

July 2005

DLB-05-14

Subject: School Monitoring to Ensure Program Integrity and Fiscal Responsibility

Dear Partner:

Program integrity and fiscal responsibility are of primary importance for the Department of Education (the Department) and FSA. In the Direct Loan Program, ensuring that loan and disbursement records substantiate Direct Loan funds is critical to fulfilling these responsibilities. The Federal regulations that relate to the drawing down of funds and the reporting of disbursements include 34 CFR 668.162(b) and 34 CFR 685.301(d).

Reconciliation and closeout are processes that help ensure the substantiation of Direct Loan funds and, in turn, school compliance with the regulations listed above. As such, the Direct Loan Operations Team and the COD School Relations Center review all school processing to identify schools that appear to have problems with reporting performance. We refer to this review as school monitoring.

Through school monitoring, the Direct Loan Operations Team and the COD School Relations Center review unsubstantiated cash balances, unbooked loan balances, and closeout status, among other things. E-mails and phone calls go out regularly to serve as notices of potential problems. Most schools are not directly affected by school monitoring. However, based on school monitoring, some schools may be assigned other Direct Loan processing options to assist in improving their reporting performance. If a school cannot work through an issue in a timely manner, several actions may be taken under the authority of 34 CFR 668.161(b), 34 CFR 668.166(a), and 34 CFR 685.308(a)(1) and (c) to improve the school’s reporting performance. These actions include the following:

Issue	Action
<p>Schools with Unsubstantiated Balances* for Current Year(s), greater than 60 days</p>	<p>The Direct Loan Operations Team will mail an immediate Freeze Cash* Letter to the President and Financial Aid Director of the school. A copy of this letter will be forwarded to FSA’s School Eligibility Channel.</p> <p>When this letter is mailed, the Direct Loan Operations Team will enter a manual review flag* into the Grant Application and Payment System (GAPS) for all current award years. This means that all funding requests will be held until the unsubstantiated balance is fully substantiated*.</p> <p>Once the unsubstantiated balance is resolved, all pending payments will be released and the manual review flag will be removed.</p>

Issue	Action
Schools with Unsubstantiated Balances for Current Year(s), greater than 90 days	<p>The Direct Loan Operations Team will mail an immediate Call For Cash* Letter to the President and Financial Aid Director of the school. A copy of this letter will be forwarded to FSA's School Eligibility Channel.</p> <p>Upon receipt of this letter, the school will be required to send full payment of the unsubstantiated balance to the Department within 30 days. The manual review flag will also remain in place.</p> <p>Once the unsubstantiated balance is resolved, we will remove the manual review flag. However, the school's Current Funding Level will be limited. This means that money will not be available to draw down until the COD System accepts actual disbursement records.</p>
<p>Definitions of Starred (*) Words</p> <p>Unsubstantiated Balance is cash drawn down by the school more than 30 days earlier that has not been accounted for by accepted actual disbursement records.</p> <p>Substantiated is cash that has been accounted for by accepted actual disbursement records. Fully substantiated means that all drawdowns equal accepted actual disbursements.</p> <p>Manual Review Flag is an indicator in the GAPS that prevents the processing of drawdowns. The GAPS will accept drawdown requests, but they will not be processed until the Direct Loan Operations Team releases the payment.</p> <p>Freeze Cash occurs when the manual review flag (explained above) limits the ability to draw down funds.</p> <p>Call for Cash occurs when immediate payment of unsubstantiated cash must be made to the Department.</p> <p>Special Note: The resulting actions above will not take place if the unsubstantiated balance cannot be resolved due to a COD System issue reported to and tracked by the COD School Relations Center.</p>	

School monitoring is not designed to penalize schools. Rather, it is a means to assist schools in complying with the regulations that help ensure program integrity and fiscal responsibility. If you have any questions related to this bulletin or the school monitoring process, contact the COD School Relations Center at 800/848-0978 or send an e-mail to codsupport@acs-inc.com.

Thank you for your ongoing partnership in the Direct Loan Program.

Sincerely,

Bill Leith
General Manager, Program Operations Channel