

Requesting and Managing FSA Funds



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

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 provided by the Secretary for administrative expenses, and for funds used for the Job Location and Development Program under 20 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.**



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/the Department) regulations.

Cash management

34 CFR Subpart K

Purpose of regulations

34 CFR 668.161

Standard of Conduct Defined

Standard of conduct An institution must exercise the level of care and diligence required of a fiduciary with regard to managing Title IV, HEA program funds.

Self-Assessment Tool For Fiscal Management

You can evaluate your school's fiscal management procedures by referring to the "Fiscal Management Assessment" in the Schools section of the FSA Assessments at

ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html.

Am I a grantee or a payee?

A **grantee** (not a person) is an entity that applies for and receives a grant award from the Department. 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.

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.

TIP

Every user must register to gain access to G5. There is no limit to the number of users an entity or organization may have with access to G5. Business officers and financial aid administrators are encouraged to use G5 to help reconcile FSA funds.

Access to G5

G5 can be accessed through the Internet at the G5 Web page
www.G5.gov

The G5 Help Desk phone number is
1-888-336-8930

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).¹

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).

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

1. *G5 controls cash for both FSA and non-FSA Title IV programs.

A school uses G5 to request cash for the

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

Accessing G5

Schools request federal cash electronically using G5. To request cash, a school must access G5 via the Internet at www.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 (D-U-N-S) Number;
2. obtaining a Grant Award Number;
3. setting up bank information;
4. registering the D-U-N-S and Taxpayer Identification Number (TIN) with the System for Award Management (SAM) at <https://www.sam.gov/portal/public/SAM/>; and
5. obtaining user ID(s) and password(s).

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 enroll with the Office of the Chief Information Officer, Department of Education. To enroll, you complete a Direct Deposit Sign-Up Form (SF1199A) and send it to the Department.

The form is located on the G5 home page in the Frequently Asked Questions (FAQs). Look under the Banking section and then find the subheading *Domestic*. The SF1199A is the first bullet point.

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. G5 grantees and payees must register their D-U-N-S Number and TIN with the System for Award Management (SAM).

You can acquire a D-U-N-S Number by calling Dun & Bradstreet at 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.asp>

The D-U-N-S Number represents your school as a unique financial entity. You must notify the Department 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, 11-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:

P031B151234

P	Program Office issuing the award
031	Catalog of Federal Domestic Assistance (CFDA) numeric suffix of the program
B	Alphabetic subprogram identifier
15	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

Example of Prefixes to Grant Award Numbers

P007A	FSEOG
P033A	FWS
P063P	Pell
P268K	DL

Title IV funds are program and award year specific.

- P063P16#### is the award for 2016–2017 Pell funds.
- P268K17#### is the award for 2016–2017 Direct loan funds. Note that DL uses trailing years as the award year indicator.

“####” represents a school’s unique four digit G5 ID.

There is a unique grant award number for the Pell Administrative Cost Allowance funds to which your school might be entitled— P063Q##XXXX.

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.

TIP**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

- ◆ name and address of the payee’s bank;
- ◆ bank’s ABA 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.

TIP**System for Award Management**

The System for Award Management (SAM) is a free website that consolidates the capabilities in 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 D-U-N-S Number or business name into the search box.

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 www.G5.gov. You can register for a user ID and password by following these instructions.

1. The first step in registering after reaching www.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. You can recover a forgotten user ID or password on the G5 website by clicking on the Forgot Email ID or Password on the home page of G5.

Using the user ID and password

User IDs and passwords are required to gain access to G5 or to request cash through the G5 Hotline. (Note: To enhance G5 security, payees are required to enter or state additional identifiers to gain access to G5.) You will be requested 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.

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

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 is implementing a more secure means for users of the G5 Grants Administration System to gain access, referred to as *Two-factor Authentication*.

Two-factor Authentications (TFA) is a security process in which the user provides two means of identification from separate categories of credentials. One is typically something that you know, such as a password; and the other is something that you have, such as a security code you download from your mobile device. The combination of these two security factors makes it more difficult for someone to access government systems. Once both the first and second factors are validated, users are allowed into the G5 system.

Two-factor Authentication will be rolled out to G5 users in groups starting in mid-April 2016 and extend through the end of June 2016.

Each group of users will be notified via an email a week before they are required to begin logging into G5 using Two-factor Authentication.

You can find training on Two-factor Authentication at www.G5.gov under the HELP menu. You do not need to be a registered user to access the training materials.

If you have any questions, please contact the G5 Hotline using one of the options below:

- Phone number: 1-888-336-8930
- Email: edcaps.user@ed.gov
- Go to the self-help portal at edcaps.force.com to submit a ticket.

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 (other than Perkins Loan 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, and there are penalties for holding excess cash. Schools should carefully review the excess cash tolerances regulation. (See the discussion of excess cash later in this chapter.)



Excess cash
34 CFR 668.166

Three-day rule for funds received under the advance payment method

A school must disburse FSA funds 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)

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

- ◆ Federal Pell Grant, Iraq and Afghanistan Service Grant, and TEACH 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;
- ◆ the federal share of Federal Perkins Loan disbursements and, if it applies, ACA; and
- ◆ Federal Direct Loan disbursements.

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

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

Federal Capital Contribution (Perkins)

Congress has not authorized any Federal Capital Contribution (FCC) for the 2016–2017 application year.

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

Timing issues

When a school initiates a drawdown from G5, it should consider that processing requests within G5 typically takes 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 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.

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Liquidation period

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

The *Closeout Process* includes the liquidation, suspension, and closeout periods.

DRAWING DOWN FSA FUNDS

A school's *authorization* is the amount of FSA funds a school is currently eligible for in the year and the program in question. The authorization is called the Current Funding Level (CFL). Please note that in Direct Loan and 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 program by award year. Note that FSA funds are school, award year, and program specific, and should not be used for another school, award year, or program.

TIP

A school may not request more funds than it 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. 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 Department provides funds to participating schools through one of three payment methods—the advance payment method, the reimbursement payment method, or heightened cash monitoring payment method. The vast majority of schools receive funds under the advance payment method, so we will discuss those procedures first. You can find a discussion of the reimbursement and heightened cash monitoring payment methods in an insert later in this chapter.

The methods under which the Department provides funds

34 CFR 668.162(a)

Advance payment method

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.

Drawing down funds in the Pell and TEACH Grant Programs

There are no initial authorizations in the Pell Grant and TEACH Grant programs. A school's authorization for these programs will be based on the total actual (DRI = true) accepted and posted disbursement records accepted by the COD System. 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 *The Fiscal Operations Report and Application to Participate* (FISAP). The way in which schools request Campus-Based funds from G5 will vary depending on the funding method under which schools operate. 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, if applicable).



Note: For the Campus-Based Programs, schools do not report individual disbursements in COD. Schools report expenditures on their FISAP expenditure reports (due 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 (see sidebar).

Iraq and Afghanistan Service Grant Disbursements

For the Iraq and Afghanistan Service Grant Program, schools do not submit actual disbursements. In the Iraq and Afghanistan Service Grant Program, the Department will provide schools with an "Exception-Based Process" through which schools will be funded when they submit anticipated disbursements (where DRI = False).

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

Drawing down funds in the Direct Loan Program

Generally, schools under the advance payment method receive 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 *Disbursement Release Indicator* (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 the school's authorization, the COD System will automatically increase the schools authorization to the school's total net accepted and posted disbursements.

Supplemental Campus-Based Allocations

Schools must return unused prior year Campus-Based funds and request funds for the upcoming year through the **Reallocation-Supplemental award process**. Schools deobligate or request additional funds by completing the Reallocation form (the Department Form E40-4P), due the third Friday in August.

The Department will notify schools of any supplemental funding during the month of September.

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

The Reimbursement and Heightened Cash Management Payment Methods

Heightened Cash Monitoring Payment Methods

The Department places a school on a Heightened Cash Monitoring (HCM) payment method to closely monitor cash management. Schools operating under a Heightened Cash Monitoring payment method do not receive an initial authorization. They will receive an authorization and increases to the authorization after the COD System has accepted and posted actual disbursement records. Administration of the Heightened 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 cash monitoring requirements.

Under the Heightened Cash Monitoring payment method, a 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 the school submits a request for funds.** A school's request may not exceed the amount of the disbursements the institution has made to the students included in that request. There are two types of Heightened Cash Monitoring payment methods:

1. **Heightened Cash Monitoring 1 (HCM1).** After a school makes disbursements to eligible students from institutional funds and submits disbursement records to COD, 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).** A school placed on HCM2 no longer receives funds under the Advance Payment Method. After a school on HCM2 makes disbursements to students from institutional funds, a Reimbursement Payment Request must be submitted for those funds to the Department. In its request, the institution must
 - complete and submit OMB 1845-0089 (Form 270), and
 - submit all requested documentation to the Department showing that each student included in the request for funds was eligible for and received those funds. The Department may tailor the documentation requirements for schools on a case-by-case basis.

After the payment 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, after recovering any negative or unsubstantiated cash balance that may be owed. A school may submit a Reimbursement Payment Request only once during any 30-day period.

Reimbursement Payment Method

The Department places a school on Reimbursement if it determines that it needs to increase the monitoring of the school's participation in the FSA programs. A school placed on Reimbursement must credit a student's ledger account for the amount of Title IV funds that 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 school seeks reimbursement** from the Department for those disbursements. As part of its request, a school that has been placed on Reimbursement must

- complete and submit OMB 1845-0089 (Form 270),
- identify the students and parents for whom it is seeking reimbursement by submitting a completed Student Data Spreadsheet in the format specified by the Department, and
- submit documentation demonstrating that each student and parent included in the request was eligible to receive, and received, FSA funds for which reimbursement is sought.

After the reimbursement request is approved, and after recovering any negative or unsubstantiated cash balances 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 such request for reimbursement during any 30-day period.

If a school is placed on Reimbursement, its administration of the 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 regarding the school's compliance with the reimbursement requirements.

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)

Record keeping requirements

34 CFR 668.24

Depository Accounts of Foreign Schools

For a school 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.

Not Applicable to Some Programs

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

Timely Return of Funds

Schools are required to make a timely return of any unearned funds after a student withdraws, as discussed in *Volume 5*.

MAINTAINING AND ACCOUNTING FOR FUNDS

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 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 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 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

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

As provided under 34 CFR 674.8(a), any interest earned on Federal Perkins Loan program funds is retained by the school. A school may also keep up to \$500.00 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.



No later than 30 days after the end of that award year, the school must remit any interest earned in excess of \$500 through G5.

Bank Notification via UCC-1 form

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.

Standards for holding federal funds in depository accounts

The Department has adopted the OMB guidance for holding federal funds in depository accounts.
2 CFR 200.305(b)(8).



Retaining interest 34 CFR 668.163(c)(3)

Remitting Interest

The fastest, most efficient way to remit interest is through the G5 website at

www.g5.gov

A school with a user ID and password can go to the main menu and select "Refunds" then "Interest." The school will be taken to the screens through which the school can send the Department interest.

To return interest via G5, you go to Payments > Refunds > Refunds Creation. Look to the bottom for the Miscellaneous section, type in the amount that needs to be returned, and choose Interest Earned from the Refund Type dropdown.

Schools can also return excess interest income to the Department by check. Send the check to:

**Department of Health and Human Services
Payment Management System
Rockville, MD 20852**

On the front of the check, the school should note its D-U-N-S Number and Document Award Number, and it should also indicate that the remittance is for interest earned.

Additional Perkins Loan requirements

Perkins bank account requirements

34 CFR 674.19(a) & (b)

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.

Excess cash

34 CFR 668.166

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 \$500.00 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.

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.

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

Consequences for maintaining excess cash

Upon a finding that a school maintained excess cash for any amount of time over that allowed, 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 reimbursement | payment method or Heightened Cash Monitoring payment method.

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

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

For funds deposited by the school in the school's 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 the student was paid;
- ◆ for Federal Pell Grant funds deposited because of adjustments to the student's award and federal Direct Loan funds deposited because of adjustments or cancellations; and

When the Department considers a check has 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.

Administrative Cost Allowance
34 CFR 690.10(b) and 34 CFR 673.7

TIP

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. Please do not return the funds to the Department or disburse them to students.

Charging Perkins cost against ACA

If a school charges any ACA against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.

TIP

For more information about the Pell Grant ACA, See the *Electronic Announcement of March 2, 2016* on Pell Grant Administrative Cost Allowance Payments for the 2015-2016 Award Year.

- ♦ for funds deposited because a student failed to begin attendance;

the three-day period begins on the date the school deposits the funds in the school's federal account.

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 the student 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)

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 \$5.00 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 five 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 cost 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 requirements. In addition, a school may use up to 10% 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.

A SCHOOL'S 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.

Accounting and fiscal records

As part of meeting its fiduciary responsibilities, a school must maintain an accounting and internal control systems, including records that

1. identify the cash balance of the funds of each Title IV, HEA program that are included in the institution's depository account or accounts as readily as if those funds were maintained in a separate depository account.;
2. identify the earnings on Title IV, HEA program funds maintained in the institution's depository account or accounts; and
3. maintain its fiscal records in accordance with the provisions in 34 CFR 668.24.

Cash management
34 CFR Subpart K

Scope and Institutional responsibility
34 CFR 668.161

GARNISHMENT OF FSA FUNDS IS PROHIBITED

Time frame for returning unclaimed funds

34 CFR 668.164(l)

Garnishment/attachment prohibited

HEA 488A(d)

Unpaid FWS Wages

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.

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.

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.

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. 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.

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.)

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 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.

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.

