Requesting & Managing FSA Funds

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

Schools use the G5 payment system to request payments, adjust drawdowns and refund/return funds. G5 also provides continuous access to current grant and payment information, such as authorized amounts, cumulative net drawdowns, refunds, returns, current award balances and payment histories.

A school’s available balance is the amount of cash available for a school to draw down through G5. The available balance is the difference between the authorized amount and the school’s net drawdowns to date. A separate Authorization is maintained for each program by award year.

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.

If G5 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.
Drawing down funds in the Pell Grant and Direct Loan Programs

Generally, schools under the Advanced Funding method receive Initial Pell Grant and Direct Loan authorizations in late spring of the previous award year. Initial authorizations are based on a school’s expenditures in those programs during the previous award year, and an Electronic Statement of Account (ESOA) containing this information is sent to each school’s Student Aid Internet Gateway (SAIG) mailbox.

As a school submits actual Pell Grant and Direct Loan disbursement records, the COD System will apply the total accepted and posted amount for each disbursement to the amount of the school’s initial authorization. The school’s authorization will be increased to cover additional accepted and posted disbursements when the initial authorization has been exceeded. A new ESOA will be sent to the school each time its authorization changes.

Drawing down funds in ACG/SMART, TEACH, and Iraq Afghanistan Service Grant Programs

There will be no Initial Authorizations for the ACG/SMART, and TEACH Grant programs for the 2010-2011 Award Year. The school’s authorization for these programs will be based on the accepted and posted actual disbursement records schools submit to the COD System. A new ESOA will be sent to a school’s SAIG mailbox each time a program’s authorization changes.

Drawing down funds in the Campus-Based Programs

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

Note: For the Campus-Based programs, schools do not report individual disbursements to ED. Therefore, a school’s allocation of Campus-Based funds is not revised during the year unless the school receives a supplemental allocation (see sidebar).

See Volume 6, Chapter 1 for more information on applying for and receiving Campus-Based funding.
Chapter 2 — Requesting & Managing FSA Funds

Heightened Cash Management

The Department places a school on Reimbursement or Cash Monitoring if it determines there is a need to monitor strictly the school's participation in the FSA programs. Under these payment methods the Department releases funds to the school after the school has made the disbursement to the student (or parent borrower).

A school on the Reimbursement or Heightened Cash Monitoring 2 (HCM2) funding method must complete and submit Standard Form 270 with each request for reimbursement. (Note that a school may only submit one such request for reimbursement during any 30-day period.)

If a school is placed on reimbursement or HCM1 its administration of the reimbursement or cash monitoring payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report regarding the school's compliance with the reimbursement or cash monitoring requirements, as applicable.

Reimbursement payment method

A school on Reimbursement must first disburse FSA program funds to eligible students and parents before it can request those funds from the Department. As part of its request a school that has been placed on Reimbursement 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 received, FSA funds.

After the reimbursement request is approved, the Department transfers electronically the appropriate amount of FSA funds to the bank account in which the school maintains its federal funds.

Cash Monitoring Payment Methods

Unlike the reimbursement payment method where a school must provide detailed documentation for each student to whom it made a disbursement, the Department may relax the documentation requirements under cash monitoring payment method and provide funds to a school in one of two ways:

1. **Heightened Cash Monitoring 1** (HCM1). After a school makes disbursements to eligible students, it draws down FSA funds to cover those disbursements in the same way as a school on the advance payment method.

2. **Heightened Cash Monitoring 2** (HCM2). After a school makes disbursements to eligible students, it submits only the documentation specified by the Department. The Department may tailor the documentation requirements for schools on a case-by-case basis.

If a school is placed on reimbursement or HCM1 its administration of the reimbursement or cash monitoring payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report regarding
MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, FSA funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of FSA 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.

When a school does not maintain a separate account

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

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

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

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

Bank account notification requirements

For each account that contains FSA program funds, a school 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 bank or investment company of the accounts that contain FSA 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.
**Interest-bearing or investment account**

FSA-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, or
- the school can demonstrate that it would not earn over $250 in interest on the funds it will draw down during the award year.

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 FSA 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.

**Additional requirements for 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. The school must maintain sufficient liquidity in its Perkins fund to make all required distributions.

If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. However, if the school chooses to maintain one account, it must determine the amount of any interest earned on the Perkins Loan funds and retain those funds for use in the Perkins program. The interest earned on the school’s Perkins funds is not included in the $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 a school trust account. The agency or servicer may open and maintain the account, but the funds in it belong to the school. If the funds will be held for more than 45 days, the account must be interest bearing.

**Remitting Interest**

The fastest, most efficient way to remit interest is through the G5 website at [http://www.g5.gov](http://www.g5.gov)

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. Send the check to:

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

The school should note on the check the school’s DUNS number and Document Award Number, and it should also indicate that the remittance is for interest earned.
EXCESS CASH

As mentioned earlier, under the advanced 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, 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 Federal funds account previously disbursed FSA funds received from the Department, such as those resulting from award adjustments, recoveries, or cancellations.

Sometimes a school cannot disburse funds in the required 3 days because of circumstances outside the school’s control. For example, a school may not have been able to disburse funds because of a change in a student’s enrollment status, a student’s failure to attend classes as scheduled or a change in a student’s award as a result of verification. In view of these circumstances, a school may maintain some excess cash for up to seven additional days.

Allowable excess cash tolerances

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

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

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

The ACA is an annual payment calculated by ED and automatically deposited in the school’s account to help offset the costs of administering the FSA programs. The Department reimburses schools participating in the Pell Grant $5 per award year for unduplicated recipients at the school who receive a Pell Grant. For the Campus-Based Program, the ACA is taken from the school’s federal allocation and the maximum amount permissible is up to 5 percent of the sum of the loans advanced in Perkins, the total earned compensation in FWS, and the total awards to recipients in FSEOG.

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

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

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

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

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

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

In addition, a school has a fiduciary responsibility to –

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

Further information:

- Schools’ fiduciary responsibilities
  34 CFR 668.14(b)(1) and 34 CFR 668.161(b)
RECOVERY OF UNCLAIMED FSA FUNDS (PROHIBITION ON ESCHEATING)

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

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

Time frame for returning unclaimed funds

If a school attempts to disburse the credit balance by check or EFT and the check is not cashed or the EFT is rejected, the school must return the funds no later than 240 days after the date it issued that check or made the EFT.

However, if a check is returned to a school, or an EFT is rejected, the school may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the funds were returned or rejected.

In cases where the school does not make another attempt, the funds must be returned before the end of the initial 45-day period.

The school must cease all attempts to disburse the funds and return them no later than 240 days after the date it issued the first check.

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.

A student’s FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt.

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

Example of a policy to prevent escheating

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

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

Time frame for returning unclaimed funds

34 CFR 668.164(h)

Undelivered Perkins funds

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

There are a number of reasons why a school may have to return funds to the Department including –

- the return of FSA funds required when a school must correct an overaward or an overpayment, and the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment (The return of funds under these circumstances is discussed in Volume 5);
- having FSA funds on hand with no expectation they can be disbursed to other eligible students within three days (excess cash);
- owing the Department for expenditures disallowed during a program review or audit;
- having earned interest on its federal funds (other than in its Perkins account) in excess of $250.00; and
- holding large Federal Perkins Loan cash balances on hand ((COH) balances on the FISAP).

Schools can return money to the Department (including excess interest) using the Electronic Refund Functionality in G5 for up to 10 years following the end of the award year. For complete instructions on returning funds through G5, see The Blue Book and the G5 Refund Manual.

Only in exceptional circumstances should a school return funds by sending a check instead of using the electronic refund functionality in G5.

Returning funds by depositing them in a federal funds account

For funds obtained from the Department, a school meets the Return requirement if it deposits or transfers the funds into its federal account no later than 45 days after the school determined that a student withdrew or received an overpayment the school was responsible for returning (See Volume 5 — Overawards, Overpayments and Withdrawal Calculations.)

If a school has not drawn down federal funds or has made disbursements that exceed the amount the school has drawn, the school does not need to be deposit funds in its federal account. Of course, the school’s accounting records must show that school funds were used to credit the student’s account.
**Downward adjustment of FSA Grant (except FSEOG) and Direct Loan required**

FSA Grants funds (except FSEOG and Iraq, Afghanistan Service Grants) and Direct Loan funds, other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in students records in COD.

All returns of FSA Grant (except FSEOG and Iraq, Afghanistan Service Grants) and Direct Loan funds previously disbursed (unclaimed credit balances) must be offset by reductions in COD.

**Returning funds from an audit or program review**

If, as a result of a program review or audit, a school is required to repay FSA funds, a copy of its Final Audit Determination Letter (FADL) or Final Program Review Determination (FPRD) letter is sent to ED’s Receivables and Cash Receipts Team (RCRT) 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 a school owes ED $100,000 or more, it must remit payment through its financial institution by FEDWIRE.
- If a school owes ED less than $100,000, it must remit payment by check to ED’s billing agent.

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 Afghanistan Service Grant processed payment information to reflect expenditures disallowed as a result of an audit or program review. Also, the school should send Stafford/PLUS repayments directly to the appropriate servicer, or to the Direct Loan Servicing Center.

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**Returning DL funds that can’t be disbursed within three days**

A school that has drawn down more funds than it can disburse due to changes in students’ status between the drawdown and disbursement date would need to return the funds if they could not disburse them within the allowed time frame. However, such returns would not be offset by reductions in the students’ records in COD.
Returning funds after 240 days

In all cases, a school will have to request permission to make a change to the FISAP after December 15 following the close of the award year.

If FSA Grant funds (other than FSEOG and Iraq, Afghanistan Service Grants) must be returned after 240 days, a school must:

- enter the student's revised Pell Grant award in COD;
- return the funds to the Department through G5, if applicable; and
- make the appropriate change to the FISAP.

Note that for Pell funds from a prior award year, a school may not use the funds for an eligible student in the current year.

If FSEOG funds must be returned after 240 days, a school must:

- enter the student's revised FSEOG award both in the individual student's account and the school's FSEOG ledger;
- either return the funds to the Department through G5, OR carry them forward to the next award year; and
- make the appropriate change to the FISAP.

If Perkins Loan funds from a prior award year must be returned after 240 days, a school must:

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

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

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school’s FWS account. If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.
Returning funds on Direct Loans and FFEL loans purchased/serviced by the Department

From 2008 through September 2010, The Department purchased Federal Family Education Loan (FFEL) Program loans from FFEL loan holders. The Department has contracted with five organizations to provide loan services on these purchased FFEL loans.

In addition to purchased FFEL loans, beginning in 2010 the Department will also assign Direct Loans to these loan servicers. A school that is required to return Direct Loan funds more than 120 days after they were disbursed will return them through the appropriate servicer rather than through COD.

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. Additional contact information for the loan servicers is available on IFAP under the “Help” menu (“Contact Information” / “Service Centers for Schools,” / “Loan Service Centers for Schools.”

Information required when returning loan funds to a servicer by check

If you cannot use the electronic process preferred by the loan’s servicer and must return the funds with a paper check, together with your check for the funds you are returning, you 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 & 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 OPEID, and
11. The name and phone number of the school official returning the funds.
1. Enter the information below. Missing information may prevent your check (or checks) from being processed correctly.

   School Name: _______________________________ Direct Loan Code or OPE ID: __________
   Name/Title: ___________________________________________ Telephone #: _____________
   E-mail Address: ______________________________ Servicer (if applicable): ______________
   Check Date: ________________ Check #: ________________ Amount: ___________________

2. Check (✓) the award year for which you are returning Direct Loan Refunds of Cash. If you are returning funds for more than one award year, you must enclose a separate transmittal sheet and a separate check for each award year.

   2010/2011 __________
   2009/2010 __________
   2008/2009 __________
   2007/2008 __________
   2006/2007 __________
   2005/2006 __________
   OTHER __________

3. Sign and date below.

   Contact’s Signature: ___________________________________ Date: _____________

4. Mail completed transmittal sheet(s) and Direct Loan Refunds of Cash check(s) to:

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