimbursement is requested.

Before approving a school's request for reimbursement, ED ensures that the school has –

1. accurately determined the FSA eligibility of each student;
2. accurately determined the FSA payment to each student and parent included in its request;
3. credited the students' accounts or made cash disbursements to the eligible students;
4. submitted all required documentation; and
5. sufficient funds in its GAPS account.

### Reimbursement payment method cite

34 CFR 668.162(d)



For the Pell Grant Program, a school enters its disbursements in COD. An FSA Payment Analyst (PA) reviews the relevant documentation and confirms the eligibility of the students. Then, by approving and accepting the records in COD the PA allows the funds to flow to GAPS, and from GAPS they are released to the school's bank account.

For the Direct Loan Program, a school first originates the loans and then enters disbursement data. A PA reviews the relevant documentation, confirms the eligibility of the students, and rejects, or approves and accepts the school's DL disbursements in COD. Funds for approved disbursements flow through GAPS to the school's bank account.

In the Campus-Based programs, once disbursements are reviewed and approved by a PA, they are processed in GAPS, and the funds are sent to the school's bank account.

### The cash monitoring payment methods

Under the cash monitoring payment methods **a school must make disbursements to eligible students and parents before it may request or receive funds for those disbursements from the Department.** (By *make disbursements to students and parents* we mean crediting the student's account or paying the student or parents directly.) However, unlike the reimbursement payment method, where a school must provide detailed documentation for each student to whom it made a disbursement before the Department provides FSA program funds to the school, the Department provides funds to a school in one of two less restrictive ways:

1. Heightened Cash Monitoring Level 1 (HCM1) – A school on HCM1 is responsible for ensuring that it has disbursed its own funds prior to drawing down federal cash.

At the beginning of an award year, a school on Heightened Cash Monitoring Level 1 (HCM1) will not have an initial CFL for Pell or Direct Loan. The CFL for its Pell Grant and Direct Loan programs will be created as the school reports and ED accepts actual disbursements in the COD system. The school may then draw down Pell funds through GAPS based on its ***Net Accepted and Posted Disbursements (NAPD)***. For the Direct Loan program, a school may draw down funds through GAPS or have cash deposited in the school's bank account by the disbursement date of an accepted and posted actual disbursement. For the Campus-Based programs, a school may draw down funds through GAPS after it has disbursed its own funds to the student's account or directly to the student.

#### Cash monitoring payment method cite

34 CFR 668.162(e)



If during a program review or audit of a school on HCM1, ED determines that the school has a pattern of violating this requirement, the Department may begin action to limit, suspend, or terminate the school's participation in the FSA programs.

A school on HCM1 may be required to compile a report listing, who, how much, and when they paid or disbursed Pell, Direct Loan, or Campus-Based funds, as well as if, when, and how much the school refunded or returned for each student. The school's case team will inform the school whether and how often the school must submit the report.

2. Heightened Cash Monitoring Level 2 (HCM2) is more similar to the reimbursement payment method. A school on this monitoring level has a *Stop Pay* on its GAPS account and must obtain approval from ED prior to receiving any FSA funds. Under HCM2, as under reimbursement, a school must submit some specific documentation before funds will be made available. However **the Department may require less stringent documentation under HCM2 than under reimbursement.**

Under HCM2, a school first enters its disbursements in COD. Subsequently, the FSA PA reviews the relevant documentation and confirms the eligibility of the students. Then, by approving and accepting the records in COD (The FSA PA may not approve all records submitted.), the FSA PA allows the funds to flow to GAPS, and they are released to the school's bank account.

In the Direct Loan program, a school first originates the loans and then enters disbursement data. ED reviews the relevant documentation, confirms the eligibility of the students, and rejects, or approves and accepts the school's DL disbursements in COD. Funds for approved disbursements flow through GAPS to the school's bank account.

Once a school's Campus-Based disbursements are reviewed and approved, they are processed in GAPS by ED, and the funds are sent to the school's bank account.

A school that is placed on HCM is subject to the same disbursement and certification limitations on its participation in the FFEL/Direct program as a school on reimbursement. However, in keeping with the nature of cash monitoring, the Department may modify those provisions. In addition, the Department may tailor the documentation requirements for schools operating under HCM on a case-by-case basis.

## Limitations on the use of FFEL funds for schools on reimbursement or cash monitoring

A school that is placed on reimbursement or cash monitoring:

- may not disburse FFEL Program funds to a borrower until the Department approves a request from the school to disburse funds to that borrower, and
- if prohibited by the Department, may not certify a loan for a borrower until the Department approves a request from the school to make the certification for that borrower (this restriction becomes effective on the date that the Department notifies a school that it must obtain approval from the Department to certify loans).

The school must provide documentation demonstrating that each borrower included in the request is eligible to receive the disbursement or certification. The documentation must be provided to the Department or an entity approved by the Department for this purpose (for example, a certified public accountant, financial aid consultant, or guaranty agency).

Until the Department approves a request, the school may be:

- prohibited from endorsing a master check or obtaining a borrower's endorsement of any loan check the school receives from a lender,
- required to maintain loan funds that it receives from a lender via EFT in a separate bank account, and
- prohibited from certifying a borrower's loan application.

Because of the additional time it takes the Department to review documentation submitted by the school, the school may delay returning for 30 days FFEL Program funds that were provided by a lender via EFT or master check.

*Note: This delay provision is applicable only in the FFEL programs, see 34 CFR 668.167(c) & (d).*

### Limitations on use of FFEL funds cite

34 CFR 668.167(d)  
34 CFR 682.604(a)(3)



### Delaying returning funds cite

34 CFR 668.167(c) & (d)(3)



## Maintaining and accounting for funds

34 CFR 668.163



### Not applicable to some programs

The cash management requirements are not applicable to the state grant and scholarship programs. The Special Leveraging Educational Assistance Partnership (SLEAP), the Leveraging Educational Assistance Partnership Program (LEAP)—formerly the State Student Incentive Grant (SSIG) Program, the Robert C. Byrd Honors Scholarship (Byrd) Program, and, if a State is the grantee, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) are administered under rules established by the states.

#### The UCC-1 requirement

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

## MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, FSA program funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of FSA program funds in the account. A school generally is not required to maintain a separate account for each FSA program unless the Department imposes this requirement as a result of a program review or other action.

A school is not required to maintain a separate bank account for FFEL Program funds that the school receives from a lender by EFT. A school must maintain and account for FFEL Program funds in the same manner required for other FSA Program funds.

### Bank account notification requirements

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

- including the phrase *federal funds* in the name of the account, or
- notifying the bank or investment company of the accounts that contain FSA program funds and keeping a copy of this notice in its records *and*, except for public institutions, filing a Uniform Commercial Code Form (UCC-1) statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

### When a school doesn't maintain a separate federal bank account

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

## Special rules applicable to the timely return of FSA funds when a school does not maintain a separate federal bank account

The Department considers a school that maintains FSA, HEA program 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 reconciled to its general ledger,
- the subsidiary ledger for each FSA program provides a detailed audit trail on a student-by-student basis that reconciles to the amount of FSA program funds received and disbursed by the school, and
- the school updates the relevant subsidiary ledger accounts in its general ledger no later than 30 days after it determines that the student withdrew.

More specifically, the return of an unearned funds transaction should be recorded as a debit to a 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.

### *Accounting and financial requirements*

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

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

A school must maintain its financial records in accordance with the recordkeeping requirements described in chapter 7.

#### **Recordkeeping requirements**

34 CFR 668.24



#### **Timely return of funds**

Schools are required to make a timely return of any unearned funds after a student withdraws, as discussed in "Appendix G." This discussion also defines "timely return of funds" for a school that maintains FSA program funds and general operating funds in the same bank account.



#### Remitting Interest

The fastest, most efficient way to remit interest is through the GAPS web site at

<http://e-grants.ed.gov/gapsweb/>

A school with a user ID and password can go to the main menu and select “**Refunds**” then “**Interest**.” They will be taken to the screens through which they can send ED interest.

Schools can also return excess interest income to ED by check. The check should be sent to:

U.S. Department of Education  
P.O. Box 952023  
St. Louis, Missouri 63195-2023

The school should note on the check the school's D-U-N-S number and Document Award Number, and it should also indicate that the remittance is for interest earned.

### *Interest-bearing or investment account*

Direct Loan, Pell Grant, FSEOG, and FWS program funds must be maintained in an interest-bearing account or an investment account unless –

- the school drew down less than \$3 million of these funds in the prior award year and anticipates that it will not draw down more than \$3 million in the current award year;
- the school can demonstrate that it would not earn over \$250 in interest on the funds it will draw down during the award year; or
- the school requests these funds under the Just-in-Time payment method.

An investment account must consist predominantly of low-risk income-producing securities. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Any interest earned on Direct Loan, Pell Grant, FSEOG, and FWS program funds maintained in an interest-bearing account or an investment account that exceeds \$250 per award year must be remitted to the Department by June 30 of that award year (see sidebar). A school may keep up to \$250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining the account.

### *Perkins Loan funds*

A school that participates in the Perkins Loan Program must always maintain an interest-bearing account or an investment account for Perkins Loan funds. An investment account must consist predominantly of low-risk, income producing securities such as obligations issued or guaranteed by the U.S. Government. The school must maintain sufficient liquidity in its Perkins fund to make all required distributions.

If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. However, if the school chooses to maintain one account, it must determine the exact amount of any interest earned on the Perkins Loan funds and retain those funds for use in the Perkins program. The interest earned on the school's Perkins funds is not included in the \$250 maximum award year interest the school is permitted to retain.

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

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

## 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 **Automated Clearinghouse (ACH)** or through **FEDWIRE**. Drawing down amounts beyond immediate need may result in excess cash, and there are penalties for holding excess cash. Because of this, schools may want to carefully review the excess cash tolerances regulation.

A school on the advance payment method must determine the amount of funds it needs before it transmits a request to GAPS. The amount requested must be limited to the amount needed to make immediate disbursements, so excess funds do not exist after disbursements are made. The amount must be enough to meet:

- Federal Pell 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, an administrative cost allowance (ACA),
- the federal share of Federal Perkins Loan disbursements and, if it applies, an administrative cost allowance (ACA), and
- Federal Direct Loan disbursements.

### **Excess cash, cite**

34 CFR 668.166



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

$$\begin{array}{r}
 \text{Anticipated Disbursements} \\
 \textit{minus} \text{ Balance of Cash on Hand} \\
 \textit{minus} \text{ Anticipated Recoveries} \\
 \textit{minus} \text{ ACH/EFT Cash in Transit} \\
 \hline
 \textit{equals} \text{ Projected, Immediate Need}
 \end{array}$$

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

### Timing Issues

When a school initiates a drawdown from GAPS, it should consider that processing requests within GAPS typically takes one to three business days and 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.

## REQUESTING CASH

With the exception of the Federal Family Education Loan (FFEL) Program, schools request cash for all FSA programs directly from the federal government through GAPS. FFEL Program funds are obtained by schools from banks, savings and loans, credit unions, and other financial institutions that serve as FFEL Program lenders.

### *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 GAPS 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;
- ED Accounts Receivable 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 GAPS 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,
2. liquidation period,
3. suspension period, and
4. closeout period.

### Performance Period

The performance period is the period between the grant award (including Direct Loan, Perkins, and FWS cash) begin date and the grant 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 ED disbursement records for students eligible for the Federal Pell Grant Program).

The performance period for FSA programs is one year from the beginning date of the grant award. During this period –

- payees may request payments;
- payees may modify payment requests;
- payees may adjust drawdowns; and
- changes may be made to the Federal Student Aid (FSA) program’s grant awards authorizations.

Once the performance period ends, the closeout process begins. The closeout process includes liquidation, suspension, and closeout.

### Liquidation Period

The liquidation period lasts three months, and it immediately follows the performance period. During this period –

- no new expenditures may be processed against a grant award;
- payees can modify payment requests;

Generally, schools may not draw down cash later than June 30 of the award year of their authorization, unless a disbursement is required under 34 CFR 668.22 or 34 CFR 668.164(g).

- payees may request payments for expenditures incurred during the performance period; and
- payees may adjust drawdowns for expenditures incurred during the performance period.

The last date a school can draw down cash from ED without special authorization is the end of the liquidation period.

### **Suspension Period**

The suspension period is one month and follows liquidation. Once a FSA program has entered the suspension period, no payment actions can take place without the approval of the program office. ED 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 de-obligated.

## **RECEIVING FFEL PROGRAM LOAN FUNDS**

The receipt of FFEL Program loan funds is discussed in chapter 19.