

Chapter 7

Cash Management and Data Matching (Reconciliation)

Essential Questions

- ☞ What is reconciliation and why is it done?
- ☞ What is good cash management?
- ☞ What is the data matching (reconciliation) process?
- ☞ How often must I reconcile?
- ☞ What is the “as of” date?
- ☞ What is the “reconciliation file” and what records does it contain?

General Information

“Reconciliation” in Direct Loans is an essential two-step process for properly managing the Direct Loan Program:

- ☞ **cash management**—as discussed in Chapter 6, schools must report loan origination records and disbursement records (including adjustments and cancellations)—and Option 2 schools must submit promissory notes—within 30 days from the date of disbursement to accurately account for all Direct Loan funds received by the institution. Some of these procedures will be mentioned again briefly in this chapter to link cash management with data matching.
- ☞ **data matching**—the school must check to make sure all loan data on the school’s system matches loan data on the Loan Origination Center’s system. This is a final “quality assurance” review.

In processing Direct Loans, a school

- ☞ creates and transmits loan origination records
- ☞ prints promissory notes, obtains completed promissory notes from borrowers and mails signed promissory notes to the Loan Origination Center (Option 1 and Option 2 schools only)
- ☞ draws down Direct Loan funds as authorized by signed completed promissory notes (Option 2 schools only)
- ☞ disburses funds to borrowers
- ☞ records and transmits loan disbursement records (including cancellations and adjustments) within 30 days of occurrence.

The school maintains electronic records of these steps in its own internal system, whether the school uses EDEXpress, third-party software, or institutionally developed software. During the processing cycle, the school will follow its regularly scheduled activities, including

- ☞ transmitting loan origination record data to the Loan Origination Center
- ☞ importing the corresponding acknowledgments from the Loan Origination Center for each transmission
- ☞ researching and resolving any rejected records
- ☞ resubmitting previously rejected records with the next appropriate file transmission

Cash Management

A school must maintain accurate accounting processes for recording the receipt of Direct Loan funds from the Department of Education and recording the disbursement of funds to borrowers. In addition, the school must maintain a Direct Loan cash balance. At the beginning of a school's processing cycle of Direct Loans, the school's Direct Loan cash balance is zero—no Direct Loan funds have been received and no disbursements have been recorded.

Funds the school receives from the Department are deposited into the school's designated bank account within two to four business days of the funds request date. The school requests funds directly (using either FEDWIRE or ACH) or the Loan Origination Center requests the funds, depending on the school's origination option:

- ☞ Standard Origination and Option 1 schools receive drawdown funds automatically from the Department of Education's Payment Management System (EDPMS),

based on the anticipated disbursement dates reported in the school's submission of loan origination records. Funds received are borrower-specific. These schools must return excess cash in accordance with Title IV cash management regulations.

- ☞ Option 2 schools request drawdowns directly from EDPMS based on the school's analysis of cash needs. Excess cash may be applied to other borrowers in accordance with Title IV cash management regulations and Direct Loan Program regulations.

When a school receives a drawdown of Direct Loan funds, that amount should be reflected in the school's Direct Loan system as an increase in its cash balance. If a school must return Direct Loan funds as excess cash to the Department of Education, the school's system should reflect that information as a decrease in its Direct Loan cash balance. As a school begins disbursement activity, each disbursement transaction will either decrease an amount from the school's cash balance (for example, when recording an actual disbursement) or add to the school's cash balance (as when an adjustment or cancellation is made to an actual disbursement).

Schools must reconcile their own Direct Loan accounts, including their cash balances, to make sure they account for all drawdowns, disbursements, and returns of cash. This means maintaining accounting records of all loan activities and, at least monthly, verifying that all drawdowns have resulted in either a disbursement or a return of excess cash.

In addition, good cash management is indicated by the timely reporting of disbursements, adjustments, and cancellations to the Loan Origination Center. According to regulations, timely reporting means reporting within 30 days of the date of the disbursement. For example, if \$2,000 is disbursed to a borrower on July 1, the school is required to report this information to the Loan Origination Center no later than July 31. The Department of Education monitors this activity and notifies schools that are not reporting in a timely manner.

Data Matching

Data matching is the process of performing a match between the school records and the Loan Origination Center records to ensure the integrity of the loan data that schools send to the Loan Origination Center. Data matching is performed to make sure schools have submitted to the Loan Origination Center all records necessary to "book" the loan and to make sure the Loan Origination Center has received all of the records schools have transmitted.

As mentioned in Chapter 6, a loan is "booked" when

- ☞ the Loan Origination Center has received and accepted a loan origination record

- ☞ a borrower has signed a promissory note, and the Loan Origination Center has accepted the note
- ☞ a first disbursement has been made to the borrower and the disbursement record has been transmitted to, and accepted by, the Loan Origination Center

Loan record data on the Loan Origination Center's system must be an exact match of the loan disbursement activity as recorded in the school's system for each loan the school has originated. If there is a mismatch of loan records, the school must research the reason for the discrepancy and then correct it by taking the necessary steps to fix the mismatched data.

The school initiates the data matching activity. The school is responsible for submitting a reconciliation file to the Loan Origination Center at least once a month. The reconciliation file includes

- ☞ loan detail records not previously reconciled
- ☞ cash detail records not previously reconciled
- ☞ a summary record that includes totals of each detail record type

The records submitted include all previously unmatched records through the "as of" date—a date the school chooses that represents the day of each month for which records will be included in the reconciliation file. Initially, the school must inform the Loan Origination Center of its "as of" date and the date remains constant for each month thereafter.

- ☞ For example, if a school chooses the 15th of the month as its "as of" date, its "as of" dates will be January 15, February 15, March 15, etc.

The Loan Origination Center receives the reconciliation file from the school and attempts to match each loan and cash detail record with the records on the Loan Origination Center's system. After processing the reconciliation file, the Loan Origination Center returns it to the school and, for each record, indicates whether or not the record matches the Loan Origination Center's records. For each unmatched record, the Loan Origination Center provides a reject code specifying the reason for the rejected data. The school must research each unmatched item and correct it, working with the Loan Origination Center as needed. The next file submitted by the school to the Loan Origination Center will include all previously unmatched records.

The Loan Detail Record

A "reconciliation file" consists of loan detail records for all disbursement activities that have occurred on loans the school has created and has not yet reconciled. Disbursement activities include

- ☞ initial or subsequent actual disbursements
- ☞ cancellations to actual disbursements
- ☞ adjustments to actual disbursements

Loan origination, disbursement, and change records are submitted to the Loan Origination Center continuously throughout the month according to a school's established Direct Loan processing schedule. As each loan record is "booked," the loan is marked with a reconciliation status of "A" (accepted) to show that the loan has now been reconciled with the Loan Origination Center. The reconciliation status of "A" is transmitted to the school with the last loan acknowledgment that "booked" the loan. For example, if the Loan Origination Center has already accepted the loan origination record and promissory note, then it receives and accepts the first loan disbursement, the next disbursement acknowledgment batch sent to the school will update both the disbursement status and the reconciliation status to "A".

When a school transmits a reconciliation file to the Loan Origination Center, the file only contains details of the school's loan transactions not yet marked with a reconciliation status of "A," which are then matched against the corresponding disbursement records the school has submitted to the Loan Origination Center. If the Loan Origination Center has received and accepted the disbursement records, each loan detail record will match against the record in the Loan Origination Center's system as being reconciled. If the Loan Origination Center has no disbursement record in its system to match the loan detail record against, the loan detail will be considered unreconciled, and the school must determine why the loan detail does not match.

The Cash Detail Record

The "reconciliation file" also includes cash detail records. While a school maintains its own internal system of accounting for the receipt and disbursement of Direct Loan funds as well as any returns of cash, schools must transmit this information electronically to the Loan Origination Center to ensure institutional accountability for these funds.

When a school transmits a reconciliation file to the Loan Origination Center, the cash detail records will be matched against drawdown activity maintained by EDPMS and will also be matched against returns of cash that the school has submitted (via checks or electronic wire transfers) and that the Loan Origination Center has received. This match will indicate whether the school received its drawdown of Direct Loan funds and if the Loan Origination Center received the check or wire transfer from the school, as documented by the school's records. If cash detail records the school has sent match drawdown and cash return records the Loan Origination Center maintains, these records will be considered reconciled. Any unmatched records will be marked as unreconciled, and the school must research why cash detail records do not reconcile and resolve the

problem, working with the Loan Origination Center. After the school has made the appropriate corrections, it must submit unmatched records with the next reconciliation file.

For schools that are returning excess cash via check, it is important to record excess cash returns using the date that the check was actually mailed to the Loan Origination Center rather than the date that the institution may have written the check.