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Accounting Procedures for Title IV Programs

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OBJECTIVES

By the end of this session, you will be able to:

- ❖ describe the relationship between a school's accounting system and Title IV requirements,
- ❖ identify methods of internal control,
- ❖ discuss linking the school's accounting system to internal and external reporting requirements, and
- ❖ develop and analyze a chart of accounts.

RESOURCES

- ❖ *The Blue Book*, Chapter 5—Accounting Procedures for Title IV Programs
- ❖ *Student Financial Aid Handbook*
- ❖ Federal Regulations 34 CFR 668.163

A. CASE STUDY OVERVIEW

On page 3 of your Participant's Guide you will find the case study about Knowledge College. Spend a few minutes reading through it. As we move through this session on accounting procedures, after information is presented, you will be asked to respond to a related section of the case study.

Knowledge College is faced with a number of challenges and opportunities. The school is converting to a new accounting software package. The existing chart of accounts has not been systematically reviewed in a number of years, even though accounts should be reviewed on an annual basis. New account numbers have been assigned in a haphazard manner, and no accounts have ever been deleted.

The college is also installing an integrated data management system across campus that will streamline processing student records in all offices. Concerns exist about the separation of functions between the financial aid office and the business office once this system goes online.

To make matters worse, accounting for Title IV funds never went smoothly with the old system. This has resulted in a deteriorated working relationship between the business office and the financial aid office. In fact, staff members in the two offices barely speak.

The financial vice president has already issued an ultimatum: "Get these problems fixed!"

Knowledge College participates in the Federal Pell Grant and FFEL Programs. The college president now is considering applying for Federal Work-Study funds. Questions keep coming, such as asking if a new program can be integrated into the accounting system and how much an FWS program will cost the institution.

During the course of this session on accounting procedures, you will be applying what you learn to help Knowledge College in meeting its challenges and solving its problems. You will be assisting the school with the following:

- ◆ Cooperative efforts to support the accounting system
- ◆ Chart of accounts
- ◆ Separation of functions
- ◆ Trial balance
- ◆ Internal reporting
- ◆ External reporting

B. TITLE IV PROGRAMS: IMPACT ON ACCOUNTING

1. Title IV Programs



Title IV Programs

- ◆ Federal Pell Grant Program
- ◆ Federal Supplemental Educational Opportunity Grant (FSEOG) Program
- ◆ Federal Work-Study (FWS) Program
- ◆ Federal Perkins Loan Program
- ◆ William D. Ford Federal Direct Loan (Direct Loan) Program
- ◆ Federal Family Education Loan (FFEL) Program

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- Accounting is one of the important responsibilities of schools participating in Title IV programs.
- The National Association of College and University Business Officers (NACUBO) Web site is www.nacubo.org.
- The National Association of Student Financial Aid Administrators (NASFAA) Web site is www.nasfaa.org.

2. Program Similarities



Program Similarities

- ◆ Cash account to record receipts and disbursements
- ◆ Income accounts
- ◆ Expense accounts (except for FFEL)

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Notes

3. Program Differences

Notes



Program Differences

Administrative Cost Allowance (ACA):

- ◆ For Federal Pell Grant—paid directly to school and recorded as income and an expense.
- ◆ For campus-based programs—may be paid out of program funds and recorded as an expense in the chart of accounts.

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Program Differences (cont'd)

Matching Requirements:

- ◆ Federal Perkins Loan requires cash (institutional capital contribution [ICC]).
- ◆ FSEOG and FWS allow cash or non-cash contributions.
 - ▲ Non-cash option must be accounted for as such.

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Program Differences (cont'd)

Institutional Responsibilities:

- ◆ Accounting for FFEL and Direct Loans involves receiving and disbursing funds.
- ◆ Federal Perkins Loan accounting includes transactions common to any loan program, plus specific program requirements.

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C. THE BUSINESS OFFICE AND THE FINANCIAL AID OFFICE: A PARTNERSHIP

1. Financial Aid Office Record-Keeping Functions



Examples of Records Usually Maintained by Financial Aid Office

- ◆ Student's application for financial aid,
- ◆ Loan applications/master promissory notes,
- ◆ Federal Perkins Loan promissory notes,
- ◆ Financial aid awards accepted or declined,
- ◆ Record of cumulative aid received by a student,
- ◆ Student eligibility documentation, and
- ◆ FISAP.

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2. Business Office and Financial Aid Office Cooperative Efforts

- Disbursing aid and generating student bills should be coordinated.
- When preparing reports or lists for the other office, ask how it would like the information sorted.

- When preparing a spreadsheet, total all columns.
- Hold a joint planning meeting before the FISAP due date or before an audit or program review.
- Share correspondence.
- Invite representatives from the other office to attend a staff meeting or training session; hold joint staff meetings on occasion.
- Group Discussions: Knowledge College is converting to a new accounting software package.
 - Who should be involved in the conversion planning?
 - What input documents will feed information into the system?
 - Who should have access to the various parts of the system?

Notes

D. ACCOUNTING STRUCTURE: CHART OF ACCOUNTS

1. Accounting System Requirements



Accounting System Requirements

Accounting system must:

- ♦ meet internal and external information needs,
- ♦ meet ED's minimum program and fiscal requirements, and
- ♦ meet school's external reporting requirements.

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- The accounting system may be manual or automated. Most schools, of course, use an automated system.

2. Chart of Accounts

Notes



Chart of Accounts

The chart of accounts has two components:

- ♦ an account number, which follows a standard account-code structure and
- ♦ a definition, by name, of the account code.

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Chart of Accounts (cont'd)

Single first digit of account number is link to financial statement:

- 1 - Asset Account
- 2 - Asset Reduction Account
- 3 - Liability Account
- 4 - Capital Account (or Program Balance)
- 5 - Capital Reduction Account
- 6 - Income Account (Revenue)
- 7 - Expense Account

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- The account grouping for each Title IV program account contains some or all of these financial statement elements.



Title IV Account Groupings

Each program account grouping is:

- ◆ separate from other programs,
- ◆ separate from institutional operating accounts, and
- ◆ self-balancing.

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- The sum of the ledger accounts with debit balances equals the sum of accounts with credit balances.
- *The Blue Book*, Chapter 5, provides a detailed chart of accounts for Title IV programs.

Case Study Exercise 1: Chart of Accounts

A chart of accounts exercise appears on pages 10 - 12. Your task is to finish numbering the accounts for Knowledge College and provide a description of several new accounts.

Knowledge College receives Federal Pell Grant funds of \$100,000 and participates in the FFEL Program (\$1,000,000 in student loan funds and \$333 investment income). The president of Knowledge College is interested in initiating an FWS Program. The chart of accounts needs to include account numbers and descriptions for all these programs.

The answers appear on pages 22 - 24.

SUMMARY CHART OF ACCOUNTS EXERCISE

Federal Pell Grant Program

 - 1 Cash, Federal Pell Grants

Debit this account for:

- Transfers from GAPS accounts

Credit this account for:

- Payments to students
- Recoveries from recipients

 - Accounts Receivable, GAPS

Debit this account for:

- Awards disbursed to students

Credit this account for:

- Cash received from GAPS

6 - 1 Transfer from GAPS - Federal Pell Grants for Students

Debit this account for:

- Total amount of cash transferred from GAPS (fiscal year)

Credit this account for:

- Cash transferred from GAPS (current needs)

 - Federal Reimbursement of Pell Grant ACA

Debit this account for:

- Total ACA funds transferred (fiscal year)

Credit this account for:

- ACA payments received

7 - 1 Student Grants Paid - Federal Pell Grant

Debit this account for:

- Grant payments to students

Credit this account for:

- Recoveries from recipients
- Total grant payments (fiscal year)

 - ACA Paid to Institution

Debit this account for:

- ACA paid to institution

Credit this account for:

- Closing entry (fiscal year)

SUMMARY CHART OF ACCOUNTS EXERCISE (CONT'D)

Federal Family Education Loan (FFEL) Program

1 - 1 Cash FFEL Account

Debit this account for:

- Cash received from lenders

- - Cash Returned to Lenders

Credit this account for:

- Cash returned to lenders

- - Cash Disbursed to Borrowers

Credit this account for:

- Cash disbursed to borrowers

- - Cash Interest Earnings

Debit this account for:

- Interest earned

Credit this account for:

- Interest earned - transferred to institution

3 - 1 FFEL Trust Account

Debit this account for:

- Funds disbursed to borrowers

Credit this account for:

- Funds received from lenders

- - Interest Earnings from Investment of FFEL Funds

Debit this account for:

- Cash earnings transferred to institution

Credit this account for:

- Interest earned

SUMMARY CHART OF ACCOUNTS EXERCISE (CONT'D)

Federal Work-Study Program

1 - 1 Cash, Federal Work-Study

Debit this account for:

- _____

Credit this account for:

- _____

_ - _ Accounts Receivable, Off-Campus Entities

Debit this account for:

- _____

Credit this account for:

- _____

3 - 1 Federal Income Taxes Withheld

_ - _ Social Security Taxes Withheld

_ - _ State Income Taxes Withheld

_ - _ Other Withholding

Debit this account for:

- _____

Credit this account for:

- _____

_ - _ Accrued Wages Payable

_ - _ Employer's Payroll Taxes Payable

_ - _ Transfer from GAPS - Federal Work-Study

_ - _ Institution's Cash Contribution

_ - _ Institution's Non-Cash Contribution (Memo Account)

E. INTERNAL CONTROL: CHECKS AND BALANCES

Notes



Internal Control

A system of checks and balances should include, at a minimum:

- ◆ separating authorizing and disbursing functions for Title IV funds,
- ◆ taking a trial balance,
- ◆ reconciling cash between book and bank balances,
- ◆ reconciling federal funds between bank account and federally reported cash balances, and
- ◆ performing electronic data processing controls. **11**

1. Separation of Functions



Separation of Functions

Separation of functions is a fundamental control concept:

- ◆ Financial aid office is responsible for authorizing funds to be disbursed by awarding aid.
- ◆ Business office is responsible for disbursing aid by applying funds to charges and/or delivering funds to students.

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- There should also be a separation of functions so that the person who reconciles cash and reconciles federal funds does not also receive cash or perform disbursement functions.
- Group Discussion: Separation of Functions
 - How are you dealing with the separation of functions at your school?
 - What advice can you give Knowledge College?

2. Trial Balance



Trial Balance and Reconciliation of Cash

Trial balance:

- ◆ used to confirm that accounts receivable, program expenditures, and cash balance equal amount of funds authorized and should be performed monthly.

Cash reconciliation:

- ◆ confirmation that cash amount in accounting records agrees with bank statements and should be performed on receipt of bank statement.

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3. Reconciliation of Cash



Reconciliation of Cash

By reconciling cash on a timely basis, the school can make adjusting entries to account for:

- ◆ bank service charges,
- ◆ non-sufficient funds (NSF) checks,
- ◆ debit and/or credit memoranda, and
- ◆ error corrections.

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Notes



Reconciliation of Cash (cont'd)

Staff should be trained to detect a variety of fiscal problems, including:

- ◆ delays in deposits,
- ◆ checks outstanding for long periods of time,
- ◆ irregularities in transfers and adjustments, and
- ◆ deviations on cancelled checks (payee, signature, or endorsement).

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4. Reconciliation of Federal Funds



Reconciliation of Federal Funds

Reconciliation process should include a check of expenditure records reported in:

- ◆ the trial balance reports,
- ◆ Grant Administration and Payment System (GAPS),
- ◆ FISAP,
- ◆ Federal Direct Loan reconciliation reports, and
- ◆ audit reports.

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5. Monthly Direct Loan Reconciliations



Direct Loan Reconciliation

Direct Loan schools must reconcile two types of transactions with the Loan Origination Center (LOC):

- ◆ cash transactions (involving cash drawdowns and the return of excess cash) and
- ◆ loan transactions that have affected cash disbursements and adjustments.

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6. Electronic Data Processing Controls

- Electronic data processing (EDP) controls are controls that ensure the integrity and reliability of data.



Electronic Data Processing (EDP) Controls

EDP controls encompass:

- ◆ operating procedures,
- ◆ software security,
- ◆ data access,
- ◆ program modification,
- ◆ segregation of computer security duties and responsibilities,
- ◆ back-up and recovery plans, and
- ◆ physical computer security.

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- See Section 5.4 of *The Blue Book* for a listing of specific EDP security controls.

Notes

7. Other Checks and Balances

Notes



Other Checks and Balances

Schools can build other checks and balances into their accounting system, including:

- ◆ input controls
 - ▲ record of the number and dollar amount of entries
- ◆ subsidiary-records reconciliation
 - ▲ confirmation that there are records to support account totals
- ◆ clear audit trail
 - ▲ complete record of all transactions entered into the system

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- One of the purposes of an audit is to confirm that all reconciliations have been performed.
- A sample format for cash reconciliation appears in Chapter 5 of *The Blue Book*.

Case Study Exercise 2: Trial Balance

Your task, using the Federal Pell Grant data (\$100,000) and FFEL data (\$1,000,000 in student loan funds and \$333 in investment income) is to complete the trial balance for Knowledge College's Title IV programs. The worksheet appears on the next page. The answers appear on page 25.

TRIAL BALANCE FOR TITLE IV PROGRAMS

Balance as of _____

<i>Account Names</i>	<i>Debit</i>	<i>Credit</i>
Federal Pell Grant Program		
Cash, Federal Pell Grants	xxxxx	
Transfer from GAPS		_____
Federal Reimbursement of Pell Administrative Cost Allowance		xxxxx
Student Grants Paid	_____	
Pell Administrative Cost Allowance Paid to Institution		xxxxx
Total, Federal Pell Grant Program	_____	_____

Federal Family Education Loan (FFEL) Program

Cash, FFEL Account	_____	
Cash Returned to Lenders		xxxxx
Cash Disbursed to Borrowers		_____
Cash, Interest Earnings	_____	
FFEL Trust Account		xxxxx
Interest Earnings from Investment of FFEL Funds		_____
Total, Federal Family Education Loan (FFEL) Program	_____	_____

Prepared by _____ Date _____

Approved by _____ Date _____

F. LINKING THE INSTITUTION'S ACCOUNTING SYSTEM TO INTERNAL AND EXTERNAL REPORTING REQUIREMENTS

1. Internal Requests for Information



Internal Requests For Information

Examples of information other school staff might request:

- ◆ whether all Title IV aid has been disbursed for eligible students,
- ◆ institutional costs for Title IV programs,
- ◆ the financial impact of new regulations or requirements,
- ◆ amount of student reliance on loans, and
- ◆ enrollment and financial status of students.

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- Group Discussion

The president of Knowledge College is eager to implement an FWS program and wants to know how much the program will cost the college. Although funds have not been requested, the president is asking you to calculate the cost to the school if it receives \$100,000 in federal funding.

2. Linkages for External Reporting



Linking Accounting System to Title IV Reporting

Accounting structure is critical to reporting on Title IV programs, including the following:

- ◆ Federal Pell Grant reporting through ED's Recipient Financial Management System (RFMS),
- ◆ monthly reconciliation in the Direct Loan Program,
- ◆ overpayment and Federal Perkins Loan data reporting to National Student Loan Data System (NSLDS),

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Linking Accounting System to Title IV Reporting (cont'd)

- ◆ applying for and reporting on the use of campus-based funds on the Fiscal Operations Report and Application to Participate (FISAP),
- ◆ annual compliance and financial audits, and
- ◆ possible program reviews.

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Case Study Exercise 3: External Reporting

Your task is to ensure that Knowledge College's chart of accounts will facilitate the completion of the FISAP by assigning the appropriate account number to the requested items in the FISAP. The worksheet appears on the next page and the answers appear on page 26.

EXTERNAL REPORTING

Account	FISAP Line Item
_ - _	Part II, Section G #27: Total Federal Pell Grant Expenditures for the 1998-1999 Award Year
_ - _	Part V, Section C #11: Total Earned Compensation for FWS Program
_ - _	a. On-Campus Expenditures
_ - _	b. Off-Campus Expenditures at Public or Private Non-Profit Agencies
_ - _	c. Off-Campus Expenditures in the Private For-Profit Sector
_ - _	#12: Total Institutional Share of Earned Compensation
_ - _	
_ - _	
_ - _	
_ - _	

SUMMARY CHART OF ACCOUNTS EXERCISE

Federal Pell Grant Program

1 - 1 Cash, Federal Pell Grants

Debit this account for:

- Transfers from GAPS accounts

Credit this account for:

- Payments to students
- Recoveries from recipients

1 - 2 Accounts Receivable, GAPS

Debit this account for:

- Awards disbursed to students

Credit this account for:

- Cash received from GAPS

6 - 1 Transfer from GAPS - Federal Pell Grants for Students

Debit this account for:

- Total amount of cash transferred from GAPS (fiscal year)

Credit this account for:

- Cash transferred from GAPS (current needs)

6 - 2 Federal Reimbursement of Pell Grant ACA

Debit this account for:

- Total ACA funds transferred (fiscal year)

Credit this account for:

- ACA payments received

7 - 1 Student Grants Paid - Federal Pell Grant

Debit this account for:

- Grant payments to students

Credit this account for:

- Recoveries from recipients
- Total grant payments (fiscal year)

7 - 2 ACA Paid to Institution

Debit this account for:

- ACA paid to institution

Credit this account for:

- Closing entry (fiscal year)

SUMMARY CHART OF ACCOUNTS EXERCISE (CONT'D)

Federal Family Education Loan (FFEL) Program

1 - 1 Cash FFEL Account

Debit this account for:

- Cash received from lenders

1 - 2 Cash Returned to Lenders

Credit this account for:

- Cash returned to lenders

1 - 3 Cash Disbursed to Borrowers

Credit this account for:

- Cash disbursed to borrowers

1 - 4 Cash Interest Earnings

Debit this account for:

- Interest earned

Credit this account for:

- Interest earned - transferred to institution

3 - 1 FFEL Trust Account

Debit this account for:

- Funds disbursed to borrowers

Credit this account for:

- Funds received from lenders

6 - 1 Interest Earnings from Investment of FFEL Funds

Debit this account for:

- Cash earnings transferred to institution

Credit this account for:

- Interest earned

SUMMARY CHART OF ACCOUNTS EXERCISE (CONT'D)

Federal Work-Study Program

1 - 1 Cash, Federal Work-Study

Debit this account for:

- **Federal contributions from GAPS account**

Credit this account for:

- **Federal share of on-campus compensation**

1 - 2 Accounts Receivable, Off-Campus Entities

Debit this account for:

- **Amounts provided by off-campus employers to pay nonfederal share**

Credit this account for:

- **Cash paid by off-campus employers**

3 - 1 Federal Income Taxes Withheld

3 - 2 Social Security Taxes Withheld

3 - 3 State Income Taxes Withheld

3 - 4 Other Withholding

Debit this account for:

- **Taxes paid to appropriate agency**

Credit this account for:

- **Amounts withheld from students' pay for payment of taxes**

3 - 5 Accrued Wages Payable

3 - 6 Employer's Payroll Taxes Payable

6 - 1 Transfer from GAPS - Federal Work-Study

6 - 2 Institution's Cash Contribution

6 - 3 Institution's Non-Cash Contribution (Memo Account)

TRIAL BALANCE FOR TITLE IV PROGRAMS

Balance as of _____

<i>Account Names</i>	<i>Debit</i>	<i>Credit</i>
Federal Pell Grant Program		
Cash, Federal Pell Grants	xxxxx	
Transfer from GAPS		100,000
Federal Reimbursement of Pell Administrative Cost Allowance		xxxxx
Student Grants Paid	100,000	
Pell Administrative Cost Allowance Paid to Institution		xxxxx
Total, Federal Pell Grant Program	100,000	100,000

Federal Family Education Loan (FFEL) Program

Cash, FFEL Account	1,000,000	
Cash Returned to Lenders		xxxxx
Cash Disbursed to Borrowers		1,000,000
Cash, Interest Earnings	333	
FFEL Trust Account		xxxxx
Interest Earnings from Investment of FFEL Funds		333
Total, Federal Family Education Loan (FFEL) Program	1,000,333	1,000,333

Prepared by _____ Date _____

Approved by _____ Date _____

EXTERNAL REPORTING

Account

7 - 1

FISAP Line Item

Part II, Section G

#27: Total Federal Pell Grant Expenditures for the 1998-1999
Award Year

7 - 1

Part V, Section C

#11: Total Earned Compensation for FWS Program

- a. On-Campus Expenditures
- b. Off-Campus Expenditures at Public or Private Non-Profit
Agencies
- c. Off-Campus Expenditures in the Private For-Profit
Sector

7 - 3

7 - 4

6 - 2

#12: Total Institutional Share of Earned Compensation

6 - 3

6 - 4

6 - 5