
Volume 4

Processing Aid and Managing FSA Funds

Table of Contents

Introduction	4-1
Chapter 1—Requesting and Managing FSA Funds	4-3
Purpose of Cash Management Regulations	4-3
EDCAPS AND G5	4-3
EDCAPS	4-4
G5 Overview.....	4-4
<i>Accessing G5.....</i>	4-5
<i>Setting up bank information.....</i>	4-5
ACH.....	4-5
FEDWIRE.....	4-6
<i>Obtaining a user ID and password</i>	4-7
<i>Using the user ID and password</i>	4-7
<i>Projecting cash needs.....</i>	4-8
<i>Immediate need</i>	4-8
<i>Timing issues.....</i>	4-9
<i>Recording payments.....</i>	4-9
<i>Delayed, denied, or reduced payment requests.....</i>	4-9
Award Periods.....	4-9
<i>Performance period.....</i>	4-10
<i>Liquidation period.....</i>	4-10
<i>Suspension period.....</i>	4-10
<i>Closeout period.....</i>	4-10
Drawing Down FSA Funds	4-11
<i>Drawing down funds in the Direct Loan Program</i>	4-11
<i>Drawing down funds in the Pell and TEACH Grant Programs</i>	4-12
<i>Drawing down funds in the Campus-Based Programs.....</i>	4-12
Chart, Cash Management and Reimbursement.....	4-13
Maintaining and Accounting for Funds	4-14
<i>When a school does not maintain a separate account</i>	4-14
<i>Bank account notification requirements.....</i>	4-14
<i>Interest-bearing or investment account</i>	4-15
<i>Additional Perkins Loan requirements.....</i>	4-15

Excess Cash	4–16
<i>Allowable excess cash tolerances</i>	4–16
Administrative Cost Allowance (ACA)	4–17
A School’s Fiduciary Responsibility	4–18
Garnishment of FSA Funds is Prohibited	4–19
Escheating of FSA Funds is Prohibited	4–19
Chapter 2—Disbursing FSA Funds	4–21
Notifications	4–21
<i>Notification of disbursement</i>	4–21
<i>General notification</i>	4–21
<i>Loan and TEACH Grant notification</i>	4–21
Authorizations	4–24
<i>Using electronic processes for notifications and authorizations</i>	4–25
<i>Power of attorney in disbursing FWS and Perkins funds</i>	4–26
Checking Eligibility at the Time of Disbursement	4–27
Time Frames for Paying FSA Funds	4–28
<i>Prompt disbursement (three-day) rules</i>	4–28
<i>Submitting disbursement records</i>	4–28
<i>Chart, Defining the Date of Disbursement</i>	4–29
Disbursing FWS Wages	4–30
<i>Crossover payment periods</i>	4–30
<i>Holding FWS funds on behalf of the student</i>	4–30
Method of Disbursement	4–31
<i>Credit to the student’s account</i>	4–31
<i>Direct disbursement to the student</i>	4–31
Institutional Charges	4–32
<i>Institutional vs. non-institutional charges</i>	4–32
<i>Chart, Three Principles Associated with Institutional Charges</i>	4–33
Paying Institutional Charges	4–34
<i>Paying pass-through charges</i>	4–34
Paying Prior-Year Charges	4–35
<i>Apportioning and prorating charges</i>	4–36
<i>Example, Apportioning Charges</i>	4–37
<i>Time frame for paying FSA credit balances</i>	4–39
<i>Example, 14-day Time Frame for Paying Credit Balances</i>	4–40
Paying FSA Credit Balances	4–41
<i>Paying FSA credit balances by issuing a check</i>	4–41
<i>Paying FSA credit balances by initiating an EFT</i>	4–41
<i>Chart, Standards for School-Required Bank Accounts</i>	4–42
<i>When a school uses third-party servicers to disburse FSA funds</i>	4–43

Chart, <i>Third-party Servicer Agreements</i>	4-44
<i>School-issued stored-value cards</i>	4-45
Chart, <i>Requirements for Stored-Value and Prepaid Debit Cards</i>	4-46
<i>Special provisions for books and supplies</i>	4-47
<i>Time frame for returning an unclaimed Title IV credit balance</i>	4-48
Holding FSA Credit Balances.....	4-49
<i>Authorization to hold an FSA credit balance</i>	4-49
<i>Sample Authorization to Hold an FSA Credit Balance</i>	4-50
Late Disbursements.....	4-51
<i>Conditions for a late disbursement</i>	4-51
<i>Late disbursements that must be made vs. late disbursements that may be made</i>	4-51
<i>Limitations on making a late disbursement</i>	4-52
<i>Paying a late disbursement</i>	4-53
Chart, <i>Conditions and Limitations on Late Disbursements</i>	4-54
Chapter 3—Overawards and Overpayments.....	4-55
Overawards.....	4-55
<i>Pell Grants</i>	4-56
<i>Iraq and Afghanistan Service Grants</i>	4-56
TEACH Grants.....	4-57
<i>Teach Grant Overpayments—Examples</i>	4-58
<i>Campus-Based Programs</i>	4-59
<i>FWS Program</i>	4-59
<i>FSEOG Overpayments</i>	4-59
<i>Direct Loans</i>	4-60
<i>A resolved overaward may become an overpayment</i>	4-61
When a Student Fails to Begin Attendance	4-62
<i>When a student begins attendance on a less than half-time basis</i>	4-63
<i>When funds are considered to have been returned for a student who fails to begin attendance</i>	4-63
Treatment of Overpayments.....	4-64
<i>Overpayments for which the school is responsible</i>	4-64
<i>Prohibition on receiving funds for enrollment at more than one school</i>	4-65
<i>Overpayments for which the student is responsible</i>	4-66
<i>Exceptions to student liability</i>	4-68
<i>Overpayments created by inadvertent overborrowing</i>	4-69
<i>Repayment of the excess loan amount</i>	4-70
<i>Satisfactory repayment arrangements</i>	4-70
<i>Recording student payments and reductions in the Direct Loan Program</i>	4-72
<i>Returning Direct Loan funds</i>	4-72
<i>Recording student payments and reductions in the Pell Grant, Iraq and Afghanistan Service Grant, and TEACH Grant Programs</i>	4-73

Reporting Overpayments to NSLDS	4-74
Referring Overpayments	4-75
<i>Referring overpayments to Debt Resolution Services</i>	4-75
<i>School responsibility after referral</i>	4-76
<i>Accepting payments on referred overpayments</i>	4-77
<i>Responsibilities of Debt Resolution Services</i>	4-78
<i>Information Required When Referring Student Overpayments to Debt Resolution Services</i>	4-79
Chapter 4—Returning FSA Funds	4-81
Returning Funds	4-81
<i>Returning funds by depositing them in a school account</i>	4-82
<i>Returning funds by depositing them in a federal funds account</i>	4-82
<i>Return of Title IV funds when a school does not maintain</i> <i>a separate federal bank account</i>	4-82
When Funds are Considered to Have Been Returned	4-83
Returning Funds From an Audit or Program Review.....	4-83
Downward Adjustment of FSA Grant Disbursement Records and Direct Loan Disbursement Records Required	4-84
Returning Direct Loan Funds	4-84
Returning Funds After 240 Days	4-85
Returning Funds from FFEL Loans Purchased/Serviced by the Department	4-86
Chapter 5—Reconciliation in the Pell Grant and Campus-Based Programs.....	4-87
Reconciliation	4-87
<i>Reconciliation and fiduciary responsibility</i>	4-87
<i>Who is responsible for reconciliation</i>	4-89
<i>Reconciliation and a school's coordinating official</i>	4-89
<i>Recommended general reconciliation practices</i>	4-90
<i>Internal reconciliation</i>	4-91
<i>External reconciliation</i>	4-91
Reconciliation in The Pell Grant Program	4-92
<i>Reconciling school-level data</i>	4-93
<i>Reconciling school-level data with COD Pell Grant data</i>	4-93
Reconciliation, Records, and Internal Controls in The Campus-Based Programs.....	4-95
<i>Reconciliation and the Federal Perkins Loan Program</i>	4-95
<i>Reconciliation and the Federal Supplemental Educational Opportunity Grant Program</i>	4-96
<i>Reconciliation and the Federal Work–Study Program</i>	4-96
Chapter 6—Reconciliation in the Direct Loan Program.....	4-99
Overview of Direct Loan Reconciliation	4-99
<i>Graphic, Reconciling ED and School Records</i>	4-101
Internal Reconciliation	4-102
<i>Graphic, Discrepancy Between Financial Aid and Business Office</i>	4-102
<i>Graphic, Monthly Reconciliation Process</i>	4-104

Completing External Reconciliation	4-105
<i>Completing monthly reconciliation</i>	4-105
<i>Direct Loan year-end closeout</i>	4-106
<i>Graphic, The External Reconciliation Process</i>	4-107
Using Tools and Reports in Direct Loan Reconciliation	4-108
<i>COD Reports</i>	4-108
Direct Loan Tools	4-109
The School Account Statement	4-110
<i>Cash Summary</i>	4-111
<i>Disbursement Summary by Loan Type</i>	4-111
<i>Cash Detail</i>	4-111
<i>Loan Detail/Loan Disbursement Activity Level</i>	4-112
Working With the SAS.....	4-112
<i>Graphic, Reconciling Department and School Records</i>	4-113
<i>Graphic, Example of SAS Cash Summary</i>	4-114
<i>Graphic, Example of SAS Cash Detail</i>	4-115
Loan Disbursement Detail	4-116
<i>Timing issues and the School Account Statement</i>	4-116
<i>Graphic, Example of SAS Loan Detail (Disbursement Detail)</i>	4-117
<i>Graphic, Analysis of Sample Loan Disbursement Detail</i>	4-118
Best Practices for Reconciliation	4-119
<i>Best practices—establishing preventive procedures</i>	4-119
<i>Best practices—preparing for monthly reconciliation</i>	4-119
<i>Graphic, Sample Internal Report Comparing Financial Aid and Business Office Data for Loan Disbursements</i>	4-120
<i>Graphic, Sample Report Comparing SAS and School Totals and Documenting Differences</i>	4-121
Appendix A—Accounting Systems	4-123
<i>Requirements for Accounting and Internal Controls Systems at Schools Participating in the Title IV, Federal Student Assistance Programs</i>	4-123
Accounting Records	4-124
<i>Bookkeeping and recordkeeping</i>	4-124
Fund Accounting Systems and the FSA Programs	4-125
Audit trails.....	4-126
Chart of Accounts	4-126
<i>Examples of Information a School's Accounting System Must Be Able to Provide</i>	4-128
<i>Summary Chart of Accounts</i>	4-130
Account Details	4-142

Introduction to Volume 4

The purpose of this publication is to provide participating schools with guidance on how to request, disburse, manage, and report on the use of Federal Student Aid funds.

Here, we provide a summary of the changes and clarifications presented in greater detail in the chapters that follow. **Alone, the text herein does not provide schools with the guidance needed to satisfactorily administer the Title IV HEA programs.** For more complete guidance, you should refer to the text in the chapters cited, the Code of Federal Regulations (CFR) and the Higher Education Assistance Act (HEA) as amended:

Throughout this volume, new information is indicated with the following symbol:



When the text represents a clarification rather than a change, it is indicated with:



When we believe that historically there might be some misunderstanding of a requirement, we indicate that with:



If we want to point out a bit of helpful information, we indicate it with:



Finally, if we want to draw your attention to something, we indicate it with:



Major Changes

Chapter 2—Disbursing FSA Funds

- ◆ We remind schools that they should not return Direct Loan funds to ED’s federal loan servicers.

Chapter 3—Overawards and Overpayments

- ◆ We remind schools that because COD reporting and interface information is so closely tied to the award type as identified in the award ID, in order to replace a Direct Subsidized Loan with a Direct Unsubsidized Loan, a school must cancel the Direct Subsidized Loan and originate a Direct Unsubsidized Loan.
- ◆ We explain that a student who received subsidized loan funds in excess of the applicable subsidized annual or aggregate loan limit can no longer regain Title IV eligibility by having the excess subsidized loan amount changed to an unsubsidized loan.
- ◆ We have expanded the discussion of regaining eligibility after overborrowing.

Chapter 4— Returning FSA Funds

- ◆ We alert schools to the Department’s discontinuation of paper check processing for Direct Loan Refunds of Cash beginning January 1, 2015.

Chapters 5 and 6—Reconciliation

- ◆ We have added the more detailed discussion of reconciliation in the Direct Loan Program previously found in *The Blue Book*, and divided the discussion of reconciliation into two chapters. Chapter 5 now covers reconciliation in the Pell Grant Program and Campus-Based Programs. Reconciliation in the Direct Loan Program is now covered in Chapter 6.

Requesting and Managing FSA Funds

CHAPTER 1

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.

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 received for an administrative cost allowance (ACA) or for a Job Location and Development Program under the Federal Work-Study (FWS) Program, all FSA program funds received by a school are held in trust by the school for students and the Department. As a trustee of those funds, a school may not use (or use as collateral) FSA funds for any other purpose.

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

Self-Assessment Tool For Fiscal Management

You can evaluate your school's procedures by referring to "Fiscal Management" in the Managing Funds module of FSA Assessments at:
ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html

EDCAPS AND G5

EDCAPS

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.

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

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. 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 cash from the Department through the Office of the Chief Information Officer (OCIO). G5 is a system; OCIO is the office within the Department that administers the system.

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 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 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. In other words, the TIN is the grantee's social security number.

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.

- P063P14#### is the award for 2014–2015 Pell funds.
- P268K15#### is the award for 2014–2015 Direct loan funds. Note that DL uses trailing years as the award year indicator.

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

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.

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).

System for Award Management

The System for Award Management (SAM) is a free website that consolidates the capabilities you used to find 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

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.



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 <http://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.

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)

For further information on processing and managing FSA funds, please see chapters 2 through 5.

Federal Capital Contribution (Perkins)

Congress has not authorized any Federal Capital Contribution (FCC) through the 2014–2015 application year.

A school on the advance payment method must determine the amount of funds it needs before it transmits a request to G5. The amount requested must be limited to the amount needed to make immediate disbursements so excess funds do not exist after disbursements are made. 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:

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

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

Performance period

The performance period is the period between the Title IV program award begin date and the Title IV program 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’s disbursement records for students eligible for the Federal Pell Grant Program).

During this 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 user 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 need to move the full amount to correct the error.); and
- ♦ changes may be made to the Federal Student Aid (FSA) program’s grant awards authorizations.



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.

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. Once the performance period ends, the closeout process begins.

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 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)

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 Release Indicator* (where DRI = true) Direct Loan disbursement records, 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.



Direct Loan schools on Heightened Cash Monitoring (HCM1 and HCM2), Reimbursement, foreign schools, and those that request to be "records first" will not receive an initial CFL for 2014–15, but instead will receive funding increases based on actual disbursement records that are submitted and accepted by the COD System.

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).

Supplemental Campus-Based Allocations

Schools can 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.

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 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).

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

Funding methods

Cite: 34 CFR 668.162, except as noted.

The Advance Payment Method

Under the Advance Payment Method, once a school’s funding levels have been established, a school may request (through the school’s COD Customer Service Representative) a funding level increase.

Cash Management and Reimbursement

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 Cash Monitoring payment method do not receive an initial authorization. They will receive an authorization and increases to the authorization after the Common Origination and Disbursement (COD) System has accepted and posted actual disbursement records.

Administration of the 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, as applicable. 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 which 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 disburse FSA program funds, including any credit balances, to eligible students and parents out of institutional funds prior to submitting a Reimbursement Payment Request for those funds from the Department. 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.

After the reimbursement request is approved, 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, as applicable.

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

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*.

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.

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 record keeping 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;
- the school can demonstrate that it would not earn over \$250.00 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 such as obligations issued or guaranteed by the United States. 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 \$250.00 per award year must be remitted to the Department by June 30 of that award year (see sidebar). A school may keep up to \$250.00 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.

Additional Perkins Loan requirements

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 \$250.00 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.

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.” They will be taken to the screens through which they 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:

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

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.

Perkins bank account requirements

34 CFR 674.19(a) & (b)

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.

For funds received from 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 in the school’s account (1) 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, (2) for Federal Pell Grant funds deposited because of adjustments and federal Direct Loan funds deposited because of adjustments or cancellations, and (3) 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 or deposit funds for a student who withdraws before completing a period for which the student was paid within 45 days of determining the student withdrew. 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 became aware the student will or has not begun attendance. Finally, a school must complete a report within 30 days of making adjustments to a student’s Pell or Direct Loan award.

What if there’s a finding, 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.

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 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 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*.

ADMINISTRATIVE COST ALLOWANCE (ACA)

The ACA is an annual payment calculated by the Department 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 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 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 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.

Administrative Cost Allowance

34 CFR 690.10(b) and 34 CFR 673.7

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.

A SCHOOL'S FIDUCIARY RESPONSIBILITY

Cash management

34 CFR Subpart K

Purpose of regulations

34 CFR 668.161

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.

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.

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.

Garnishment/attachment prohibited

HEA 488A(d)

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.

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.

Disbursing FSA Funds

CHAPTER 2

These rules apply to the following programs: Pell Grants, TEACH, Iraq and Afghanistan Service Grants, Federal Supplemental Educational Opportunity Grants (FSEOG), Perkins Loans, and Direct Loans. We have indicated when a rule applies to Federal Work-Study (FWS) funds. This chapter will discuss the rules for crediting federal student aid (FSA) funds to the student's account and making direct disbursements to the student or to the parent (PLUS), with provisions for early disbursements, delayed disbursements, and late disbursements.

NOTIFICATIONS

Notification of disbursement

In general, there are two types of notifications a school must provide: (1) a general notification to all students receiving FSA funds, and (2) a notice when FSA loan funds or TEACH Grant funds are credited to a student's account.

General notification

A school must notify a student of the amount of funds the student and his or her parent can expect to receive from each FSA program, including FWS, and how and when those funds will be disbursed. This notification must be sent before the disbursement is made.

If the funds include a Direct Loan, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. A school must provide the best information that it has regarding the amount of FSA program funds a student can expect to receive. Because the actual loan disbursements received by a student may differ slightly from the amount expected by the school (due to loan fees and rounding differences), you may include the gross amount of the loan disbursement or a close approximation of the net disbursement amount.

Loan and TEACH Grant notification

Except in the case of loan funds made as part of a post-withdrawal disbursement, when Perkins Loan, Direct Loan or TEACH funds are being credited to a student's account, the school must also notify the borrower in writing (paper or electronically) of the:

- ♦ anticipated date and amount of the disbursement;
- ♦ borrower's right to cancel all or part of the loan or disbursement; and

Notices and Authorizations

34 CFR 668.165

Note on Iraq and Afghanistan Service Grants

The HEA (Sec. 420R(d)) specifies that those grants shall be awarded in the same manner, and with the same terms and conditions, as Federal Pell Grants.

Borrower Notification via email

If you are notifying the student of the next disbursement by email or other electronic means, you are encouraged to follow up on any electronic notice for which you receive an "undeliverable" message.

The loan notification requirements for post-withdrawal disbursements are covered in *Volume 5*.

Privacy of Loan Data

Schools are reminded that the details of any loan transaction may be shared only with the borrower.

Acceptable means of notification

Your school may not use an in-person or telephonic conversation as the sole means of notification because these are not adequate and verifiable methods of providing notice. However, a school may use in-person and telephone notices in addition to those provided in writing.

Confirmation process

34 CFR 668.165(a)(6)

- ◆ procedures for canceling a Direct Loan or Perkins Loan and the time by which the borrower must notify the school that he or she wishes to cancel the loan, grant, or loan or grant disbursement.

The timing of a loan or TEACH Grant notification varies depending on whether a school obtains affirmative confirmation from a student that he or she wants a loan **or** accepts the grant. Affirmative confirmation is a process under which a school obtains written confirmation of the types and amounts of HEA program loan and TEACH Grant funds that a student wants for an award year before the school credits the student's account with those funds. See the *Application and Verification Guide* for more information on the confirmation process.

This notification must be sent:

- ◆ *if the school obtains affirmative confirmation*, no earlier than 30 days before and no later than 30 days after crediting the student's account;
- ◆ *if the school does NOT obtain affirmative confirmation*, no earlier than 30 days before and no later than 7 days after crediting the student's account.

If the borrower **or** TEACH Grant recipient wishes to cancel all or a portion of his or her loan or grant, he or she must inform the school. A school must return the loan or grant proceeds, cancel the loan or grant, or do both, provided that the school receives the loan cancellation request within the following time frames:

- ◆ *if the school obtains affirmative confirmation from the student*, by the later of the first day of a payment period or 14 days after the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan or grant; or
- ◆ *if the school does not obtain affirmative confirmation from the student*, within 30 days of the date the school notifies the student or parent of his or her right to cancel all or a portion of a loan.

Self-assessment tool for fiscal management procedures

You can evaluate your school's procedures by referring to "Fiscal Management" in the *Managing Funds* module of FSA Assessments at

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

If a school receives a borrower's request for cancellation outside of the period during which the school is required to cancel the loan, grant, or loan or grant disbursement, the school has the option of canceling the loan or grant or, in the case of a loan, directing the borrower to contact the appropriate servicer. The school must inform the student or parent **in writing** of the outcome of the request. **Schools should not return**



loan funds on a borrower's behalf if more than 120 days have elapsed since the funds were disbursed. (See the Handbook Appendices for information on how a school should proceed when a student dies.)

Schools should not return Direct Loan funds to ED's federal loan servicers directly. If a borrower asks the school to return Direct Loan funds more than 120 days after the disbursement date, the school should direct the borrower to the appropriate servicer for guidance on how the borrower can return the money. (An exception is when a school must return funds when a student dies.)



When acting upon a cancellation request, your school must return the funds (if received) and/or cancel the loan or grant as appropriate. A school is not responsible for returning any portion of a loan or grant that was disbursed to a student or parent directly (e.g., as a result of a credit on the student's account) before the request for cancellation was received. However, you are encouraged to take an active role in advising the borrower to return the funds already received.

Direct Loan funds that are returned within 120 days of the disbursement by the school or the borrower, for any reason, are treated as a partial or full cancellation, with the appropriate adjustment of the loan fee and interest. In addition, Direct Loan funds that are returned by a school at any time to comply with a regulatory or statutory requirement are treated as a partial or full cancellation.

Direct Loan funds that a borrower returns 120 days or more after disbursement are processed as a payment, and there is no adjustment of the loan fee or interest. For additional information on returning loan funds, see chapters 3 and 4 in this volume, and *Volume 5*, Chapter 1.

AUTHORIZATIONS

Authorizations

34 CFR 668.165(b)

Electronic disclosures

CFR 34 668.41 (b) & (c)

Information Security Requirements

The Gramm-Leach-Bliley (GLB) Act requires that schools have in place an information security program to ensure the security and confidentiality of customer information, protect against anticipated threats to the security or integrity of such information, and guard against the unauthorized access to or use of such information. (For information on the GLB Act, see *Volume 2*.)

You must obtain authorization from a student (or parent borrower), before your school can perform any of the following activities:

- ◆ use FSA funds to pay for allowable educationally related charges **other than** tuition, fees, and room and board (if the student contracts with the school);
- ◆ credit FWS wages to a student's account to pay any educationally related charges;
- ◆ disburse FWS wages by Electronic Funds Transfer (EFT) to a bank account designated by the student or parent;
- ◆ hold an FSA credit balance (see the discussion later in this chapter);
- ◆ apply FSA funds (including FWS) to prior-year charges other than for tuition, fees, room, and board.

An authorization must explain what FSA funds are covered by the document, and it must specify the time period covered by the authorization. Unless otherwise specified, a student or parent may authorize a school to carry out the allowable activities for a specific period of time such as an academic year or for the entire period the student is enrolled, including multiple academic years.

A school may not require or coerce the student or parent to provide an authorization, and it must clearly explain to the student or parent how to cancel or modify the authorization. The school must also explain that a cancellation is not retroactive.

A student or parent may cancel or modify an authorization at any time. A cancellation or modification is not retroactive—it takes effect on the date that the school receives it from the student or parent. If a student or parent cancels an authorization to use FSA funds to pay for other allowable charges, the school may use FSA funds to pay any authorized charges incurred by the student before the notice was received by the school. If a student or parent cancels an authorization to hold excess funds, the funds must be paid directly to the student or parent as soon as possible but no later than 14 days after the school receives the notice. (See the discussion under *Time frame for paying FSA credit balances* later in this chapter.)

However, regardless of any authorization obtained by a school, the school must pay any remaining balance on FSA loan funds by the end of the loan period and any other remaining FSA program funds by the end of the last payment period in the award year for which they were awarded.



A school may include two or more of the items that require authorization in one statement. Each component and term in the authorization must be conspicuous to the reader, and a student (or parent borrower) must be informed that he or she may refuse to authorize any individual item on the statement.

An authorization must clearly explain how the school will carry out an activity, but it does not need to detail every aspect pertaining to the activity. However, a blanket authorization that only identifies the activities to be performed is not acceptable. For instance, an authorization permitting a school to use an FSA credit balance (discussed later in this chapter) must provide detail that is sufficient to give the student or parent a general idea of what charges the credit balance would be used to pay. A blanket statement that the credit balance would cover any charges is not acceptable.

Using electronic processes for notifications and authorizations

So long as there are no regulations specifically requiring that a notification or authorization be sent via U.S. mail, a school may provide notices or receive authorizations electronically. You may also use an electronic process to provide required notices and make disclosures by directing students to a secure website that contains the required notifications and disclosures.

If you use an electronic process to provide notices, make disclosures, or direct students to a secure website, then you must notify each student individually every year. You may provide the required notice through direct mailing to each individual through the U.S. Postal Service, campus mail, or electronically directly to an email address.

The annual individual notice must

- ◆ identify the information required to be disclosed that year,
- ◆ provide the exact Internet or intranet address where the information can be found, and
- ◆ state that, upon request, individuals are entitled to a paper copy, and inform students how to request a paper copy.

A School Must Obtain a Student's Voluntary Consent to Participate in Electronic Transactions

Voluntary consent to participate in electronic transactions is required for all financial information provided or made available to student loan borrowers, and for all notices and authorizations to FSA recipients required under 34 CFR 668.165.



Power of attorney in disbursing FWS and Perkins funds

Power of attorney

Perkins: 34 CFR 674.16(g)

FWS: 34 CFR 675.16(a)(8)

A school may not obtain a student's power of attorney to authorize FWS disbursements unless the Department has granted prior approval (contact your School Participation Team). Your school must be able to demonstrate that there is no one else (such as a relative, landlord, or member of the clergy, for example) who could act on behalf of the student.

Similarly, a school official may not use a student's power of attorney to endorse any Perkins Loan disbursement check or to sign for any Perkins Loan advance unless the Department has granted prior approval. Approval may be granted only if:

- ◆ the student is not available to sign the promissory note, and there is no one else (such as a relative, landlord, or member of the clergy) who could act on behalf of the student;
- ◆ the school shows that the funds cannot be directly deposited or electronically transferred;
- ◆ the power of attorney is not granted to a school official or any other official who has an interest in the loan; and
- ◆ the power of attorney meets all legal requirements under the law of the state in which the school is located, and the school retains the original document granting power of attorney in its files.

CHECKING ELIGIBILITY AT THE TIME OF DISBURSEMENT

Before you awarded funds to a student, you confirmed that he or she was an eligible student and was making satisfactory academic progress (see *Volume 1*). However, before disbursing FSA funds, you must determine and document that a student remains eligible to receive them. A school must have a process (consistent with the requirements in 34 CFR 668.164(b)(3)) for determining that a student is eligible to receive a Title IV disbursement. A school must confirm the following:



- ◆ the student is enrolled in classes for the period;
- ◆ for a student otherwise eligible for a Pell grant, the scheduled disbursement will not cause the student to exceed his or her Lifetime Eligibility (see *Volume 3*);
- ◆ a student enrolled in a non-term program or nonstandard term program with terms that are not substantially equal in length has completed the previous period (credits and weeks or clock-hours and weeks of instruction);
- ◆ except for Direct Loans, if the disbursement occurs on or after the first day of classes, that the student has begun attendance in the classes on which his or her eligibility was based;
- ◆ for Direct Loans, the student is enrolled at least half time;
- ◆ first-time FSA borrowers have completed entrance counseling, received the required disclosures, and completed the first 30 days of their academic program (See *Volume 3*);
- ◆ for TEACH Grants, for that award, the student has
 - a) completed the relevant initial or subsequent counseling;
 - b) signed an *Agreement to Serve*; and
 - c) earned the appropriate GPA, otherwise met the performance standard through testing, or is a retiree or a current or former teacher (see *Volume 1*).

If a Borrower Dies Before Loan Funds are Disbursed

The Department does not permit disbursement of Title IV loan funds when there is no possibility of repayment. Therefore, if a student borrower or parent PLUS loan borrower dies after the school has received the loan funds but before the loan is disbursed, the school must return the full amount of the loan to the Department.

Third-party servicers responsibility for checking eligibility before disbursement

34 CFR 668.25(c)(4)

Interim disbursements to students selected for verification

A school can make an interim disbursement of certain types of FSA funds to a student who is selected for verification (including a student selected for verification by the school rather than the CPS). If the school has any conflicting documentation or other reason to believe that it does not have a valid output document, it may not make such a disbursement. See the current version of the *Application and Verification Guide*, for more details.

Disbursements to Students on Leave of Absence

A school may disburse Pell, TEACH Grant, Iraq & Afghanistan Service Grant, FSEOG, or Perkins Loan funds to a student on a leave of absence. However, a school must not disburse Direct Loan funds to a student on a leave of absence.

Because FSA credit balance funds are funds that have already been disbursed, a school must pay an FSA credit balance to a student on a leave of absence.

Disbursement of funds received under Advance Payment

34 CFR 668.162(b)(3)

Importance of Timely Review of Pell Lifetime Eligibility Used

Electronic Announcement, August 13, 2012

TEACH Grant Counseling

A student must complete TEACH Grant initial counseling prior to receiving the first disbursement of the student's first TEACH Grant. See *Volume 3* for information about the required counseling.

Reminder

Time Frame for Submitting Disbursements

A school must submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records and Direct Loan disbursement records, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement.

The Department considers that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed on the date that the school: (a) credits those funds to a student's account in the school's general ledger or any subledger of the general ledger, or (b) pays those funds to a student directly. We consider that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed even if a school uses its own funds in advance of receiving program funds from the Department.

A school's failure to submit disbursement records within the required time frame may result in the Department rejecting all or part of the reported disbursement. In addition, such failure may result in an audit or program review finding. In addition, the Department may initiate an adverse action, such as a fine or other penalty for such failure.

Federal Register Volume 78, Number 40
(Thursday, February 28, 2013)

The most common change that would make a student ineligible for a Stafford or PLUS disbursement is if the student has dropped below half-time enrollment, so it is important that the financial aid office have a system to verify the student's enrollment status at the time of disbursement. If the student has only temporarily dropped below half time enrollment, you may still make a Stafford or PLUS disbursement after the student resumes at least half-time enrollment.

TIME FRAMES FOR PAYING FSA FUNDS

Prompt disbursement (three-day) rules

In general, schools that are not receiving federal cash from the Department through one of the heightened cash monitoring payment methods must make disbursements as soon as administratively feasible but no later than three business days after receiving funds from the Department. The disbursements may be credited to the student's account or made directly to the student or parent, as discussed earlier.

In order to comply with the excess cash regulations (described in Chapter 1), when requesting funds with which to make FSA disbursements, schools must ensure they do not draw down more cash than they can disburse over the next three days.

Note that these time frames for disbursing to the student's account (or directly to the student or parent) are different than those for paying FSA credit balances to the student or parent. As we discuss later in this chapter, a school generally has 14 days to pay an FSA credit balance to the student or parent, unless it has written permission to hold the credit balance.

Submitting disbursement records

A school must submit Federal Pell Grant, TEACH Grant, and Direct Loan disbursement records no later than 15 days after making a disbursement or becoming aware of the need to adjust a student's disbursement.

A school's failure to submit disbursement records within the required time frame may result in an audit or program review finding. In addition, the Department may initiate an adverse action, such as a fine or other penalty for such failure.

Defining the Date of Disbursement (34 CFR 668.164(a))

(These rules apply to the FWS program as well.)

It is important to define the date of disbursement because several regulatory requirements are based on that date. For instance, you must disburse an FSA credit balance to a student within 14 days of the date it was created or within 14 days of the first day of class, and you must notify a student of a loan disbursement within a time frame related to the date of that disbursement.

The date of disbursement also determines when the student becomes an FSA recipient and has the rights and responsibilities of an FSA recipient. For example, when FSA loan funds are disbursed to a recipient, the student or parent assumes responsibility for the loan and has the right to cancel the loan.

A disbursement occurs when your school credits a student's account **or** pays a student or parent directly with:

- FSA funds received from the Department; or
- School funds labeled as FSA funds in advance of receiving actual FSA funds (except as noted below).¹

When using school funds in place of FSA funds, there are two situations where the FSA disbursement is considered to have taken place on the earliest day that the student could have received FSA funds rather than the actual disbursement date.

- If a school credits a student's account with its own funds earlier than 10 days before the first day of classes of a payment period, that credit is not considered an FSA disbursement until the 10th day before the first day of classes (the earliest a school may disburse FSA funds).
- If a student borrower is subject to the 30-day disbursement delay and a school credits the student's account with its own funds before the 30 days have elapsed, this is not counted as an FSA loan disbursement until the 30th day after the beginning of the payment period (the 31st day of classes).

¹ If your school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as an FSA credit (for example, an estimated Federal Pell Grant), it is not a disbursement. For example, some schools prepare billing statements or invoices showing the estimated amount of FSA funds that students are eligible to receive. These estimated amounts are not FSA disbursements.

DISBURSING FWS WAGES

FWS payments to students

34 CFR 675.16

Crediting student's account

34 CFR 668.164(d)

Noncash contribution

Your school also has the option of paying its share of a student's FWS wages in the form of a noncash contribution of services or equipment—for example, tuition and fees, room and board, and books and supplies. However, you may not count forgiveness of a charge such as a parking fine or library fine against a student who is employed under FWS as part of the school's noncash contribution to the student.

Non cash payments (tuition, fees, services or equipment) must be made before the student's final payroll period of the award period. If the school pays its share for a forthcoming academic period in the form of prepaid tuition, fees, services or equipment, it must give the student—again, before the end of the student's final payroll period—a statement of the amount of the noncash contribution earned.

Your school may use any type of payroll period it chooses, provided students are paid at least monthly. It is a good idea to have the FWS payroll correspond to other similar payrolls at the school. Unless you are paying the student with noncash contributions (see sidebar), you must pay the nonfederal share to the student at the same time you pay the federal share.

FWS wages are earned when the student performs the work. A school may pay the student after the last day of attendance for FWS wages earned while he or she was still in school. However, when a student has withdrawn from school and is not planning to return, FWS funds may not be used to pay for work performed after the student withdrew. A correspondence student must submit the first completed lesson before receiving a disbursement under the FWS Program.

For audit and program review purposes, your school must have documentation (e.g., canceled checks, bank statements) showing that students received disbursements in the amount charged to the FWS Program.

Crossover payment periods

When a payment period is in two award years (that is, when it begins before July 1 and ends on or after July 1), the student is paid for compensation earned through June 30 with funds allocated for the first award year and for compensation earned beginning July 1 with funds allocated for the following award year. (See *Volume 6* for a discussion of carrying back funds for summer employment.)

Disbursing to students from the correct award year is important; schools have been held liable when students were paid from the wrong FWS authorization.

Holding FWS funds on behalf of the student

With written authorization from a student, a school may hold, on behalf of the student, FWS funds that would otherwise be paid directly to the student (unless this is prohibited by the terms of a reimbursement payment method). The restrictions for such an authorization are the same as those that apply to written authorizations for disbursements to student accounts. If your school holds FWS funds on behalf of students, it must:

- ◆ identify the amount of FWS funds held for each student in a designated subsidiary ledger account;
- ◆ maintain cash in its bank account that is always at a minimum equal to the FWS funds being held for students; and
- ◆ disburse any remaining balance by the end of the school's final FWS payroll period for the award period.

METHOD OF DISBURSEMENT

There are two ways to disburse FSA funds: by crediting the student's account for allowable charges at your school or by paying the student or parent directly.

Credit to the student's account

When a school disburses FSA funds to a student by crediting a student's account, it may do so only for allowable charges.

Allowable charges include:

- ◆ current charges incurred by the student at the school for tuition and fees as defined in *Volume 3*, and room and board if the student contracts with the school (third-party or pass-through charges are not included except in the case of third-party housing, books and supplies contracted by the school);
- ◆ if you obtain the student's or parent's (as applicable) written authorization, other educationally related charges incurred by the student at the school; and
- ◆ prior-year charges not exceeding \$200.00 (see the discussion under *Paying prior-year charges* later in this chapter).

Direct disbursement to the student

You may also disburse FSA funds directly to the student or parent. Most schools choose to first credit FSA funds to the student's account at the school and then disburse the credit balance to the student or parent.

There are three ways that a school may disburse FSA funds directly to the student or parent.

- ◆ **Issuing a check or other instrument** payable to and requiring the endorsement or certification of the student or parent (a check is issued if the school releases or mails the check to a student or parent, or notifies the student or parent that the check is available for immediate pickup).
- ◆ **Initiating an EFT** to a bank account designated by the student or parent, including transferring funds to stored-value cards and debit cards (see the discussion under *Paying FSA Credit Balances* later in this chapter).
- ◆ **Disbursing to the student in cash**, provided that your school obtains a signed receipt from the student or parent.

Self-assessment tool for disbursement procedures

You can evaluate your school's procedures by referring to *Disbursing Aid* in the *Fiscal Management* module of *FSA Assessments*.

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

Method of disbursement

- Credit to student's account: 34 CFR 668.164(a), (b), &(d)(1)
- Direct disbursements: 34 CFR 668.164(d)
- Releasing a Pell check: 34 CFR 690.78(c)
- Cost of attendance: Section 472 of the HEA
- Prior-year charges: 34 CFR 668.164(d)(2)

Tuition and fees

Section 472 of the HEA
34 CFR 668.164(d)

Crediting Direct Loan funds to current charges first

Direct Loan funds credited to a student's account must first be used to pay for current charges.

Disbursements in programs of less than one year where grades are not awarded

Before disbursing funds to students enrolled in programs equal to or less than one year in which students do not receive grades or credits until the end of the program, your school must have a satisfactory academic progress standard as described in *Volumes 1 and 2* of the *Federal Student Aid Handbook*, and you must—

- measure a student's standing vis-a-vis satisfactory academic progress by the time the student has completed one-half of the program (one payment period). If no grades are given for the first half /payment period, a comparable assessment must be made; and
- not make second disbursements of FSA funds to a student who is not making satisfactory academic progress, except that a student on probation or warning may receive a second disbursement if he or she has completed the clock hours or credit hours associated with the first period.

INSTITUTIONAL CHARGES

Institutional versus noninstitutional charges

Institutional charges generally are defined as the charges for tuition and fees, room and board, and other educational expenses that are paid to the school directly. If a fee (like a registration or technology fee) is required for all students in a program, then the fee should be considered an institutional charge. A charge does not have to appear on a student's account to be considered an institutional charge.

The following educational expenses must be considered institutional charges:

- ◆ all charges for tuition, fees, and room and board (if contracted with the school); and
- ◆ expenses for required course materials (books, kits, tools, supplies, etc.) if the student does not have a real and reasonable opportunity to purchase the required course materials from any place but the school.

Exceptions: Excludable costs are costs a school may exclude from the total amount of institutional costs, such as the documented cost of unreturnable equipment and documented cost of returnable equipment if not returned in good condition within 20 days of withdrawal.

Noninstitutional charges (not included in a Return calculation) include:

- ◆ charges for any required course materials that a school can document a student had a real and reasonable opportunity to purchase elsewhere (see the discussion that follows);
- ◆ charges to a student's account for group health insurance fees if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal, and
- ◆ charges to a student's account for discretionary, educationally related expenses (e.g., parking or library fines, the cost of athletic or concert tickets, etc.).



Paying Overtime Charges is Prohibited

A school may not use Title IV funds to pay overtime charges for a student who fails to complete his or her academic program within the normal time frame. Section 472 of the HEA defines cost of attendance as the tuition and fees normally assessed a student carrying the academic workload required of all students in the same course of study. Overtime charges are in addition to normal tuition and fees. Since they are not charges normally assessed, they may not be included in a student's cost of attendance for Title IV purposes. (See *Volume 3*, chapter 2 for additional information.)

Three Principles Associated With Institutional Charges

Published in a January 7, 1999, policy bulletin, these principles are applicable to determining institutional charges.

Principle 1: Most costs charged by the school are institutional charges.

The most important principle to keep in mind is that all tuition, fees, room and board, and other educationally related charges a school assesses a student are institutional charges, unless demonstrated otherwise. If you want to exclude specific charges or costs from a calculation, you must document that the charges are not institutional charges.

Principle 2: An institutional charge does not need to be assessed to all students.

A charge assessed to all students enrolled in a course or program is an institutional charge whether or not it is assessed to all students at the school. Moreover, a charge does not have to be specified in a student's enrollment agreement to be considered an institutional charge.

Principle 3: Charges on a student's account are not always school charges; school charges do not always appear on a student's account.

With the student's authorization, a school may credit a student's account with Title IV funds to pay for noninstitutional charges. If a student withdraws from the school with debits for noninstitutional charges on his or her account, the school should exclude those charges from the Return calculation.

Conversely, there may be institutional charges that do not appear on a student's account. If a school disburses Title IV funds to a student to buy required books, equipment, supplies, or materials and the student does not have a real and reasonable opportunity to purchase them from another source, those costs must be classified as institutional charges.

PAYING INSTITUTIONAL CHARGES

Paying pass-through charges

Charges Incurred at Bookstores

DCL GEN-12-21, November 28, 2012

The law allows a school to credit a student's account with FSA funds to pay for institutionally provided housing, or to pay for charges incurred at a school owned bookstore. However, it is not necessary that the school actually own the student housing or the bookstore. The school may enter into a contract with a third party to provide institutional housing and/or bookstore services.

Under a contractual agreement, for housing and books and supplies, we view the school as providing the goods and services itself. Consequently, as allowed under 34 CFR 668.164(d)(1)(iv) and (d)(2)(ii), with the student's authorization, a school may credit a student's account with Title IV, HEA funds to pay for housing and for educationally related charges incurred by the student at the bookstore.

A school may credit a student's account with Title IV, HEA funds to pay for educationally related goods and services purchased by the student at a bookstore as long as (1) the school has a written contract or other legal agreement with the entity operating the bookstore under which the student is able to charge educationally related goods and services, and (2) the school obtains the student's authorization.

Keep in mind that other FSA requirements apply to both the funds used for the housing payment and bookstore services, and to the physical location of the housing or bookstore. For instance



Students must have an option

A school must give a Pell Grant-eligible student the opportunity to opt out of having purchases of books and supplies from any institutionally owned or contracted bookstore charged to the student's account.

34 CFR 668.164(i)(3)

- ◆ A school must include the cost of housing as an institutional charge in any Return calculation required when an eligible recipient ceases to be enrolled prior to the end of the payment period or period of enrollment. (See *Volume 5*.)
- ◆ A student's bookstore charges must be included as institutional charges when performing a Return calculation if the student did not have a "real and reasonable opportunity" to purchase the books and supplies from any place other than at that bookstore.
- ◆ The school must include the contracted third-party housing among the locations for which it fulfills the requirements for reporting campus crime and safety information.
- ◆ If the bookstore is located on-campus, or, if the bookstore is in any off-campus building or property that is owned or controlled by the institution, the institution must include the bookstore among the locations for which it fulfills the requirements for reporting campus crime and safety information.

www2.ed.gov/admins/lead/safety/handbook.pdf

See *Volume 2* for additional information.

Campus security

34 CFR 668.41(e), 668.46, and 668.49



The third party that owns the housing or bookstore also must comply with the civil rights and privacy requirements contained in the school's Program Participation Agreement (see *Volume 2*).

Paying prior-year charges

In general, FSA funds may only be used to pay for the student's costs for the period for which the funds are provided. However, a school may use current-year funds to satisfy prior award year charges for tuition and fees, room, or board (and with permission, educationally related charges) for a total of not more than \$200. **A school may not pay prior-year charges in excess of \$200.00.**



FSA funds may not be used to repay a student's loan. Loan payments are not part of the cost of attendance for the period of enrollment.

The costs of education and other services a school provides a student are associated with the "year" for which the education and services are provided. **A school has discretion over how it defines a "year."**

- ◆ **If a student's aid package includes a Direct Loan, the "year" is the loan period.** In this scenario, costs for the current year are defined as charges for education and services the institution will provide during the current loan period for which the school originates a Direct Loan.
- ◆ **If the student does not have a Direct Loan, the "year" is the award year,** and costs for the current year are defined as charges for education and services the school will provide during the current award year.

Prior-year charges

34 CFR 668.164(d)(2)

DCL GEN-09-11

Prior Year

If the student's aid package does not include a Direct loan, *prior year* means **any** award year that ended prior to the start of the current award year.

If the student's aid package includes a Direct Loan, *prior year* means **any** loan period that ended prior to the start of the current loan period.

Apportioning and prorating charges

In most cases, the total charges a school assesses the student in a semester, academic year, or other instructional period are for education and services the institution provides within that period of time. However, some schools charge a student up front for the total cost of a multiyear program (for example, the student signs an enrollment agreement and is charged for the total costs of an 1,800-clock-hour program at the beginning of the program). In this case, because the charges assessed up front represent the costs of education and services that will be provided over a two-year period, the institution would, on a program basis, apportion the total charges over the two-year period to determine the amount of charges applicable to each year (each loan period or award year, as appropriate).

Institutional charges (generally speaking, tuition and fees) allocated to each year (or portion of a year) would be based on the education and services the school provides during that period of time, in the same way as they are for schools that charge their students year by year. Charges for books, equipment, supplies, and other materials could be allocated on a pro rata basis, or, alternatively, could be allocated to the period in which they must be purchased. An institution would use the total charges allocated to each year in determining the amount of current-year charges. The amount of current-year charges would then be used for determining whether the student has an FSA credit balance as described later in this chapter.

Note that this procedure for apportioning the costs over the length of the program does not affect how a school maintains or should maintain its accounting records.

Example: Apportioning Charges When a School Posts All Charges to the Student's Account During the First Payment Period and the Student Has an FSA Loan

Katrina Technical Center (KTC) is a nonprofit postsecondary institution located in Houma, Louisiana, offering a program in storm-water abatement. Hanna Galiano entered KTC's Abatement program on May 4, 2011. KTC posts the charges for the entire (1,500-hour) program at the beginning of the program.

Program Profile

Academic Year/Program	900 hours 30 weeks of instructional time
Program	1,500 hours 50 weeks of instructional time
Program Start Date	May 4, 2011
Program End Date	April 16, 2012
Program Cost	\$13,500.00
Pell Award Years Included	July 1, 2010–June 30, 2011 July 1, 2011–June 30, 2012
Payment Period 1 (450 hours)	May 4, 2011 to August 14, 2011
Payment Period 2 (450 hours)	August 17, 2011 to November 27, 2011
Payment Period 3 (300 hours)	November 30, 2011 to February 5, 2012
Payment Period 4 (300 hours)	February 8, 2012 to April 16, 2012
First loan period (900 hours)	May 4, 2011 to November 27, 2012
Second loan period (600 hours)	November 30, 2011 to April 16, 2012

Hanna's Federal Student Aid Information

Hanna was eligible to receive the following federal student aid during her program.

2010–2011 Pell Grant Scheduled Award	\$4,800.00
2011–2012 Pell Grant Scheduled Award	\$4,800.00
Subsidized Stafford Loan for First Loan Period	\$3,500.00
Subsidized Stafford Loan for Second Loan Period	\$2,334.00
Unsubsidized Stafford Loan for Second Loan Period	\$1,000.00

When a school charges for an entire program at the start of the course (up front), a school may apportion or otherwise assign the total charges for a multiyear program to determine the amount of those charges applicable to each year (loan period or award year as appropriate). **Note that a school must use the same basis to apportion the charges for all students in a program.** For example, KTC could:

- apportion the charges in proportion to the number of clock hours in each loan period (900 hours/\$8,100 in the first loan period and 600 hours/\$5,400 in the second loan period; or
- increase the charges the school assigned to the first loan period and decrease the charges in the second loan period because the school retained charges for books and materials in the first period; or

Apportioning charges example continued

- apportion the \$13,500 equally (\$6,750) over each of the two loan periods (four payment periods).

KTC chose to apportion the charges in proportion to the number of clock-hours in each loan period.

Student’s Apportioned Charges

First Payment Period (450 hours)	\$ 4,050
Second Payment Period (450 hours)	\$ 4,050
Third Payment Period (300 hours)	\$ 2,700
Fourth Payment Period (300 hours)	\$ 2,700

On May 4, 2010, the school credited Hanna’s account with \$4,150.00 in FSA funds—\$2,400 in 2009–2010 Pell Grant funds and \$1,750.00 in Stafford Loan funds. When applied against the \$4,050.00 in school charges for the first payment period, the FSA funds created an FSA credit balance of \$100.00 (\$4,150.00 – \$4,050.00) that the school electronically transferred to the bank account that Hanna had previously specified be used for that purpose.

On August 17, 2010, the school credited Hanna’s account with \$4,150.00 in FSA funds—\$2,400.00 in 2010–2011 Pell funds and \$1,750.00 in Stafford funds. When applied against the \$4,050.00 in school charges for the second payment period, the FSA funds created an FSA credit balance of \$100.00 (\$4,150.00 – \$4,050.00) that the school electronically transferred to Hanna’s specified bank account.

On November 30, 2010, the school credited Hanna’s account with \$2,767.00 in FSA funds—\$1,600.00 in 2010–2011 Pell funds and \$1,167.00 in Stafford funds. When applied against the \$2,700.00 in school charges for the third payment period, the FSA funds created an FSA credit balance of \$67.00 (\$2,767.00 – \$2,700.00) that the school electronically transferred to Hanna’s specified bank account.

Hanna began the fourth and final payment period on February 8, 2012, and the aid officer posted \$1,167.00 in Stafford funds to Hanna’s account. When the aid officer looked at Hanna’s Pell eligibility, she found that Hanna had already used \$4,000.00 of her \$4,800.00 scheduled award, so Hanna was eligible for only \$800.00 in Pell funds and a total of \$1,967.00 in FSA funds (\$1,167.00 + \$800.00).

When the \$1,967.00 in FSA funds was applied against the \$2,700.00 in school charges for the fourth payment period, an unpaid balance of \$733.00 (\$2,700.00 – \$1,967.00) remained. Hanna told the aid officer that she was able to meet her living expenses through her part-time job, but needed additional help to pay her tuition. She also said that she could use a little help with other school-related bills.

After discussing the matter, they arrived at the decision that Hanna would use an Unsubsidized Stafford Loan in the amount of \$1,000.00 to cover the balance of the tuition and the aid officer would transfer any credit balance remaining after her tuition was paid to the bank account Hanna had previously identified for that purpose.

Hannah’s tuition and fees were now paid in full.

Hanna graduated from KTC and is working for the Army Corps of Engineers helping ensure that the levees in New Orleans never fail again.

Time frame for paying FSA credit balances



An FSA credit balance occurs whenever your school credits FSA program funds to a student's account and the total amount of those FSA funds exceeds the student's allowable charges. Please see *Volume 5* for a discussion of credit balances when a student withdraws.

If FSA disbursements to the student's account at the school create an FSA credit balance, you must pay the credit balance directly to the student or parent as soon as possible but no later than 14 days after:

- ◆ the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or
- ◆ the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period.

The law requires that any excess PLUS Loan funds be returned to the parent. Therefore, if PLUS Loan funds create a credit balance, the credit balance would have to be given to the parent. However, the parent may authorize your school (in writing or through StudentLoans.gov) to transfer the proceeds of a PLUS Loan credit balance directly to the student for whom the loan is made (for example, to a bank account in the student's name). The Department does not specify how a school must determine which FSA funds create an FSA credit balance.

Credit balances

34 CFR 668.164(e)

Direct payments to students

34 CFR 668.164(c)

School responsibility to pay credit balance in time frame

34 CFR 668.164(e)(1)&(2)

School responsibility to pay credit balance by the end of the last payment period

34 CFR 668.165(b)(5)(iii)

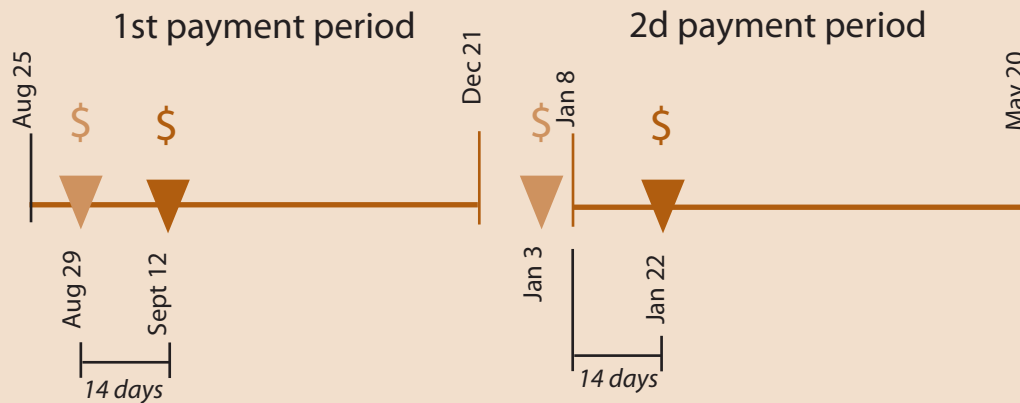


A school may not require a student to take any actions to obtain his or her credit balance. It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory time frames.



Notwithstanding any authorization obtained by the school, the school must provide the student with any remaining FSA credit balance resulting from FSA loan funds by the end of the loan period and any other FSA program credit balances by the end of the last payment period in the award year for which the funds were awarded.

Example — 14-Day Time Frame for Paying Credit Balances



In the first payment period above, the school disburses FSA funds to incoming students after the students have started classes, so it has 14 days from that date to pay the credit balance to the student (or parent, in the case of PLUS).

In the second payment period, the school disburses FSA funds before classes start, so the school has 14 days *from the beginning of classes* to pay the credit balance.

FSA credit balances example

An FSA credit balance occurs only if the total amount of FSA program funds credited to the student's account exceeds allowable charges.

For example, Ms. Inu Nagar enrolls at Eaglewood Technical Institute as a computer student, and her total allowable charges for the fall term amount to \$1,500. ETI credits \$2,000 to her account, **comprised of** \$1,000 in FSEOG, \$500 in private scholarship funds, and \$500 in Pell Grant funds.

Although there is an excess of \$500 on the account, this does not constitute an FSA credit balance because the total amount of FSA funds (\$1,500) credited to the student's account does not by itself exceed the amount of allowable charges (\$1,500).

If, in this example, ETI credited \$600 of Pell Grant funds, rather than \$500, an FSA credit balance of \$100 would be created because the total FSA funds credited to the account (\$1,600) would exceed the allowable charges (\$1,500). The order in which these funds were credited does not matter.

PAYING FSA CREDIT BALANCES

Paying FSA credit balances by issuing a check

A school may pay a credit balance to a student by issuing a check payable to and requiring the endorsement of the student or parent. A school is considered to have issued the check on the date that it:

- ◆ mails the check to the student or parent; or
- ◆ notifies the student that the check is available for immediate pickup and provides the specific location.

A school that is paying a student his or her credit balance with a direct disbursement must pay the student within the 14-day time frame. A school can, within that 14-day period, do a number of things, including sending a notice to the student that his or her money is available. A school that does that is considered to have met the 14-day requirement to give the student his or her credit balance, as long as the school's process complies with the rest of the regulation. That is, **the school must be able to give the student a check when the student comes to the office within the 14-day time frame.**

If a student is told (within the 14-day period) to come to the business office to pick up his or her credit balance, the student must be able to leave the business office with the funds in some form (e.g., a check, cash, or an appropriate stored-value card), and not be told that a check will be mailed to him or her.

A school may hold the check for up to 21 days after the date it notifies the student. If the student does not pick up the check within this 21-day period, the institution must immediately mail the check to the student or parent, initiate an EFT to the student's or parent's bank account, or return the funds to the appropriate FSA program.

Paying FSA credit balances by initiating an EFT

A school may pay a credit balance by initiating an EFT to a bank account designated by the student or parent. Moreover, a school may establish a policy requiring its students to provide information about an existing bank account or open an account at a bank of the student's choosing as long as this policy does not delay the disbursement of FSA funds to students. Consequently, **if a student does not comply with the school's policy, the school must nevertheless disburse the funds to the student either by dispensing cash, for which the school obtains a signed receipt, or issuing a check. A school must disburse the credit balance within the regulatory time frame.**

Refunds vs. paying credit balances

FSA regulations refer to the amount of aid that exceeds the allowable charges as a credit balance. School administrators sometimes refer to this as a refund; however, it is not the same thing as a refund under the school's refund policy or a post-withdrawal disbursement given to a student under the Return of Title IV Funds rules.

Credit balances under \$1.00

A school is not required to pay a credit balance that is less than \$1.00.

Paying credit balance by check

34 CFR 668.164(c)(1)(i)&(ii)

Delivery of FSA Funds Must Be Free

Schools are prohibited from charging students a fee for delivering FSA funds. If a school delivers FSA funds to students by crediting funds to a school-issued debit or smart card, the school may not charge students a fee for making withdrawals of FSA funds from that card. However, the school may charge for a replacement card.

Paying credit balance by EFT

34 CFR 668.164(c)(1)(iii), (c)(2) & (c)(3)

Bank Account

Bank Account means a Federal Deposit Insurance Corporation (FDIC) insured account or a National Credit Union Share Insurance Fund (NCUSIF) account. This account may be a checking, savings, or similar account that underlies a stored-value card or other transaction device.



Standards for School-Required Bank Accounts (34 CFR 668.164(c)(3))

In cases where a school opens a bank account on behalf of a student or parent, establishes a process the student or parent must follow to open a bank account, or similarly assists the student or parent in opening a bank account, the school must:

- obtain in writing affirmative consent from the student or parent to open that account. (If a school fails to obtain a student’s consent, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations and at no cost to the student.);
- inform the student or parent of the terms and conditions associated with accepting and using the account before the account is opened,;
- not make any claims against the funds in the account without the written permission of the student or parent, except for correcting an error in transferring the funds in accordance with banking protocols;
- ensure that the student or parent does not incur any cost in opening the account or initially receiving any type of debit card, stored-value card, other type of automated teller machine (ATM) card, or similar transaction device that is used to access the funds in that account;
- ensure that the student has convenient access to a branch office of the bank or ATMs of the bank in which the account was opened (or ATMs of another bank), so that the student does not incur any cost in making cash withdrawals from that office or ATMs.

This branch office or these ATMs must be located on the institution’s campus, in institutionally-owned or operated facilities, or consistent with the meaning of the term “public property” immediately adjacent to and accessible from the campus.

- ensure that the debit, stored-value or ATM card, or other device can be convertible to cash and can be widely used (e.g., the institution may not limit the use of the card or device to particular vendors); and
- not market or portray the account, card, or device as a credit card or credit instrument, or subsequently convert the account, card, or device to a credit card or credit instrument.

When a school uses third-party servicers to disburse FSA funds

In response to current trends, banks and financial service companies are now offering services that include:

- ◆ obtaining a student’s authorization to perform electronic transfers;
- ◆ transferring Title IV funds electronically to a student’s bank account;
- ◆ opening a bank account for the student; and
- ◆ issuing debit cards in conjunction with a participating bank.

Companies that contract with schools to provide these types of services in some instances become third-party servicers.

So long as a school cannot recall or receive a payment from a student or parent account, the Department considers the electronic transfer of funds to a bank account that a servicer opens on behalf of a student to be the equivalent of a school’s transfer of funds to a student’s account and the equivalent of making a direct payment to a student.

A school that enters into a contract with a servicer to provide debit, demand, or smart cards through which FSA credit balances are paid to students must have a system to ensure compliance with all regulatory time frames, including students having access to any credit balance within the 14 days and to any FWS wages at least once per month.

! Schools and third-party servicers that disburse Title IV funds should take note of the information in DCL GEN-12-08.

! If the school offers a debit card, stored-value card, or ATM card, or a similar transaction device through its servicer or its servicer’s financial institution, the school must inform its students of the terms and conditions associated with the card.

! The school must inform the student before the account associated with the card is opened of the terms and conditions of the card or other instrument, including any fees and other costs associated with the account. This information should include whether all or some of the fees incurred per month by the student will be refunded back to the student’s account. A school, its third-party servicer, or the servicer’s financial institution may not charge a fee for delivering Title IV, HEA funds, nor may they charge a fee for “lack of documentation” levied against a student who fails to provide required documentation to open an account at the school’s or servicer’s financial institution.

Schools must inform students

34 CFR 164(c)(3)(ii)

! We encourage schools to disclose annually a breakdown of the average annual costs incurred by their students for using the debit cards activated via any third-party servicer agreement.

Schools also should mention whether cards issued through the school’s contracted ATM are part of a surcharge-free network, indicate the name of the network, and indicate the approximate number of available ATMs in that network both nationally and locally. Schools should also disclose how many surcharge-free ATMs are on their campus, their locations, the hours that they are accessible to patrons, and, if available, a hyperlink to an ATM locator for their affiliated networks.



Number of ATMs Required

Although the regulations provide that a school must ensure that students have convenient access to ATMs or a branch office of the bank in which the account was opened, the Department has not provided specific guidelines for determining the minimum number of a servicer's ATMs that should be available to its student population.

The Department may ask the school to show how it determined the number of surcharge-free ATMs that are located on the institution's campus, in institutionally owned or operated facilities, or, consistent with the meaning of the term "public property" immediately adjacent to and accessible from the campus.

We note that the intent of the regulations is to ensure that students can make unlimited withdrawals from their on-campus ATMs without incurring a fee.

34 CFR 668.164 (c) (3)(v)
34 CFR 668.46(a)



Third-party Servicer Agreements



A third-party servicer is an entity that contracts with a school to administer any aspect of its FSA programs, including managing the school's Perkins Loan collections. Thus, if a school contracts with a company to perform activities that are the school's responsibilities under the FSA regulations, the company is a third-party servicer.

The agreement between the school and servicer must be in the form of a written contract that may or may not require compensation to the third-party servicer. The contract between the institution and the third-party servicer must provide that the third-party servicer agrees to:

- Comply with all the Title IV provisions (this includes those that refer solely to institutions as well as those that explicitly reference third-party servicers);
- Be jointly and severally liable with the institution for any violation by the third-party servicer of any Title IV, HEA provision;
- Use any Title IV funds (and any interest or earnings on them) solely for the purposes specified in and in accordance with the applicable program regulations;
- Refer any reasonable suspicion of fraudulent or criminal conduct in the Title IV programs by the institution or by an applicant or student to the Department's Inspector General;
- Return to the institution all Title IV, HEA program funds and records related to the servicer's administration in the Title IV, HEA programs if the contract is terminated, if the servicer ceases to perform any functions prescribed under the contract, or if the servicer files for bankruptcy;
- Annually submit a compliance audit as provided at 34 CFR 668.23. For a servicer that contracts with several participating institutions, a single compliance audit can be performed that covers its administrative services for all those institutions. Additional information regarding these requirements can be found at the Department's Inspector General's Web site at:

www2.ed.gov/about/offices/list/oig/nonfed/sfa.html

34 CFR 668.25(c)
34 CFR 668.23(a)(3) & (c)
DCL GEN-12-08
34 CFR 99.31(a)(1)(i)(B)

School-issued stored-value cards



When a school pays an FSA credit balance to a student by making those funds available through a **school-issued stored-value card over which the school exercises control**, the school is, in effect, holding a student's FSA credit balance. Therefore, **all of the conditions on holding credit balances apply**.



If a student withdraws his or her authorization for the school to hold the credit balance in a school-issued stored-value card, **the school must deliver any remaining credit balance within 14 days**.



If a student withdraws from school and any of the FSA credit balance in his or her school-issued stored-value card is unclaimed, the school must return to the Department any unclaimed funds within the time frames specified earlier in this volume under *Time frame for returning unclaimed FSA credit balances*.

Requirements for Stored-Value and Prepaid Debit Cards

(DCL GEN 05-16 as modified by 34 CFR 668.164(c)(1)(iii)&(iv), (c)(2)&(c)(3))

A stored-value card is a prepaid debit card that can be used to withdraw cash from an automated teller machine (ATM) or to purchase goods from a merchant. We distinguish a stored-value card from a traditional debit card in this discussion by defining a stored-value card as not being linked to a checking or savings account.

Typically, a school enters into an agreement with a bank under which the bank issues stored-value cards directly to students identified by the school. In a payroll or credit balance transaction, the school electronically transfers funds to the bank on behalf of a student, and the bank makes those funds available to the student by increasing the value of the card. Since the funds are transferred from the school's account to the bank, so long as the school cannot recall those funds to pay other charges for the student without the student's written permission, the transaction would be equivalent to paying the funds directly to the student.

Under the following conditions, a school may use stored-value cards as a way to make direct payments to students (such as credit balances and FWS wages) by following these 10 rules.

1. A school must obtain a student's authorization to use a stored-value card for paying FWS wages.
2. The value of the card must be convertible to cash (e.g., a student must be able to use it at an ATM to make a cash withdrawal). In some cases, the cards are branded such as with the VISA or MasterCard logo, so the card may also be used to buy goods and services. We would not expect a school to limit the use of the card to specific vendors.
3. A student should not incur any fees for using the card to withdraw Title IV funds from ATMs of the issuing bank or credit union, including for failure to maintain a minimum balance. So long as ATMs from the issuing bank are conveniently located, a student may be charged a reasonable fee if the student chooses to use an ATM that is not associated with the issuing bank.
4. A student should not be charged by either the school or the affiliated bank for issuing a stored-value card. However, in the case of a lost or stolen card, a student may be charged a reasonable fee for a replacement card.
5. In order to minimize any risks with disbursing funds to a stored-value card account set up for a student, the account at the bank or credit union must be Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF) insured. This means that there has to be an individual account for each student that is FDIC or NCUSIF insured.
6. In order for the disbursements to the stored-value card to be treated as payments made to a student, a school cannot make any claims against the funds on the card without the written permission of the student, except to correct an error in transferring the funds to the bank under existing banking rules.
7. Since the stored-value card is being set up to disburse federal student aid funds to a student, the account should not be marketed or portrayed as a credit card account and should not be structured to be converted into a credit card at any time after it is issued.

A bank may wish to use its relationship with a student to offer other banking services such as checking accounts, savings accounts, or credit cards, but those should not link to the stored-value card account.
8. Prior to the card's activation, a student must be informed of all terms and conditions associated with accepting and using the card.
9. A school must ensure that its stored-value card process meets all regulatory time frames. (For example, a student must have access via the card to any credit balance within the 14-day time frames in 34 CFR 668.164, or to any FWS wages at least once per month.)¹
10. A student's access to the funds on the stored-value card should not be conditioned upon the student's continued enrollment, academic status, or financial standing with the school.

1. If a school fails to obtain or the student withdraws his or her authorization, the school must have an alternative means of ensuring the student has access to his or her FSA credit balance within the time allowed by regulations and at no cost to the student.

Special provisions for books and supplies

In order to academically succeed in a program, a student must be able to purchase books and supplies at the beginning of the academic period. Therefore, by the seventh day of a payment period, a school must provide a way for a student who is eligible for a Federal Pell Grant to obtain or purchase the books and supplies required for the payment period if:

- ◆ ten days before the beginning of the payment period, the school could have disbursed FSA funds to the student; and
- ◆ disbursement of those funds would have created an FSA credit balance.

A school must consider all the FSA funds a student is eligible to receive at the time it makes the determination, but the school need not consider aid from non-FSA sources.

A school that includes the costs of books and supplies in the tuition charged and provides all of those materials to the student at the start of his or her classes meets the requirements of these regulations.

The amount a school must provide is the lesser of the presumed credit balance or the amount determined by the school that the student needs to obtain the books and supplies. In determining the required amount, a school may use the actual costs of books and supplies or the allowance for those materials used in estimating the student's cost of attendance for the period.

A school's policy must allow a student to decline to participate in the process the school provides for the student to obtain or purchase books and supplies.

If a school uses a bank-issued stored-value or prepaid debit card that is supported by a federally insured bank account to deliver funds for books and supplies, a student must have access to the funds via the card by the seventh day of his or her payment period. If a bank delays issuing a stored-value or prepaid debit card to the student because it must resolve conflicting identity data under federal law, the Department will not hold the institution accountable as long as the institution exercises reasonable care and diligence in providing in a timely manner any identity information about the student to the bank. Likewise, the school is not responsible if the student provides inaccurate information or delays in responding to a request from the bank to resolve any discrepancies.

Provisions for books and supplies

34 CFR 668.164(i)

Authorization not required

If a Pell-eligible student uses the process provided by the school to obtain books or supplies, the student is considered to have authorized the use of the FSA funds, and no written authorization is required.

School options

A school has the flexibility to choose the method or methods to satisfy this provision based on its administrative needs and constraints or an evaluation of the costs and benefits of one or more method. For example, the school may issue a bookstore voucher, make a cash disbursement, issue a stored-value card, or otherwise extend credit to students to make needed purchases.

Schools may apply credit balances early to all students

Although the requirement is about a school providing a way for a student who is eligible for a Federal Pell Grant to obtain books and supplies, a school is not prevented from making credit balance funds available early in the payment period to other students.

Effect of Verification

To be eligible to receive the disbursement for books and supplies, a student must meet all the student eligibility requirements before the start of the student's payment period.

A student who has not completed the verification process, has an unresolved "C" code on the SAR and ISIR, or has unresolved conflicting information is not covered by the special provisions for books and supplies if those issues have not been resolved at least 10 days before the start of the student's payment period.

30-day Delay Requirement

If the 30-day delayed disbursement provisions for Stafford Loans apply to a student, a school should not consider the amount of any loan disbursement in determining the credit balance because the school may not disburse that loan 10 days before the start of that student's payment period.

Taking Attendance

A school may take attendance or use an equivalent method to determine if a student is attending class, but unless the school determines that the student is not attending class, by the seventh day of the payment period, that student must be able to obtain books and supplies.

When a Student Withdraws

The requirement to provide a way for students to obtain their books and supplies does not change the treatment of FSA funds when a student withdraws as discussed in *Volume 5*.

When a Student Fails to Begin Attendance

The requirement to provide a way for students to obtain their books and supplies does not change the treatment of FSA funds when a student fails to begin attendance as discussed earlier in this chapter.

Under a consortium agreement between two eligible schools, if a student is enrolled in a course at the host school and classes start before the payment period begins at the home school that is paying the FSA funds, the regulations require that the student obtain the books and supplies by the seventh day of the start of the payment period of the home school. If the host school is paying the FSA funds, the student must be able to obtain the books and supplies by the seventh day of the start of the payment period of the host school.

A student may decline to participate (opt out) in the way a school provides for obtaining books and supplies. For instance, if a school provides a bookstore voucher, the student may opt out by not using the voucher. If the school provides the funds using a stored-value or prepaid debit card, the school must have a procedure through which the student may opt out. For example, a school may require a student to notify the school by a certain date so that the school does not unnecessarily issue a check to the student or transfer funds to the student's bank account. If a student opts out, the school may, but is not required to, offer the student another way to purchase books and supplies as long as it does not otherwise delay providing funds to the student as a credit balance.

A school is required to provide, in its financial aid information and its notifications provided to students receiving FSA funds, information on the way the school provides for Federal Pell Grant eligible students to obtain or purchase required books and supplies by the seventh day of a payment period under certain conditions and how the student may opt out. The information must indicate whether the school will enter a charge on the student's account at the school for books and supplies or pay funds to the student directly. Also, during the aid counseling process, the school must explain to a student who qualifies for the funds advanced to purchase books and supplies how the method is handled at the school and how a student may opt out.

Time frame for returning an unclaimed Title IV credit balance



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

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. When a check is returned or EFT is rejected and the school does not make another attempt to disburse the funds, 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. All unclaimed credit balances must be returned. There is no *de minimis* amount.

Book vouchers and institutional charges in the return of Title IV funds calculations



Remember, if a book voucher issued by a school cannot be used to purchase course materials from a **convenient unaffiliated source**, the student does not have a **real and reasonable opportunity** to purchase his or her course materials elsewhere.

In that case, the school must include the cost of books and materials purchased with the voucher as institutional charges in Step 5, Part L of any Return of Title IV funds calculation.

HOLDING FSA CREDIT BALANCES

A school is permitted to hold credit balances if it obtains a voluntary authorization from the student (or parent, in the case of PLUS). If your school has the authorization to hold the credit balance, it must identify the amount of funds that it holds for the student or parent in a subsidiary ledger account designated for that purpose. Your school also must maintain, at all times, cash in its bank account at least equal to the amount that it holds for students. The school is permitted to retain any interest earned on the student's credit balance funds.

Because FSA funds are awarded to students to pay current year charges, notwithstanding any authorization from the student or parent, you must pay:

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

If your school has lost contact with a student who is due a credit balance, you must use all reasonable means to locate the student. If you still cannot find the student, your school must return the credit balance to the appropriate FSA program(s) and/or lender. The FSA regulations do not set specific rules for determining which funds created a credit balance. However, we encourage schools to return FSA funds to loan programs first to reduce the borrower's loan balance.

Authorization to hold an FSA credit balance



All elements of an authorization to hold an FSA credit balance must be conspicuous. An authorization must include the following elements:

- ◆ An authorization must explain what FSA funds are covered by the document, and it must specify the time period covered.
- ◆ An authorization must clearly provide the student or parent with the information he or she needs to make an informed decision.
- ◆ The student or parent must be informed that he or she may refuse to authorize any individual item, that he or she may cancel such authorization at any time, and that a cancellation is not retroactive.
- ◆ A credit-balance authorization must provide detail that is sufficient to give the student or parent an idea of how the credit balance will be used.

For detailed information to hold a credit balance, see the discussion on that topic under *Authorizations* earlier in this chapter and the sample authorization on the next page.

The Department may prohibit holding credit balances

If the Department has placed a school on reimbursement or determines that the school has failed to meet financial responsibility standards, it may choose to prohibit the school from holding a credit balance for any student.

Sample Authorization to Hold an FSA Credit Balance

TRISKAIDEKA MARLEY UNIVERSITY AUTHORIZATION TO HOLD A FEDERAL STUDENT AID CREDIT BALANCE

Through this document, you will tell Triskaideka Marley University (TKMU/the University) how you would like the school to manage the Federal Student Aid (FSA) credit balance on your student account.

An FSA credit balance is created when the total of all FSA funds credited to a student's account exceeds the total of tuition, fees, room, board, and other eligible educational charges on a student's account. Your FSA credit balance of \$2,500 was created by funds from the Federal Pell Grant and Federal Direct Loan Programs.

Unless a student or parent (in the case of a Parent PLUS loan) authorizes a school to hold a credit balance, the credit balance must be paid to the student or parent as soon as possible but no later than 14 calendar days after the balance is created (or 14 calendar days after the first day of class if the credit balance was created before the first day of class).

This form, if signed by you, authorizes TKMU to retain an FSA credit balance and pay it to you (the student or parent, as applicable) in accordance with *TKMU'S Procedure for Paying Federal Student Aid Credit Balances*. TKMU will pay credit balances by depositing the funds in a savings or checking account designated by the student or parent or transferring the funds to a "stored-value" or "debit card" designated by the student or parent.

A student or parent has the right to withhold agreement from all or part of this authorization. If you elect not to authorize the University to hold your FSA credit balance, the funds will be paid to you (the student or parent as applicable) within the 14-day period noted above. Note that if you elect not to sign this form or if you later cancel your authorization, you will be required to pay any outstanding charges to the University.

This authorization will remain in effect for each subsequent payment period unless you withdraw it. However, in no case will TKMU hold an FSA credit balance of loan funds beyond the end of the loan period, nor an FSA credit balance of other funds beyond the end of the last payment period in the award year for which the funds were awarded.

This authorization may be withdrawn at any time by providing a written request to the following address:

**TKMU Financial Aid Office
Director of Financial Aid
1300 Ted Drive, Suite 1313
Pixie, CA 13013**

If you withdraw your authorization, the University will deliver any remaining credit balance to you within 14 days. (Note that your cancellation is not retroactive.)

Authorization

I voluntarily authorize the University to hold and manage my FSA credit balance as described above, and I acknowledge that interest will not be earned on these balances.

Signature

LATE DISBURSEMENTS

Generally, an otherwise eligible student or parent becomes ineligible to receive FSA funds on the date that the student:

- ◆ for the Direct Loan program, is no longer enrolled at least half time; or
- ◆ for the FSA Grant, or the Perkins Loan programs, the student is no longer enrolled at the school for the *award year*.

However, if certain conditions are met, students must be considered for a disbursement after the date they became ineligible. These disbursements are called “late disbursements.”

Conditions for a late disbursement

A student must be considered for a late disbursement if the Department processed a SAR/ISIR with an official EFC before the student became ineligible. Therefore, a school must review its records to see if a student who did not receive a disbursement of FSA funds before becoming ineligible is eligible for a late disbursement. (Check the “processed date” as described in the sidebar.) In addition, for a Direct Loan, the loan must be originated prior to the date the student became ineligible. For an FSEOG or a Federal Perkins Loan, the school must have made the award to the student prior to the date the student became ineligible. For a TEACH Grant, the school must have originated the award.

If a school receives a valid SAR/ISIR for a student who is no longer enrolled, before performing a Return calculation, the school must recalculate the FSA grant eligibility based on the student’s enrollment status on the date the student ceased to be enrolled.

Late disbursements that must be made vs. late disbursements that may be made

If a student who qualifies for a late disbursement completes the payment period or period of enrollment, or withdraws during the payment period or period of enrollment, a school **must** make or offer, as appropriate, the late disbursement. A late disbursement for a student who has withdrawn during the payment period or period of enrollment is called a post-withdrawal disbursement (see *Volume 5*).

If a student did not withdraw or fail to complete the payment period or period of enrollment but ceased to be enrolled as at least a half-time student, a school **may** make a late disbursement of a Direct Loan. So long as a school has previously confirmed that a student started the loan period enrolled at least half time, a school is not required to reconfirm a student’s attendance before making a late disbursement of an FSA loan.

Late disbursements

34 CFR 668.164(g)

Processed Date

For purposes of determining eligibility for a late disbursement, use the processing date on the SAR/ISIR. For an ISIR, use the field labeled *Processed Date*. For a SAR, use the date above the EFC on the first page. For a SAR Acknowledgment, use the date labeled “transaction process date” in the School Use box.

Obtaining SAR/ISIR With Earlier Process Date

In some cases, a school may have a SAR/ISIR with an official EFC processed while the student was enrolled but before the student listed the school on the FAFSA or ISIR. Subsequently, the school may have received a SAR/ISIR for the student with a processed date after the student ceased to be eligible. In this case, you need to obtain a copy of the earlier SAR/ISIR to document eligibility for the late disbursement.

Pell and Iraq & Afghanistan Service Grant disbursements

If a school receives a valid SAR or ISIR within the applicable deadlines, it must disburse the student’s Pell or Iraq & Afghanistan Service Grant.

34 CFR 690.61(a)

Late Disbursements May Be Declined

Though a school must make or offer late disbursements, a student or parent is never required to accept it. For example, a student may decline a late disbursement of a loan to avoid taking on debt.

A student who withdraws and subsequently signs a promissory note in time for the school to include the loan funds in the Return of Title IV Aid calculation may receive a late (post-withdrawal) disbursement of the applicable amount of his or her loan funds (see *Volume 5* for more information). In addition, a student who loses eligibility for a reason other than his or her withdrawal and subsequently signs a promissory note may receive a late disbursement of the applicable amount of his or her loan funds.

Limitations on making a late disbursement

The regulations prohibit a school from making a late disbursement in certain situations, **even if a student otherwise meets the conditions for a late disbursement. A school is prohibited from making:**



- ◆ a late second or subsequent disbursement of Direct Loan funds unless the student has graduated or successfully completed the loan period;
- ◆ a late disbursement of Direct Loan funds to a first-year, first-time borrower who withdraws before the 30th day of the student's program of study, unless the school meets the requirements for a waiver based on low default rates (see *Volume 2*); and
- ◆ a late disbursement of Title IV funds to a student for whom the school did not have a valid SAR/ISIR by the deadline established by the Department.

In addition, a school may not make a late disbursement later than 180 days after the date the student becomes ineligible.

Post-withdrawal disbursements

A post-withdrawal disbursement, a type of late disbursement, is FSA funds that were not disbursed before a student withdrew but which the student has earned based on a Return of Title IV Funds calculation. The conditions and limitations for a post-withdrawal disbursement are the same as for all other late disbursements. However, there are additional requirements for late disbursements made at post-withdrawal disbursements. A school must follow the rules for paying and/or offering a post-withdrawal disbursement in regulations governing the Return of Title IV Funds (see *Volume 5*).

34 CFR 668.22(a)(5)

Paying a late disbursement

If a school chooses to make a late disbursement of a Direct Loan to a student who ceases to be enrolled as at least a half-time student, the school determines the amount of the late disbursement of the Direct Loan it will offer the student by determining the educational costs the student incurred for the period of instruction during which the student was enrolled at least half time.



A school must contact a student prior to making any late disbursement of FSA loan funds and explain to the student his or her obligation to repay the loan funds if they are disbursed. The information provided in this notification must include the information necessary for the student or parent to make an informed decision about whether the student or parent would like to accept any disbursement of the loan funds. In addition, the school must confirm that the loan funds are still needed by the student and that the student wishes the school to make the disbursement.

Your school may credit a student's account with a late disbursement of FSA grant funds without the student's permission for any current allowable charges. A school must obtain a student's authorization to credit a student's account with FSA grant funds for charges other than current charges.

If grant funds remain to be disbursed from a late disbursement after the outstanding charges on the student's account have been satisfied, the school must pay the grant funds directly to the student within 14 days.



If a student with an FSA credit balance withdraws before the funds are disbursed, other limitations apply. See *Volume 5* for an explanation of the treatment of Title IV credit balances when a student withdraws.

Flexibility in Contacting Students

In order to avoid having to contact a student multiple times, a school may use one contact to:

- counsel a borrower about his or her loan repayment obligations;
- obtain permission to credit loan funds to a student's account to cover unpaid institutional charges;
- obtain permission to make a late disbursement of grant or loan funds for other than institutional charges;
- obtain permission to make a late disbursement of grant or loan funds directly to a student; and
- confirm that a student wishes the school to receive, as a direct disbursement, any grant or loan funds the student is due as a late disbursement.

A student's response to an offer of FSA funds from late disbursement does not have to be in writing. However, a school must document the student's response.

Conditions and Limitations on Late Disbursements

These Conditions Must Be Met Before a Student Loses Eligibility in Order for the Student to Receive a Late Disbursement (34 CFR 668.164(g)(2))

Program		
Pell Grant ¹	For all programs, the Department processed a SAR/ISIR with an official EFC.	No additional requirements.
FSEOG		Student is awarded a grant.
Direct Loans		A loan record is originated. ²
Perkins Loans		Student is awarded the loan.
TEACH Grants		The grant is originated.

These Additional Limitations Must Be Satisfied Before a School May Make a Late Disbursement (34 CFR 668.164(g)(4))

Program	
Pell Grant ¹	For all Title IV programs, a school received a valid SAR/ISIR by the date established by the Department.
FSEOG	No additional limitations.
Direct Loans	<ol style="list-style-type: none"> 1 For a first-time, first-year borrower, student completed 30 days of the program. (Subject to waivers discussed in <i>Volume 3</i>.) 2 For a second disbursement, student graduated or completed the period for which the loan was intended.
Perkins Loans	No additional limitations.
TEACH Grants	School received a valid SAR/ISIR by the date established by the Department.

¹ Within this chart, the rules for a Pell Grant also apply to Iraq and Afghanistan Service Grants.

² A school may not originate a Direct Loan for a loan period in which the student is no longer enrolled on at least a half-time basis, even if the student is otherwise still enrolled at the school.

³ For all programs, the late disbursement is made no later than 180 days after the date of the school's determination that the student withdrew, or, for a student who did not withdraw, 180 days after the student became ineligible.

Overawards and Overpayments

CHAPTER 3

In this chapter, we will discuss a student's and a school's responsibility for resolving overawards and overpayments. This chapter does not cover returning funds when a student withdraws.

Please see Volume 5 for a discussion of returning funds when a student withdraws.

OVERAWARDS

An overaward exists when a student's aid package exceeds his or her need. While your school must always take care not to overaward a student when packaging his or her aid, circumstances may change after you have packaged the student's aid that result in an overaward. (Please see *Volume 3* for a discussion of avoiding overawards during the packaging process.) For instance, the student may receive a scholarship or grant from an outside organization. When an overaward situation arises, you may be required to adjust the federal student aid (FSA) in the student's package in order to eliminate the overaward.



Overawards only become overpayments if a school cannot correct them before funds are disbursed to a student. That is, an overpayment exists when some or all of the funds that make up an overaward have been disbursed to the student. An overaward exists whenever a:

- ◆ school awards aid either to a student who is ineligible for a specific program or to a student who is ineligible for any FSA program assistance;
- ◆ student's award in an individual program exceeds the regulatory maximum, e.g., lifetime limit for Pell, annual or aggregate loan limits, annual limit on Federal Supplementary Educational Opportunity Grant (FSEOG) awards, or a Pell award based on the wrong payment schedule/enrollment status;
- ◆ student's aid package exceeds his or her need (including when the student's Expected Family Contribution [EFC] is revised upward after initial packaging);
- ◆ student's award exceeds his or her cost of attendance (COA); and
- ◆ student is receiving a Pell or Iraq and Afghanistan Service Grant at multiple schools for the same period.

In general, unless a school is liable, a student is liable for any overpayment made to him or her that is greater than \$25.00.

When There Are Different Regulations



When a student's aid package includes assistance from multiple programs and those programs have different overpayment regulations/requirements, a school must **apply the most stringent/restrictive requirements**.

Overpayments

FSA debts 34 CFR 668.35
Pell Grants 34 CFR 690.79
DL 34 CFR 685.303(e)

Overpayments and eligibility

HEA Sec. 484(a)(3)
34 CFR 668.22(h), 668.32(g)(4), 668.35(c)&(e)

Recovery of interim disbursements

34 CFR 668.61

Recovery of loan disbursements to ineligible students

34 CFR 668.139

Pell Grants

A Pell Grant is determined by using the Pell Payment Schedule appropriate for the student's enrollment status, as well as the correct EFC and COA. A correctly determined Pell Grant is never adjusted to take into account other forms of aid. Therefore, if a student's aid package exceeds his or her need, you must attempt to eliminate the overaward by reducing other aid your school controls. A Pell Grant awarded to an ineligible student is an overaward, as is a grant based on an enrollment status greater than that for which the student is enrolled.

Iraq and Afghanistan Service Grants

The following situations are considered Iraq and Afghanistan Service Grant overawards and must be corrected:

- ◆ an award made to an ineligible student;
- ◆ an award based on a Pell Grant Payment Schedule for an enrollment status greater than that for which the student is enrolled; and
- ◆ an award that by itself exceeds a student's COA.

Iraq and Afghanistan Service Grants, like Pell Grants, are not adjusted to take into account other forms of aid. So, if a student's aid package includes an Iraq and Afghanistan Service Grant and the aid package exceeds his or her need or cost of attendance, but the Iraq and Afghanistan Service Grant was determined correctly and by itself does not exceed the student's need, you must reduce other aid in your effort to eliminate the overaward.

If an Iraq and Afghanistan Service Grant recipient becomes Pell eligible

If an Iraq and Afghanistan Service Grant recipient becomes eligible for a Pell Grant during the award year, then the school must treat the Pell Grant as Estimated Financial Assistance and may need to adjust the student's aid package.

Schools should have a process to identify Iraq & Afghanistan Service Grant recipients who on ISIRS reporting subsequent transactions become Pell Grant eligible during the year.

TEACH Grants

When a student has no need-based aid

TEACH Grants are not considered to be need-based aid. However, a student's **TEACH Grant in combination with a student's other non-need-based** estimated financial assistance (EFA) may not exceed the student's COA.

If a student is **not** receiving need-based financial assistance, the EFC is not included in determining whether a student is in an overaward status. If you discover a situation where for a student who is not receiving any need-based financial assistance the TEACH Grant in combination with other **non-need based** EFA exceeds the student's COA, the TEACH Grant must be reduced.

When a student is receiving need-based aid

For a student who is receiving need-based federal student aid, a student's EFC, plus the student's TEACH grant, plus the student's other EFA, may not exceed the student's COA.

As with Unsubsidized Stafford Loans, PLUS loans, and nonfederal education loans, TEACH Grants may be used to replace a student's EFC. If a TEACH Grant exceeds a student's EFC, the excess TEACH Grant is considered financial assistance for other FSA programs.

If a student's EFC, plus the student's TEACH Grant, plus the student's EFA exceeds the student's COA, the school should first apply the TEACH Grant to finance the EFC. (Remember, any TEACH Grant above the EFC is considered financial assistance for other FSA programs.) If the EFC plus any excess TEACH Grant, plus any other EFA still exceeds the student's COA, the student is in an overaward status that the school must resolve.

Before reducing a student's need-based aid the school should reevaluate the student's COA to determine whether the student has increased costs that the school did not anticipate when the school originally awarded aid to the student. If the student's costs have increased, and the student's total aid package does not exceed the revised COA, the school is not required to take further action. If the school determines that the student's aid package still exceeds the student's COA, the school must resolve the overaward.

COA may not be exceeded

Federal Register / Vol. 73, No. 121 / June 23, 2008 / page 35483

TEACH Grant maximums

34 CFR 686.21(c)

TEACH may replace EFC

34 CFR 686.21(d)

Reminders

1. If a school chooses not to use the TEACH Grant to finance the EFC, then all of the TEACH Grant is considered EFA for the other FSA programs.
2. If a TEACH Grant overpayment exists, beginning with any unsubsidized loans, the school should first reduce a student's level of borrowing. Once a student's loans have been reduced, or if the student has no loans, it may be necessary for the school to reduce the student's TEACH Grant or other aid.
3. If a school fails to follow required procedures, it must repay any FSA overpayment. If the school followed the required procedures and the FSA overpayment is \$25.00 or more, the student must repay the overpayment.

TEACH Grant Overpayments—Examples

Example 1

When a student is not receiving need-based aid

Rule: The TEACH Grant, in combination with other non-need-based EFA, may not exceed COA, and any EFC is ignored.

COA	\$9,000.00	TEACH Grant	\$4,000.00
EFC (ignore)	1,000.00	Other non-need-based EFA	6,000.00
		Total EFA	\$10,000.00

A student receives a \$6,000.00 **non-need-based** scholarship after beginning class and after his TEACH Grant has been posted to his account. The student is not receiving any need-based EFA, and therefore the EFC is ignored. The TEACH Grant plus the other non-need-based EFA exceeds the COA by \$1,000.00 (\$10,000.00 – \$9,000.00). The \$1,000.00 is a TEACH Grant overpayment the school must resolve.

Example 2

When a student is receiving need-based aid

Rule: The student's EFC plus the Teach Grant, in combination with any other EFA, may not exceed COA. However, the TEACH Grant may be used to replace the EFC. If a school elects this option, the amount by which the TEACH Grant exceeds the EFC is considered EFA for FSA purposes.

A student receives a \$6,000 **need-based** scholarship after beginning class and after his TEACH Grant has been posted to his account. The student is receiving need-based EFA. Therefore, the EFC must be considered. The total of the EFC (\$1,000.00), the TEACH Grant (\$4,000.00), and other EFA (\$6,000.00), is \$11,000.00 and exceeds the COA by \$2,000.00 (\$11,000.00 – \$9,000.00). The \$2,000.00 is an overpayment the school must resolve.

COA	\$9,000.00	TEACH Grant	\$4,000.00
		Need-based EFA	6,000.00
		EFC that must be included	1,000.00
			\$11,000.00

If the school elects to use \$1,000.00 of the TEACH Grant to *replace* the EFC, only \$3,000.00 of the TEACH Grant will be included as financial assistance, and the overpayment that must be resolved by the school will be reduced to \$1,000.00 (from \$2,000.00 because the total aid will now total only \$10,000.00).

Campus-Based Programs

If a school learns that a student received financial assistance that was not included in calculating the student's eligibility for aid from the Campus-Based Programs and that assistance resulted in the student's total financial assistance exceeding his or her financial need by more than \$300.00, the school must take steps to resolve the overpayment.

Before reducing the student's Campus-Based aid, the school should reevaluate the student's need to determine whether he or she has increased need that was not anticipated when the school initially awarded aid to the student. If the student's need has increased and if the total financial assistance does not exceed the revised need by more than \$300.00, the school is not required to take further action.

If the school recalculates the student's need and determines that the student's need has not increased, or that his or her need has increased but that the total financial assistance still exceeds his or her need by more than \$300.00, the amount that exceeds the student's need by more than \$300 is an overpayment. The school must eliminate the amount of the overpayment that exceeds the \$300.00 threshold.

FWS Program

Because a student can't be required to repay wages earned, you can only adjust FWS by reducing the hours a student can work in the future and thus the student's future earning. You can continue to employ the student, but the student can't be paid from FWS funds. If you've already adjusted all other federal aid and institutional aid, and there's still an overaward, **you must reimburse the FWS program from your school's funds.**

FSEOG Overpayments

For purposes of FSEOG overpayments, when a school awards FSEOG using the individual recipient or aggregate matching share methods, the FSEOG overpayment amount includes only the federal share. When a school uses the fund-specific method of matching, there is no distinction between federal and other funds. As a result, 100% of the funds disbursed are considered part of the overpayment.

Campus-Based overawards

34 CFR 673.5(d)

Campus-Based overaward tolerance

The \$300.00 overaward tolerance/threshold for the Campus-Based Programs is allowed only if an overaward occurs after Campus-Based aid has been packaged.

The threshold does not allow a school to deliberately award Campus-Based aid that, in combination with other, exceeds the student's financial need.

Direct Loans

Overaward Tolerance for Stafford Loans

In general, there is no tolerance when determining an overaward in the Direct Loan Program. However, if a student's financial aid package contains a Direct Loan and an FWS award, a \$300 tolerance can be applied to eliminate the overaward.

If an overpayment occurs for a student who has a Direct Loan and Campus-Based awards, unless the Direct loan has been fully disbursed, the Direct Loan must be reduced before the Campus-Based awards are adjusted or canceled.

Overaward and Unsubsidized Loan Example

Hector's EFC is 4,000. His cost of attendance is \$12,000. He is supposed to receive a subsidized Stafford Loan of \$5,000 and an unsubsidized Stafford Loan of \$3,000, which completely meets his need. Before he receives his first loan disbursement, Guerrero University also gives him a \$2,000 scholarship. If Hector's entire loan amount of \$8,000 had been subsidized, Guerrero would have to send some of the loan back. But because part of the loan amount is unsubsidized, Guerrero simply considers that \$2,000 of the unsubsidized loan that applied to Hector's financial need is now being used to replace part of his EFC.

TIP

If a school wants to replace a Direct Subsidized Loan with a Direct Unsubsidized Loan, (since COD reporting and interface information is so closely tied to the award type as identified in the award ID) a school must cancel the Direct Subsidized Loan and originate a new Direct Unsubsidized Loan.

If you discover that a student has been overawarded and your school has already received and disbursed Direct Stafford or PLUS loan funds, you have a number of options:

- ◆ If the package includes an Unsubsidized Direct Loan, a Direct PLUS Loan, or a nonfederal education loan and the aid package doesn't already apply these loans to finance the EFC, and the school so chooses, the aid package can be adjusted so that all or some part of these loans replaces the EFC, thus reducing or eliminating the overaward.
- ◆ The second or subsequent disbursement of a Direct Stafford Loan, a Direct PLUS Loan, or a nonfederal education loan can be canceled or reduced.
- ◆ If the aforementioned adjustments have been made and an overaward still exists for a Direct Loan borrower, you must withhold and promptly return to the Department any funds that have not yet been disbursed to the borrower.
- ◆ If the student is determined to be ineligible for the entire loan disbursement and the overaward cannot be reduced or eliminated, you must return all of the loan proceeds. Note that Direct Loan overawards must be repaid before adjusting or cancelling Campus-Based funds.
- ◆ If a student becomes ineligible for only a part of a Direct Loan, you can reduce the loan to eliminate the amount for which the student is ineligible.

If the overaward situation occurs after Direct Loan funds have been fully disbursed, you do not need to adjust it. However, you might have to adjust the aid package to prevent an overaward of Campus-Based funds.

Although a school isn't required to return Direct Stafford Loan, Direct PLUS Loan, or nonfederal education loan funds that were disbursed to the borrower (either directly or by applying them to the student account) before the overaward situation occurred, the law doesn't prevent your school from returning funds that were applied to the student account if you choose to do so. A borrower who receives a direct payment of loan funds is not required to repay an overawarded amount, unless the overaward was caused by his or her misreporting or withholding information.

A resolved overaward may become an overpayment

TIP

If a school has resolved an overpayment by reducing scheduled future disbursements for a second or subsequent payment period and the student ceases attendance before the end of the current payment period, that portion of the student's award that was an overpayment must be repaid outside of the requirements of 34 CFR 668.22.

If the school is responsible for repaying the overpayment, the school must repay the overpayment **before** completing any required Return calculation as described in *Volume 5*.

If a student is responsible for repaying the overpayment and the student withdrew after the 60 percent point in the payment period or period of attendance, as applicable, the school should try to collect the overpayment from the student, and if it is unable to do so, should refer the student to the Department's Debt Resolution Services.

If the student is responsible for repaying the overpayment, and the student withdrew before the 60 percent point in the payment period or period of attendance, as applicable, the school should not take any action until it has completed the required Return calculation.

However, when performing the Return calculation, the school should not include the amount of the overpayment for which the student is responsible as *Aid that was or could have been disbursed* (see *Volume 5*). Then, when the school has completed the Return calculation, it should document the amount of the overpayment and, as applicable, reduce any post-withdrawal disbursement or increase any amount the student must return by the amount of the overpayment owed by the student.

WHEN A STUDENT FAILS TO BEGIN ATTENDANCE

A student is considered not to have begun attendance if a school is unable to document the student's attendance in any class.

Returning funds for students who do not register or fail to begin attendance

34 CFR 668.21
34 CFR 674.16(f)
34 CFR 676.16(d)
34 CFR 685.303(b)(4)
DCL GEN-13-02

Time frame for returning funds for students who fail to begin attendance

34 CFR 668.21(b)

When a Student Withdraws After Starting Classes but Before a School's Census Date

A student begins earning FSA funds on his or her first day of attendance. Therefore, even if a student withdraws before a school's census date, the school must perform a Return calculation described in *Volume 5*, Chapter 2.

Recalculating Pell eligibility when a student's enrollment status changes before beginning attendance in all classes

34 CFR 690.80(b)(2)(ii)

If your school disburses Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, Perkins Loan or FSEOG funds, but the student never begins attending classes, you must return the disbursed funds to the respective programs even if those funds were disbursed directly to the student.¹ If the student begins attending some but not all of his or her classes, you will have to recalculate the student's Pell or Iraq and Afghanistan Service Grant award based on the student's actual enrollment status (see *Volume 3*).

If a school disburses Direct Loan funds but the student does not begin attendance, the school must return all Direct Loan funds that were credited to the student's account at the school for the payment period or period of enrollment. In addition, a school must return the amount of any payments made directly by or on behalf of the student to the school for the payment period or period of enrollment, up to the total amount of the loan funds disbursed.

In addition, a school must return any Direct Loan funds that it disbursed directly to a student if the school knew prior to disbursing the funds directly to the student that the student would not begin attendance (for example, if a student notified the school that he or she would not be attending or if the school expelled the student prior to directly disbursing the funds).

A school may not ignore information available to any office at the school indicating that a student failed to begin attendance.



For any remaining loan funds disbursed directly to a student, the school must notify the appropriate loan servicer of the loan funds that are outstanding, so that the Department can issue a 30-day demand letter to the student. 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. Click on the servicer name to access the NSLDS Organizational Contact List page. Additional contact information for the loan servicers is available on IFAP under the Help menu (Contact Information / Service Centers for Schools / Loan Servicing Centers for Schools).

1. A school may satisfy this requirement either by redepositing the funds in its federal funds account and disbursing them within three days to another eligible student or by returning them to the appropriate FSA program using the refund function in G5.

Schools must return funds disbursed to students who failed to begin attendance as soon as possible but no later than 30 days after the date that the school becomes aware that a student will not or has not begun attendance.

At a school that is not required to take attendance but that has a census date on which it reports its enrollment levels to a state, local jurisdiction, or outside agency, it is reasonable to expect the school to return funds as soon as possible, but no later than 30 days after the census date.

A school that draws down FSA grant or Direct Loan funds under the advanced payment method must disburse those funds no later than three business days following the date the school receives them. If, after a school draws down FSA grant or Direct Loan funds, but before the school disburses them, the school discovers that it cannot disburse all the funds because one of the students for whom the funds were intended has not begun classes, the school must return those funds within the three-day period unless it can disburse them to another eligible borrower or as described under *Excess Cash* in Chapter 1.



After the start of classes, FSA funds should not be disbursed without schools confirming that recipients have begun attendance.

When a student begins attendance on a less than half-time basis



If a student who received a Direct Loan disbursement begins attendance for the loan period but does so on a less than half-time basis despite having originally enrolled (registered for classes) on at least a half-time basis, neither the school nor the student is required to return any loan proceeds. However, the school must not make any subsequent disbursements of the loan unless the student resumes enrollment on at least a half-time basis.

When funds are considered to have been returned for a student who fails to begin attendance

The Department considers a school to have returned FSA funds timely if the school does the following:

1. deposits or transfers the funds into its federal funds account no later than 30 days after the date that the school becomes aware that a student will not or has not begun attendance;
2. initiates an electronic funds transfer (EFT) no later than 30 days after the date that the school becomes aware that a student will not or has not begun attendance; or

Reporting enrollment changes in NSLDS

If a student who received a Direct Loan disbursement either fails to begin attendance or begins attendance on a less than half-time basis, the school must report the change in the student's enrollment status to the Department using the NSLDS enrollment reporting process.

Upon receiving the revised enrollment status from NSLDS, the student's Federal loan servicer will change the student's loan status as follows:

- In-school status will change to grace period status.
- In-school deferment status will change to repayment status.

34 CFR 685.309(b)
DCL GEN-13-02



When a Student's SAR/ISIR Contains a Disqualifying Comment Code

If a student's SAR/ISIR contains a Comment Code that requires resolution (e.g., 100 - Perkins Overpayment, 132 - Default), the underlying issue must be resolved before any funds may be disbursed to the student.

In addition, if a school disburses Title IV funds to a student with a SAR Comment Code that requires resolution and the student withdraws before the school has resolved the underlying issue, any funds disbursed must be returned to ED. See *Volume 5* for more information about a student who withdraws.

3. issues a check no later than 30 days after the date the school becomes aware that a student will not or has not begun attendance. A school does not satisfy this requirement if
 - the school’s records show that the check was issued more than 30 days after the date that the school becomes aware that the student will not or has not begun attendance; or
 - the date on the cancelled check shows that the bank used by the Department endorsed that check more than 45 days after the date that the school becomes aware that the student will not or has not begun attendance.

Examples of Overpayments Due to School Error

Allen received a Pell at Sarven Technical Institute. Although Sarven had the correct EFC on Allen’s ISIR, the school looked at the wrong chart and used a different EFC in the Pell calculation. So, Allen received too much money. Because the overpayment is due to a school error, Sarven is liable for the overpayment.

Owen received an outside scholarship to attend Guerrero University. The bursar’s office was notified of the scholarship so that it would apply the payments properly but didn’t notify the financial aid office. Owen received a Perkins Loan, but the financial aid office didn’t take the scholarship into account when awarding the loan because it didn’t know about the scholarship. When the financial aid office later found out about the scholarship, it discovered that Owen received too much aid and had a \$600.00 Perkins overpayment. Because the school had information about the scholarship (even though the financial aid office didn’t), the overpayment is due to a school error.

TREATMENT OF OVERPAYMENTS

Overpayments for which the school is responsible

Please also see the discussion later in this chapter under “Overpayments for which the student is responsible.”

Your school is liable for any amount of a Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, Perkins Loan or FSEOG overpayment (including amounts under \$25) that occurred because your school failed to follow the requirements in 34 CFR parts 668, 673, 674, 676, 690, or 691, as applicable. If your school makes a Perkins Loan or FSEOG overpayment in any amount for which it is liable, you must immediately restore (to your Perkins loan fund or FSEOG account, as applicable) an amount equal to the overpayment plus any administrative cost allowance claimed on the overpayment. When returning Pell Grant, Iraq and Afghanistan Service Grant, and TEACH Grant overpayments, you must make a downward adjustment to the student’s award in COD, and either return the funds through G5 or disburse them to another eligible student. For a description of overpayments for which students are responsible, see the discussion later in this chapter.

A school may attempt to collect from a student funds it has returned. However, this is not an FSA debt because an overpayment for which a school is responsible can never become an FSA debt for a student. Therefore an overpayment for which a school is responsible can never result in a student’s losing FSA eligibility and should never be reported to NSLDS or referred to the Department for collection.

Recovery of funds from interim disbursements

34 CFR 668.61

If an overpayment is the result of an interim disbursement of Pell, Perkins Loan, or FSEOG funds (see the AVG) to the extent that the overpayment is not recovered by reducing subsequent disbursements to the student for the award year or by a payment made by the student, the school must eliminate the overpayment by reimbursing the appropriate account by:

- ◆ requiring the student to return the overpayment, or
- ◆ making restitution from its own funds

by the earlier of 60 days after the applicant's last day of attendance, or the last day of the award year.

If an overpayment is the result of an interim disbursement of FWS Program funds, the school must eliminate the FWS overpayment by adjusting the applicant's other financial aid or reimbursing the FWS Program account from its own funds. If the school cannot correct the overpayment by adjusting the student's other financial assistance, the student must still be paid for all work performed.



Because the interim disbursement was made at the school's discretion, the school is ultimately responsible for repaying it. Moreover, because the student does not owe an FSA overpayment, the student should not be reported to NSLDS or referred to the Department for collection.

Prohibition on receiving funds for enrollment at more than one school

A student may not receive Federal Pell Grant or Iraq and Afghanistan Service Grant funds for concurrent enrollment at more than one school (nor both at the same school). **The COD system will identify students who have been reported as Pell Grant recipients by multiple schools as potential overpayments (POP files).** The schools that awarded the student Pell Grant funds for the period must coordinate their response so that the student is receiving Pell Grant funds for attendance at only one school during the period. If after 30 days the schools have not resolved the overpayment, the COD system will reduce both schools' authorization for this student to zero, and the issue will have to be addressed with the Department's involvement.

Note: COD will not automatically notify schools if a student is receiving an Iraq and Afghanistan Service Grant at multiple schools. Rather, the Department will monitor Iraq and Afghanistan Service Grants, and inform schools of students who are overawarded or incorrectly awarded.

Overpayments for which the student is responsible

Examples of Overpayments Due to Student Error

When Chavo applied, he didn't have his tax returns, so he estimated his income and said that he wasn't going to file a tax return. After he received his aid from Sarven Technical Institute in June, he told the aid office that he'd underestimated his income and had to file a tax return. When Chavo submitted the corrections, his EFC increased, and Sarven determined that he'd received a Pell overpayment. Sarven canceled his second Pell disbursement, but he still owed \$100.00. Sarven allowed Chavo to make an agreement to repay \$25.00 a month for four months so that he'd still be eligible for other aid for the rest of the year.

Meurig has to report financial information about his father on the application although he's living with his stepfather. On his 2013–2014 application, Meurig didn't report any assets for his father, and Brust Conservatory used the information from that application to award FSA aid. However, his 2014–2015 application is selected for verification, and during the verification process Brust discovers that Meurig's father has a business that should have been reported as an asset. Brust asks for tax information for the previous year and determines that Meurig should also have reported the business as an asset on the 2013–2014 application. Meurig's EFC increases when he makes the correction, and he received an overpayment for the 2013–2014 award year. Because he's already received all his aid for the year, he has to either pay the overpayment or negotiate a satisfactory repayment agreement.

In some instances, a student rather than the school is responsible for repaying the overpayment.

If a student has received more Pell or Iraq and Afghanistan Service Grant funds than the student was eligible to receive because the student's eligibility for a Pell or Iraq and Afghanistan Service Grant decreased, you can try to eliminate the Pell or Iraq and Afghanistan Service Grant overpayment by adjusting later disbursements for the award year. **You may not reduce a student's correctly awarded and disbursed Pell or Iraq and Afghanistan Service Grant to address overpayments in other programs.**

For TEACH Grant, FSEOG, and Perkins Loan overpayments, you can adjust subsequent disbursements.

If that is not possible, you must promptly attempt to recover the overpayment by notifying the student (by paper or electronically) and requesting full payment. The notice must state that if the student fails to repay the overpayment or to make satisfactory arrangements for repayment, he or she will be ineligible for FSA funds until the overpayment is resolved.

If the student claims that your school made a mistake in determining the overpayment, you must consider any information he or she provides and judge whether the objection is warranted.

If, after notification to the student and consideration of possible objections, an overpayment remains and the student has not repaid or made satisfactory arrangements to repay the overpayment, you must take further action.

For TEACH Grant, FSEOG, Iraq and Afghanistan Service Grant, and Pell Grant funds, you must refer the overpayment to the Department with the required information (see *Referring overpayments to Debt Resolution Services* later in this chapter), and you must report to NSLDS the unresolved overpayment. After that, you are not required to make any further attempt to collect the TEACH Grant, FSEOG, Iraq and Afghanistan Service Grant, or Pell Grant overpayment.

For Perkins Loans, you are not required to refer overpayments to Debt Resolution Services, but you must report them to NSLDS because the student is required to repay the overpayment to your school's revolving loan fund.

A student is not liable for an overpayment when the original amount of the overpayment is less than \$25.00. A student is liable for an overpayment of less than \$25.00 when that \$25.00 is a remaining balance. That is, when the overpayment amount was originally \$25.00 or more but is now less than \$25.00 because the student has made payments.

TIP

A student is also liable for overpayments of less than \$25.00 when that amount is the result of applying the \$300 Campus-Based overaward threshold/tolerance. For example, if a school discovers that after a student's Campus-Based aid was disbursed, the student received additional aid that resulted in the aid the student received exceeding his or her need by \$314.00, the \$314.00 is an overaward. When the school applies the \$300 overaward tolerance, the student only has a Campus-Based overpayment of \$14.00. The student is responsible for repaying the \$14.00 because the initial amount of the overpayment (before the \$300.00 tolerance was applied) was \$314.00 (which is in excess of the less than \$25.00 *de minimis* amount).

Your school may decide to pay a student's obligation by returning to the appropriate FSA program account the amount overpaid to the student. Once your school makes the appropriate return, the student will no longer owe an FSA debt, but rather a debt to your school that you can collect according to your procedures. The student's eligibility for FSA funds is restored as long as the student meets other FSA eligibility criteria.

A student who receives an overpayment of an FSA program loan, or an FSA program grant, may re-establish eligibility for FSA program assistance by repaying the excess amount or by making arrangements satisfactory to the holder of the overpayment debt to pay the excess

When a Student Takes Action With a School to Restore the Student's Eligibility

TIP

If a student (through the school) or a school (with its own funds) satisfies the student's overpayment, the school must update the student's overpayment information in NSLDS as discussed in later in this chapter under *Reporting Overpayments to NSLDS*.

amount.

Though the *de minimis* threshold for overpayments due to withdrawal has increased, the *de minimis* amount for all other overpayments remains less than \$25.00.

Exceptions to student liability

There are some exceptions to holding a student liable for a Pell Grant, Iraq and Afghanistan Service Grant, TEACH Grant, Perkins Loan, or FSEOG overpayment.

Generally, a student is liable for any Pell Grant, Iraq and Afghanistan Service Grant, FSEOG, or Perkins Loan overpayment he or she receives unless the school is liable for it. However, as noted previously, the student is not liable for the overpayment if it is less than \$25.00 and is not a remaining balance or, in the case of a Perkins Loan or FSEOG, is the result of the application of the \$300.00 overaward threshold.

Such overpayments do not affect the student's FSA eligibility. Therefore, your school need not:

- ◆ attempt recovery of such overpayments,
- ◆ report such overpayments to NSLDS, or

- ♦ refer such overpayments to the Department for collection.

Overpayments created by inadvertent overborrowing

Another kind of overpayment occurs when a student inadvertently has received FSA loan funds in excess of annual or aggregate loan limits and is no longer eligible for FSA funds.



A school must determine that a borrower's receipt of loan funds in excess of an annual or aggregate loan limit was inadvertent before the borrower may regain Title IV eligibility.

Examples of circumstances that may have resulted in a student inadvertently exceeding an annual or aggregate loan limit include, but are not limited to: school processing errors, missing or incorrect National Student Loan Data System (NSLDS) information (e.g., capitalized interest incorrectly included in a borrower's aggregate outstanding loan balance), or unintentional student error or omission.

Borrowing in excess of annual or aggregate loan limits is not considered to have been inadvertent if there is any evidence that the overborrowing was the result of deliberate action on the part of the school that determined the borrower's eligibility for the loan or on the part of the borrower who received the loan. If the school determines that the overborrowing was the result of deliberate action on the part of another school or the borrower, it must notify its Federal Student Aid School Participation Team and provide the necessary evidence. If the school suspects fraud involving federal student aid, it should call the Inspector General Hotline at 1-800-MIS-USED (1-800-647-8733).



If a student has consolidated the loan(s) that exceeded the annual or aggregate loan limit, he or she is considered to have made satisfactory arrangements to repay the debt, and no additional action on the part of the student is required. This is true regardless of the type of loan (FFEL or Direct) consolidated and no matter the type of consolidated loan the student obtained. Note that a student who lost eligibility because he or she exceeded the undergraduate aggregate maximum loan limit does not automatically regain eligibility if he or she advances to the graduate level. Rather, the student must resolve the previous overpayment in order to regain eligibility for FSA funds.

A student who is not in default on an FSA program loan but who has inadvertently obtained FSA program loan funds in an amount that exceeds the annual or aggregate loan limits is ineligible for any further FSA program assistance until the student (1) repays in full the excess loan amount; or (2) makes arrangements, satisfactory to the holder of the loan, to repay that excess loan amount.

Regaining Title IV eligibility after exceeding loan limits

DCL: GEN-13-02



A student who received subsidized loan funds in excess of the applicable subsidized annual or aggregate loan limit can no longer regain Title IV eligibility by having the excess subsidized loan amount changed to an unsubsidized loan.

If a student who has inadvertently received loan funds in excess of an annual or aggregate loan limit wishes to receive additional Title IV aid, the school where the student wishes to receive the aid must identify the loan(s) that resulted in the overborrowing, discuss the overborrowing with the student, and resolve any discrepancies in the information that is obtained.

If the loan that caused the inadvertent overborrowing is a Direct Loan or a Federal Family Education Loan (FFEL) Program loan that is held by the Department, the student must contact the federal loan servicer that services the loan to resolve the inadvertent overborrowing. If the loan that caused the inadvertent overborrowing is a FFEL Program loan held by a loan holder other than the Department (a “commercially held” FFEL Program loan), the student must contact the FFEL loan holder or the servicer for the loan to resolve the inadvertent overborrowing.

Repayment of the excess loan amount

If a student who has inadvertently overborrowed wishes to regain Title IV eligibility by repaying the excess loan amount, the student must contact the applicable servicer and comply with the servicer’s repayment instructions. The school may assist the student in identifying and contacting the servicer, but the student, not the school, must make the payment of the excess loan funds in accordance with the servicer’s instructions. Once the student has repaid the excess loan amount in full, the servicer will send the student confirmation that the excess loan amount has been repaid. The student or servicer must provide a copy of the repayment confirmation to the school. The inadvertent overborrowing is considered to have been resolved as of the date the servicer received the borrower’s full payment of the excess loan amount.

Satisfactory repayment arrangements

A student who has inadvertently overborrowed may regain Title IV eligibility by making satisfactory repayment arrangements acceptable to the servicer of the loan. The satisfactory repayment arrangement requirement can be met if the student agrees, in writing, to repay the excess amount according to the terms and conditions of the promissory note that supported the loan. This is called “reaffirmation.” The reaffirmation process includes the following five steps:

1. Either the school or the student contacts the servicer and explains that the student has inadvertently overborrowed and wishes to reaffirm the debt.
2. The servicer sends the student a reaffirmation agreement.
3. The student reads, signs, and returns to the servicer the reaffirmation agreement.
4. The servicer sends the student confirmation that the reaffirmation agreement has been accepted. The student or servicer must provide a copy of the reaffirmation confirmation to the school.

5. The inadvertent overborrowing is considered to have been resolved as of the date the servicer receives the student's signed reaffirmation agreement.

Once you have documented that the inadvertent overborrowing has been resolved (through repayment in full, making satisfactory arrangements to repay the debt, replacement of an excess subsidized loan with an unsubsidized loan, or consolidation of the excess loan amount), you may award additional FSA funds to the student. Keep in mind, however, that the student may have no remaining loan eligibility or may be eligible only for unsubsidized loans.

Because you're responsible for knowing about the student's prior FSA loans before disbursing additional loan funds to the student, inadvertent overborrowing shouldn't occur often. Excess borrowing might occur if a school is unaware of loans a student received at another school. This might happen if the student received the loans under a different name or Social Security number (SSN). (See *Volume 1* for a description of how the NSLDS postscreening and transfer monitoring processes can help prevent these kinds of overpayments.)

A student who inadvertently overborrowed and who has regained Title IV eligibility by either repaying the excess loan amount or by signing a "reaffirmation agreement" may receive additional Direct Loan funds.

A student who regains Title IV eligibility after having exceeded an annual loan limit for an academic year is not be eligible to receive additional Direct Loan funds for that same academic year, but could receive other types of Title IV aid for the year.

The student may be eligible to receive additional Direct Loan funds for subsequent academic years if the student has remaining eligibility under the aggregate loan limits, depending on which aggregate limit was exceeded. A student who had inadvertently exceeded the combined subsidized/unsubsidized aggregate loan limit may not receive any additional Direct Subsidized Loans or Direct Unsubsidized Loans (though a dependent student's parent or a graduate or professional student could receive Direct PLUS Loans). However, if the student exceeded only the subsidized aggregate limit, the student could receive Direct Unsubsidized Loans up to the annual and aggregate maximums.

Satisfactory Repayment Arrangements

We require a borrower who does not repay the excess loan amount in full to make satisfactory repayment arrangements in order to ensure that the borrower acknowledges a debt in excess of the regulatory maximum.

For defaulted loans, the law and regulations specify what constitutes a satisfactory repayment agreement. For students who have exceeded loan limits or owe an overpayment of an FSA grant, the law and regulations do not specify what makes a repayment agreement satisfactory. The Department or the school determines whether the repay-

Effective Date for Regaining Title IV Eligibility

When an otherwise eligible student resolves an inadvertent overborrowing issue by one of the methods discussed above, the student regains eligibility for the Pell Grant, Campus-Based, TEACH Grant, and Iraq and Afghanistan Service Grant programs beginning with the payment period in which the issue was resolved and regains Direct Loan Program eligibility retroactive to the beginning of the academic year in which the issue was resolved.

TIP

TIP

TIP

Recording student payments and reductions in the Direct Loan Program

If, through its Return calculation, a school determines that a student has received an overpayment of Direct Loan funds, the school should reduce the student's award/disbursements by making a downward adjustment in COD.

Schools can report current year adjustments for awards/disbursements either through their loan processing software or by using the COD website at:

<https://cod.ed.gov>

Returning Direct Loan funds

If a school is required to return DL funds to comply with a regulatory or statutory requirement—even if more than 120 days have elapsed since the disbursement date—the school must return DL funds through G5. The school returns DL funds to the Department following the same procedures the school follows when making other G5 refunds/returns.

If a school needs to process data after closeout, extended processing is available on a limited basis for authorized reasons. A school that needs to request extended processing should contact COD School Relations at 1-800-848-0978 or CODSupport@ed.gov.

For more information on returning FSA funds, see Chapter 4.

Recording student payments and reductions in the Pell Grant, Iraq and Afghanistan Service Grant, and TEACH Grant programs

For reductions to awards and payments, schools should record reductions and payments by entering a replacement value in the COD system. **The replacement value will be the original value less only the amount the school has returned** (the sum of: (a) that amount the school is responsible for returning + (b) any portion of the grant overpayment that otherwise would be the responsibility of the student but which the school has chosen to return for the student + (c) any portion of the grant overpayment the school has collected from the student). **Do not reduce the award/disbursement by the amount the student must return (unless the student has made a payment to the school).**

If a school receives a payment for a current-year overpayment that has not been referred to Debt Resolution Services, the school should NOT send the payment to Debt Resolution Services. Instead, after you have reduced the student's disbursement in COD, return the unearned funds as follows:

- ◆ If your school has made repayment arrangements with a student and received a payment on a current-year overpayment, the school should deposit the funds in its Pell, Iraq and Afghanistan Service Grant, or TEACH Grant account and make the appropriate entry in the COD system.
- ◆ If a student makes a payment on any previous year's Pell Grant, Iraq and Afghanistan Service Grant, or TEACH Grant overpayment, a school makes the aforementioned COD system entry using the same software the school used to create the award. The school then returns the funds to the Department using the Electronic Refund function in G5 following the same procedures the school follows when making other G5 refunds or returns.

If, through its Return calculation, a school determines that a student has received an overpayment of FSEOG funds, the school must adjust its institutional ledgers, financial aid records, and the student's account by subtracting the amount the school must return (the FISAP filed for the year will reflect the net award to the student). If a student makes a payment on an FSEOG overpayment made in the current award year, the school should deposit the payment in its *federal funds account* and award the funds to other needy students.

If the school collects an overpayment of an FSEOG for an award made in a **prior award year**, the funds recovered should be returned to the Department using the Electronic Refund function in G5. Payments should be applied to the award year in which the recovered funds were awarded.

Importance of Making Timely Adjustments

Since each disbursement transaction (positive or negative) to a student's Pell Grant in COD affects a student's lifetime eligibility for Pell funds, schools should ensure that adjustments are made in a timely manner.

See *Volume 3* for a discussion of the Pell Lifetime Eligibility.

Removal of Pell Grant Data from COD

Pell Grant data is usually available on the COD production environment for five years after the end of the award year. Once a closed year's data has been removed from the production environment

TIP

- All records for the closed years that are submitted to the COD System will be rejected. Schools will receive COD Edit 996 (Invalid Value).
- Data for the closed years will not be available via the COD website. The closed years will not appear in drop-down menus on the COD website.

REPORTING OVERPAYMENTS TO NSLDS

Reporting Overpayments to NSLDS

DCL GEN-98-14, July 1998

All new Perkins, Pell Grant, Iraq and Afghanistan Service Grant, ACG, National SMART Grant, TEACH Grant, and FSEOG overpayments and previously reported FSEOG overpayments for which an NSLDS data element has changed must be reported.

Perkins and other data providers must meet all NSLDS reporting requirements as detailed in the appropriate operating manuals.

NSLDS reference materials are available on IFAP in our iLibrary at:

ifap.ed.gov

You must report overpayments or changes to previously submitted information to NSLDS within 30 days of the date you learn of the overpayment or change.

If a grant overpayment is the result of the student's withdrawal and a return to Title IV calculation, you must contact the student within 30 days of determining that the student withdrew (see *Volume 5*).

You only report unresolved overpayments if they're due to student error; don't report overpayments that are a result of school error. Instead, as discussed previously, you must use school funds to repay the overpayment.

You must use the NSLDS Professional Access Website to report overpayments. To do so, your school must have Internet access, and your Primary Destination Point Administrator (PDPA) must have signed up at least one user for Overpayment Updates for NSLDS online services at **<https://fsawebenroll.ed.gov>**.

Once the overpayment is reported to NSLDS, the student's future output documents will show that he or she has an overpayment (see "NSLDS Match"). The Financial Aid History section of the SAR and ISIR will have information on the overpayment, including whether the student has made satisfactory repayment arrangements.

REFERRING OVERPAYMENTS

Referring overpayments to Debt Resolution Services

If you have tried but not succeeded in collecting a Pell Grant, Iraq and Afghanistan Service Grant, ACG, National SMART Grant, TEACH Grant or FSEOG overpayment for which the student is liable, you must refer the overpayment to FSA’s Debt Resolution Services. To be referred, the **initial amount** of the overpayment must be at least \$25.00.

Note: For an FSEOG overpayment, when a school uses the individual recipient or aggregate matching methods, the overpayment includes only the federal share. When the school uses the fund-specific method of matching, the overpayment includes both the federal and nonfederal shares. See *Volume 6* for more information.

You would still refer a student debt of less than \$25.00 to Debt Resolution Services when the amount due is a remaining balance or when the amount is the result of the application of the Campus-Based overaward threshold/tolerance. You must make this referral in addition to reporting the overpayment to NSLDS. If your school elects not to refer an overpayment to Debt Resolution Services, then your school is liable for the overpayment. In that case, the school must repay the overpayment from its own funds.

To refer student overpayments for collection, schools should use a format similar to the one found at the end of this chapter and send the data to the address at the bottom of that page. Each referral must be typed or printed and must be submitted on school letterhead.



In order to avoid creating a double record for a single overpayment, the school must populate its Overpayment Referral Form: Dates of Disbursement with the exact same dates the school used when it created the NSLDS record. In addition, a school must ensure that it enters the year the disbursement was made in the award year field.

In addition, when referring the overpayment, you should update the overpayment information previously reported to NSLDS by changing the “Source” field from SCH-SCHOOL to TRF-TRANSFER. Once Debt Resolution Services has accepted a referred student overpayment, Debt Resolution Services will transmit the information to NSLDS and “ED Region” will replace “School” as the appropriate contact source for information about the overpayment.



On its Overpayment Referral, schools must provide their school’s Pell Identification Number. Schools should NOT enter their Routing Identifier.

Schools Must Resolve Student Concerns

If a student claims that a school’s overpayment determination is erroneous, the school must consider any information the student provides and determine whether the objection is warranted before referring the case for collection.

School responsibility after referral

Once you have referred the account to Debt Resolution Services, you have no further responsibility in the collection of the debt unless the student contacts your school to make a payment or Debt Resolution Services sends the referral back because it is incomplete. If Debt Resolution Services sends the referral back to you because it is incomplete, you'll need to supply additional information and resend the referral.



If a student wishes to make a payment, you may (but are not required to) accept it on behalf of the Department and forward it to Debt Resolution Services.

A school that accepts a check made out to the Department on an overpayment that has been referred to Borrower Services must:

- ◆ note the student's name and SSN on the check;
- ◆ indicate that the payment is for an overpayment of an FSA grant; and
- ◆ forward the payment to Debt Resolution Services at:

National Payment Center
P.O. Box 105028
Atlanta, Georgia 30348-5028

If you want a payment to be applied to a specific overpayment (by program and award year) you must include a memorandum on school letterhead. The memorandum must include the award year and program award number of the award you want credited, and your D-U-N-S number.



If the student whose overpayment case has been accepted by the Department wishes to establish a repayment schedule, the student should contact Debt Resolution Services by calling:

1-800-621-3115

A student can contact us by going to: www.myeddebt.com, and selecting the *Borrower* tab, *Contact Us*, and *Secure email*.

Accepting payments on referred overpayments

A school may continue to accept payments on FSA grant overpayments after those overpayments have been referred to the Department. A school that accepts a check on an overpayment that has been referred to Debt Resolution Services must:

- ◆ note the student's name and SSN on the check;
- ◆ indicate that the payment is for an overpayment of an FSA grant; and
- ◆ forward the payment to Debt Resolution Services at:

National Payment Center
P.O. Box 105028
Atlanta, Georgia 30348-5028

If a school accepts a cash payment from one or more students who owe overpayments and who have been referred to Debt Resolution Services, the school should write its own check to the Department and attach a letter indicating that the check is for an FSA grant overpayment. The school must include in its letter a roster that includes, for each student who made a payment, the student's name, social security number, and amount paid.

If a school receives a payment for an overpayment **previously referred to** Debt Resolution Services and if:

- ◆ the overpayment was made in the current award year, and
- ◆ the payment will retire the student's debt in full,

the school must:

- ◆ deposit the payment in its appropriate institutionally maintained federal funds account;
- ◆ for Federal Pell Grant overpayments, make the appropriate entry in the student's record on the COD system (either on COD or via Common Record) and
- ◆ send a letter or fax to Debt Resolution Services identifying the student and indicating that the student's overpayment has been completely repaid. This will allow the Department to properly update its records in both the Debt Resolution Services system and NSLDS.

The fax number for this purpose and **school use only** is

1-903-454-5398



Note: This process cannot be performed via email.

Payment in full

Anytime a school receives a payment (including the application of an FSA credit balance) that will repay an overpayment in full, the school must also update its original submission to NSLDS by changing the entry on the "Overpayment Update Screen" for the Indicator Field to "Repaid."

In the fax or letter, a school must include the:

- ◆ award year of the overpayment (current award year only);
- ◆ student's Social Security number;
- ◆ student's last name, first name, and middle initial;
- ◆ student's date of birth;
- ◆ type of overpayment—Federal Pell Grant, Iraq and Afghanistan Service Grant, FSEOG, or TEACH Grant; and
- ◆ the disbursement date the institution used to create the overpayment record in NSLDS.

Responsibilities of Debt Resolution Services

Upon receipt of an overpayment referral, the Department will determine if enough information has been provided to start collection activity; any referral lacking information will be returned to your school to be completed.

Debt Resolution Services will then try via letters and telephone to establish a repayment schedule or to secure payment in full. Debt Resolution Services will also update the NSLDS information that you've already reported to show that the Department now holds the overpayment. Any future SARs or ISIRs for the student will show that he or she owes an overpayment and will direct the student to contact Debt Resolution Services instead of the school. Finally, Debt Resolution Services also communicates Pell Grant overpayment referrals to the COD system. COD will then alert a school of a student's Pell Grant overpayment status if the student submits a FAFSA in the future. A student's Iraq and Afghanistan Service overpayment status will be tracked and reported manually.

Information Required when Referring Student Overpayments to Debt Resolution Services

Student Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____

Social Security Number: _____ Date of Birth: _____

If the overpayment includes an Academic Competitiveness, National SMART or TEACH Grant, enter the Award Identifier (ID) used when the award was created in COD.

ACG Award ID: _____ National SMART Grant Award ID: _____

TEACH Award ID: _____

Parent/Spouse Information

Name (Last, First, MI): _____ Address: _____

Telephone Number: _____

School Information

If your Pell Reporting ID is different than your Pell Attended ID, please provide both. Otherwise, just report the Pell Attended ID.

Reporting School's Pell ID Number: _____ Attending School's Pell ID Number: _____

If your school does not have a Pell ID, enter your OPE ID: _____

Name of Contact: _____ Telephone Number: _____

Disbursements and Repayments

	Pell Grant	ACG or National SMART Grant (Specify)	Iraq & Afghanistan Service Grant	FSEOG ¹	TEACH Grant
Award year in which overpayment was disbursed:	_____	_____	_____	_____	_____
Total grant disbursed:	_____	_____	_____	_____	_____
Dates of disbursement: (Must match NSLDS overpayment record)	_____	_____	_____	_____	_____
Overpayment amount owed by student *	_____	_____	_____	_____	_____
Total grant repaid by student to school, if any:	_____	_____	_____	_____	_____
Date of last payment to school, if any:	_____	_____	_____	_____	_____

¹ If using individual or aggregate matching, report federal share only. Otherwise report total FSEOG.

* If the overpayment is the result of a withdrawal, provide the date of the withdrawal

/ /

If the overpayment is **not** the result of a withdrawal, please provide a brief explanation of the reason for the overpayment.

SEND INFORMATION TO ⇒ Student Loan Processing Center-Overpayments
P.O. Box 4157
Greenville, Texas 75403

1-903-454-5398 ⇐ FAX

Returning FSA Funds

CHAPTER 4

Here we provide instructions for returning FSA funds for reasons other than the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment.

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 when a student withdraws or otherwise ceases attendance 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) on the Fiscal Operations report and Application to Participate (FISAP).

Schools can return money to the Department (including excess interest) using the **electronic refund functionality in G5**. For questions or more information on returning funds through G5, please contact the G5 help desk at 1-888-336-8930.

Returning Funds by Check

(These instructions do not apply to returning funds from an audit or program review.)

If **exceptional circumstances** require that you return FSA funds by check, you must:

1. make the check payable to the U.S. Department of Education;
2. use a separate check for each award year; and
3. note the school's D-U-N-S number and the appropriate Program Award Number (Pell Grant Award Number) on the check.

The G5 lockbox address for FSA (except Direct Loan) funds is:

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

Returning funds by depositing them in a school account

Returning funds in a timely manner is one of the factors examined by the Department in evaluating a school's financial responsibility. In addition to the general requirement for schools to return funds, the Department sets specific time frames for students who do not begin attendance and those who begin attendance but cease attendance before completing the period for which they have received Title IV funds. One way for schools to satisfy the requirement is to deposit the funds in the account in which the school keeps its federal funds.

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. (Also see Volume 5.)

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 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.

Return of Title IV funds when a school does not maintain a separate federal bank account

The Department considers a school that maintains FSA funds and general operating funds in the same bank account (commingles) to satisfy the requirement that it return unearned funds on a timely basis if:

- ♦ the school maintains subsidiary ledgers for each type of funds commingled in that account that clearly show how and when those funds were used and the subsidiary ledgers are reconciled to its general ledger,
- ♦ the subsidiary ledger for each FSA program provides a detailed audit trail on a student-by-student basis that reconciles to the amount of FSA program funds received and disbursed by the school, and
- ♦ the school updates the relevant subsidiary ledger accounts in its general ledger no later than 45 days after it determines that the student withdrew.

More specifically, the return of an unearned funds transaction should be recorded as a debit to an FSA program fund subsidiary ledger account and a credit to the school's operating fund subsidiary ledger account. The date of the return is the date this transaction is posted to the school's general ledger.



Discontinuing Paper Check Processing for Direct Loan Refunds of Cash Beginning January 1, 2015

In an effort to increase efficiency and improve funds control, Federal Student Aid encourages schools to refund cash electronically via the G5 website. This method is faster and more secure than manual/paper processing, and is less likely to result in errors.

Beginning January 1, 2015, FSA will no longer accept Direct Loan refunds of cash sent manually via paper check. As a result, schools should begin to update their processes to refund cash electronically via the G5 website at <https://www.g5.gov/> as soon as possible, but no later than December 31, 2014.

For additional information on refunding cash via G5, refer to the G5 website at <https://www.g5.gov/> or call the G5 Hotline at 888/336-8930 or 202/401-6238 for assistance.

For questions about refunding cash, contact the COD School Relations Center at 800/848-0978 or 571/392-3737. You may also email CODSupport@ed.gov.

WHEN FUNDS ARE CONSIDERED TO HAVE BEEN RETURNED

The Department considers a school to have returned FSA funds when the school has:

- ◆ deposited or transferred the funds into its federal funds account;
- ◆ initiated an electronic funds transfer (EFT) to the Department; or
- ◆ issued a check. A school has not satisfied this requirement until the bank used by the Department has endorsed and cancelled that check (processed it for deposit).

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 the Department'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 the Department \$100,000 or more, it must remit payment through its financial institution by FEDWIRE.
- ◆ If a school owes the Department less than \$100,000, it must remit payment by check to the Department'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 and Afghanistan Service Grant processed payment information to reflect expenditures disallowed as a result of an audit or program review. Also, unless specifically instructed by the Department, a school should always repay funds using the appropriate function in G5.

Recommendation

We strongly recommend returning funds electronically because this method is faster and more secure than manual paper processing and less likely to result in errors. Note that refunds of cash greater than \$100,000 must be returned electronically via G5.

For additional information on returning funds via G5, refer to the G5 website at www.g5.gov, or call the G5 Hotline at 1-888-336-8930 for assistance.

When funds are considered to have been returned for a student who fails to begin attendance

The Department considers a school to have returned FSA funds timely if the school:

1. deposits or transfers the funds into its federal funds account no later than 30 days after the date that the school became aware that a student will not or has not begun attendance;
2. initiates an electronic funds transfer (EFT) no later than 30 days after the date that the school became aware that a student will not or has not begun attendance; or
3. issues a check no later than 30 days after the date that the school became aware that a student will not or has not begun attendance. An institution does not satisfy this requirement if
 - the school's records show that the check was issued more than 30 days after the date that the school became aware that the student will not or has not begun attendance; or
 - the date on the cancelled check shows that the bank used by the Department endorsed that check more than 45 days after the date that the school became aware that the student will not or has not begun attendance.

Direct Loan funds may be reawarded

Direct Loan funds are not student-specific; they are program year-specific. This means that when all or a portion of a loan for a student is cancelled, the cancelled loan funds can be disbursed to another eligible student who is receiving a loan for that same Direct Loan program year.

If the funds cannot be disbursed within the regulatory time frames, they must be returned to the Department via G5.

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 students' records in COD.

DOWNWARD ADJUSTMENT OF FSA GRANT DISBURSEMENT RECORDS AND DIRECT LOAN DISBURSEMENT RECORDS REQUIRED

Returns of FSA Grants funds (except FSEOG and Iraq and Afghanistan Service Grants), 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. Likewise, all returns of Direct Loan funds must be offset by downward reductions in students' records in COD.



In addition, when all or a portion of a Direct Loan is cancelled (either because the borrower requested the cancellation within the regulatory time frames or to comply with statutory or regulatory requirements), the school must make the appropriate adjustment to the student records in COD.

All returns of FSA Grants and Direct Loan funds previously disbursed (unclaimed credit balances) should be made through the G5 system.



RETURNING DIRECT LOAN FUNDS

If a school is required to return DL funds to comply with a regulatory or statutory requirement, even if more than 120 days have elapsed since the disbursement date, the school must return DL funds through G5. The school returns DL funds to the Department following the same procedures the school follows when making other G5 refunds/returns.

TIP

Removal of Pell Grant and Direct Loan Data from COD

Direct Loan data is usually available for two years after the end of the award year. Once a closed year's data has been removed from the production environment

- All records for the closed years that are submitted to the COD System will be rejected. Schools will receive COD Edit 996 (Invalid Value).
- Data for the closed years will not be available via the COD Web site. The closed years will not appear in drop-down menus on the COD Web site.

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 and 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 (see sidebar).

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 (see sidebar).

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.

Amending a Fisap After the Close of an Award Year or After a School Has Submitted a Final FISAP for an Award Year

To amend its FISAP, a school logs in to eCB for the appropriate FISAP year and selects the appropriate Campus-Based program from the menu on the left. After the school has made the appropriate changes, updated the totals, and saved the data, the school selects the “Submit” link on the left. The phrase “Change Request” then appears below “Submit.” The school must select “Change Request” in order to move to the next prompt. After the school selects “Change Request,” the system will prompt the school to explain what changes the school is making and why. The school then must provide:

- the FISAP part, section number, and line number(s) on which the changes were made;
- the amount of the change; and
- a description of the conditions that require the revision (e.g., to comply with the requirements of 34 CFR 668.22).

After providing all of the required information, the school clicks the “Submit Button” and then affirms that it wants to “Continue to Submit.”

The Campus-Based staff will evaluate the school’s submission. If a school’s request is denied, the Campus-Based staff will inform the school why its request was denied. If the school’s request is approved, the Campus-Based staff will notify the school by sending an email to the individual on record as the school’s financial aid director (in Field 19) that the school’s FISAP has been unlocked and that the school has five days to submit the revised working copy as the final copy.

For assistance with amending a previous year’s FISAP, schools should call the Campus-Based Call Center at:

1-877-801-7168.

RETURNING FUNDS FROM FFEL LOANS PURCHASED/SERVICED BY THE DEPARTMENT

Information required when returning loan funds to a servicer by check

If a school cannot use the electronic process preferred by the loan's servicer and must return the funds with a paper check, together with the check for the funds the school is returning, the school 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 and 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 OPE ID, and
11. The name and phone number of the school official returning the funds.

The Department has purchased many Federal Family Education Loan (FFEL) Program loans from FFEL loan holders. The Department has contracted with several organizations to provide loan services on these purchased FFEL loans.

If a school is required to return any portion of a FFEL Program loan that has been purchased by the Department, the money would be returned to the appropriate federal servicer for that loan.

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. Click on the servicer name to access the NSLDS Organizational Contact List page. 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.)

You can find a global list of contact information for services on IFAP (ifap.ed.gov) under Electronic Announcements.

Reconciliation in the Pell Grant and Campus-Based Programs

RECONCILIATION

Reconciliation and fiduciary responsibility

Except for funds received by a school for administrative expenses and for funds used for the Job Location and Development (JLD) Program, funds received by a school under the federal student aid (FSA) programs are held in trust for the intended student beneficiaries. As a trustee of those funds, a school must have procedures in place that ensure FSA funds are used as intended.

The cash management regulations establish rules and procedures that a school must follow in requesting and managing FSA program funds. Under the cash management regulations, a school has a fiduciary responsibility to have a system in place 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.



Failure to have such a system in place calls into question a school's administrative capability, its fiscal responsibility, and its system of internal controls. In short, it calls into question a school's qualifications to participate in the FSA programs.

A key component of the system described is the process of *reconciliation*. Reconciliation is a process in which financial records are compared and discrepancies resolved. Conducting reconciliation frequently can help ensure that your school is properly exercising its fiduciary responsibilities to safeguard federal funds and ensure that they are used as intended.



Internal Controls in Automated Systems

Since no one person may have the ability to change data that affect both authorization and disbursement, if award entries made by the financial aid office automatically roll over and populate award fields in the business office, then the separation of functions must take place elsewhere.

For example, if your system automatically awards funds based on a student's budget, then your system must ensure that only employees with a special security standing can change those budgets or otherwise modify a student's award. In addition your system must be able to identify any employee who makes a change to a data element that can affect the level of a student's award (anyone who initiates a budget or award override).

Your school should have documented reconciliation procedures that describe who, how, and when your school will reconcile. You should review these procedures regularly to identify issues and make any necessary improvements. Your school must meet all cash management and disbursement reporting requirements. Regular reconciliation can help identify and resolve discrepancies so your school can stay in compliance.

Title IV reconciliation is the process by which a school reviews and compares Title IV aid (grants, loans, and Campus-Based aid) recorded on the Department's systems with the information in the school's internal records. Through reconciliation, disbursement and cash discrepancies are identified and resolved in a timely manner to ensure the school meets all regulatory requirements. Schools must document their reconciliation efforts and retain this documentation for auditing purposes.

If completed on a regular basis, reconciliation can assist schools with disbursements, adjustments, reporting requirements, and complying with cash management regulations.

When a school compares business office records of funds requested, received, disbursed, and returned to financial aid office records of funds awarded to students it is performing **internal reconciliation**. When the school compares its reconciled internal records to the Department's records of funds received and returned, and of grants or loans originated and disbursed to students at the school, it is performing **external reconciliation**. When it performs external reconciliation, a school is ensuring that the Department's records reconcile with the school's records, both at the cumulative and individual student levels.

At a minimum, your school should reconcile its FSA financial records monthly. However, the more frequently your school performs reconciliation, the more likely you will be able to identify issues and resolve them before they become part of a systemic problem. Frequent reconciliation is an important internal control procedure that can make a significant contribution to increasing the overall program integrity of the FSA programs at your school. In addition, schools that have systems in place to compare and identify discrepancies between their internal records and data from Department reports will find that the required monthly reconciliation is much easier and makes closing out a year less time consuming.



Speak with your school's administrative software systems specialists about creating a program that compares COD student level data to:

- ◆ student Title IV award information maintained separately by the financial aid office;
- ◆ Title IV funds posted to each student's account;

and reports exceptions found during the comparison process.

The following are conditions that might cause the type of discrepancies you can identify by using COD reports in your school's reconciliation process:

- ◆ A recipient's disbursement data appears on the school's records for an award amount less than the amount shown in the COD system;
- ◆ A recipient's data appears on the school's records for an award amount greater than the amount shown in the COD system; and
- ◆ A recipient's disbursement data appears on the school's records but does not appear in the COD system.

Note: The Department has reviewed the operation of schools where the schools' administrative systems generate reports whenever data in the schools' business and financial aid offices do not agree (sometimes as often as daily). The schools' Directors of Financial Aid and its Business Officers meet whenever the reports are generated to resolve discrepancies. We found that at these schools, the annual internal closeout takes hours rather than days and that time required for reconciliation with the Department's data is equally reduced.

Who is responsible for reconciliation

Because each office has access to and expertise with data needed to facilitate the process, cooperation between the business and financial aid offices is essential if reconciliation of FSA funds is to be successful. For example, the financial aid office will likely be the source of information sent to and reports received from the COD system, whereas the business office is generally responsible for G5 and student accounts.

While it is possible and even advisable for financial aid and business office staff to be able to view information in each other's systems, there is no substitute for the direct involvement of professionals in each office in the reconciliation process.

Reconciliation and a school's coordinating official

Department regulations require that every participating school designate a capable individual to coordinate aid from the FSA programs with all other aid received by students attending the school. The coordinating official is responsible for ensuring that the school has a system for identifying and resolving discrepancies in FSA-related information no matter where it occurs at the school. Note that resolution includes determining what information is correct **and** correcting the inaccurate data. Since the resolution of discrepancies in data is the essence of reconciliation, your school's coordinating official should be part of the reconciliation process. (See *Volume 2* for more information about the requirement for schools to have coordinating officials.)

Coordinating official
34 CFR 668.16(b)(1)

IMPORTANT

Reconciliation is a process that a school must perform in operating the FSA programs. It is also a tool that a school should use to ensure that its management of the FSA programs is optimal. Most importantly, reconciliation is a shared responsibility. That is, the business office and the financial aid office are equally responsible for performing the periodic reconciliation that is required to make certain that a school is managing the FSA programs as they should be managed. This responsibility involves much more than the mere sharing of reports. It requires joint action by the financial aid and business office to identify discrepancies and to correct them in a timely manner.



The Department does not specify the office in which your school's coordinating official must work. Neither do we specify the type of system your school must have to reconcile its data internally and externally. The Department does require that your school have a coordinating official and that your school performs reconciliation. (See Volume 2 for more information on the requirement to have a coordinating official and other key requirements of administrative capability.)

Recommended general reconciliation practices

A key factor in facilitating reconciliation is staying on top of the process. The Department encourages schools to:

- ◆ define responsibilities of key individuals and offices;
- ◆ document your reconciliation procedures;
- ◆ build in regular communication between your business office, financial aid office, and school's technical staff;
- ◆ compare internal student accounts and business office/bursar records with financial aid office records and resolve any discrepancies;
- ◆ balance all subsidiary accounts to the general ledger;
- ◆ ensure that all drawdowns and refunds of cash are accounted for and applied to the correct program year;
- ◆ ensure that all batches have been sent to and accepted by the COD system, all disbursements and adjustments are accurately reflected on the COD system, and all responses are imported into the school's system;
- ◆ ensure that all unbooked loans are booked or inactivated (reduced to \$0) for Direct Loans;
- ◆ resolve all outstanding rejected records;
- ◆ return all refunds of cash via G5; and
- ◆ request any remaining funds owed to the school based on actual disbursements accepted by the COD System.

Contact Information

For disbursement reporting, excess cash, or reconciliation questions specific to the Federal Pell Grant or Direct Loan Programs, contact the COD School Relations Center at 1-800-474-7268 for Grants and 1-800-848-0978 for Direct Loans. You may also email CODSupport@ed.gov.

For reconciliation questions specific to the Federal Work-Study, Federal Supplemental Educational Opportunity Grant, or Federal Perkins Loan programs, contact the Campus-Based Call Center at 1-877-801-7168. You may also email CBFOB@ed.gov.

Each school is assigned a COD reconciliation coordinator who can assist you with specific reconciliation questions. They can be reached by calling the number above. If reconciliation issues arise that require your school's immediate attention, your school's COD Reconciliation Coordinator may contact you.

Internal Reconciliation

We recommended that before you compare your school's records to the Department's records, you ensure the financial aid office and the business office agree on the amount of funds that should have been drawn down from G5 to cover the funds disbursed to students. Therefore, the first step in the reconciliation process should be to confirm that business office records of actual disbursements posted to student accounts are consistent with financial aid office records of student award and scheduled disbursement amounts.

Internal reconciliation should also include steps to reconcile cash transactions such as drawdowns and refunds of cash. Your school should ensure that bank statements correctly reflect all funds drawn or returned and that this information matches the school's ledgers and other internal records. Your school should confirm that any returns of Title IV Aid calculated by the financial aid office are reflected correctly in business office student account records and that any funds not necessary for immediate use have been returned to the Department.”

So, you could begin the internal reconciliation process by comparing a monthly financial aid office roster of scheduled disbursements to a monthly business office cash detail report that reflects funds drawn down and funds disbursed for the month. If you discover discrepancies, you must resolve them.

In addition, you should also compare business office and financial aid office records of adjustments (refunds of cash) made during the month. Often, Returns due to withdrawals performed by the financial aid office aren't applied by the business office. Just as often, adjustments made by the business office aren't noted in the financial aid office. Either of these omissions can cause an internal discrepancy that will affect a school's Ending Cash Balance and should be resolved before a school begins its external reconciliation process.

Remember, no matter the method you choose to perform internal reconciliation, the Department advises you to complete that process before you begin external reconciliation.

External Reconciliation

During internal reconciliation, the school will have resolved any differences between records in the financial aid office and those in the business office. In external reconciliation, a school will reconcile its records to the Department's records.

RECONCILIATION IN THE PELL GRANT PROGRAM

Time Frame for Submitting Disbursements

A school must submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records and Direct Loan disbursement records, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement.

The Department considers that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed on the date that the school: (a) credits those funds to a student's account in the school's general ledger or any subledger of the general ledger, or (b) pays those funds to a student directly. We consider that Federal Pell Grant and Iraq and Afghanistan Service Grant funds are disbursed even if a school uses its own funds in advance of receiving program funds from the Department.

A school's failure to submit disbursement records within the required time frame may result in the Department rejecting all or part of the reported disbursement. In addition, such failure may result in an audit or program review finding. In addition, the Department may initiate an adverse action, such as a fine or other penalty for such failure.

Federal Register Volume 78, Number 40
(Thursday, February 28, 2013)]

Though there is no regulatory requirement for reconciling your school's Pell Grant Program operations on a monthly basis, it is almost impossible to satisfy other program requirements without performing monthly reconciliation of your school's Pell Grant Program participation.

For example, an institution must submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records no later than the deadline dates as published in the Federal Register notice (see sidebar) after making a Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement. A school's failure to submit disbursement records within the required time frame may result in an audit or program review finding.

To be proactive, on a monthly basis, your school should compare

- ◆ the records of Pell Grant awards and scheduled disbursement to students made in the financial aid office to awards on individual student accounts in the business office;
- ◆ the record of disbursements in the school's Pell Grant Program ledger to the record of Pell Grants disbursed to students in the business office;
- ◆ the individual and program records of all adjustments (positive and negative) made during the period; and
- ◆ on an individual and program basis, the record of Pell Grants disbursed to students in COD to the records of Pell Grant disbursements in the business office.

Monthly reconciliation for the Pell Grant Program should include verifying that individually and cumulatively the following:

- ◆ records of student awards and pending disbursements calculated and maintained by the financial aid office match the records of pending disbursement data received or maintained by the business office;
- ◆ business office records of actual disbursements posted to student accounts are consistent with financial aid office records of student eligibility and applicable award and disbursement amounts;
- ◆ records of disbursements in the general ledger match those in subsidiary ledgers (e.g. student ledgers and accounts);
- ◆ the actual disbursements posted to students' accounts internally match the actual disbursements accepted in the COD system (including any adjustments to actual disbursements); and

- ◆ cumulative school and COD records of Pell Grant disbursements match Net Draws (Drawdowns – Refunds of Cash) in G5 for the award year in the Pell Grant Program.



Reconciling school-level data

Whether you maintain your records electronically or on paper, comparing the records of Pell Grant awards made to students by the financial aid office to the records of Pell Grant disbursements recorded in individual student accounts is not a complex task. If awards recorded by the aid office automatically populate the business office records, the data should always agree.

If your school's processes are automated, your systems' staff can create a program that compares the relevant data elements and generates an exception report that identifies discrepancies between business office and financial aid office data. Reconciliation of school level data functions is an internal control check mechanism. By reviewing the exception report on a daily basis, the bursar ensures that the school's internal records agree and he or she also confirms that the school's system for communicating data between offices is functioning correctly.

Reconciling school-level data with COD Pell Grant data

Your school should reconcile all cash (Drawdowns and Refunds of Cash) and disbursement records (Actual Disbursements and Adjustments) with information in COD on an ongoing basis (external reconciliation). This will greatly minimize the number of post deadline adjustments and help identify and resolve issues as they arise. There are many tools specific to the Pell Grant program available to assist you in your reconciliation efforts.

In reconciling school level Pell Grant records of individual awards to students with individual student records maintained in COD you can use the following tools:

- ◆ Pell Grant Reconciliation Report

The Pell Grant Reconciliation Report is a one-record student summary of processed records and can be helpful to your school as it completes both the year-end and ongoing reconciliation processes. This report can be downloaded, printed, or imported into a spreadsheet for comparison with your school's data. This report provides the total year-to-date (YTD) disbursement amount per student as it is in COD.

Resources

The COD School Relations staff at

1-800-474-7268 and at

CODSupport@ed.gov

is available to help users within COD reports in the reconciliation process.

Note that the email address for COD School Relations is new.

TIP

COD reports

The Common Origination and Disbursement (COD) Technical Reference, Volume VI, Section 8 – Reports can be found at: <https://ifap.ed.gov/ifap/publications.jsp>.

Click on *COD Technical Reference* and choose the appropriate Award Year.

- ◆ Pell Grant Electronic Statement of Account (ESOA)

The ESOA summarizes the status of a school's current funding level (CFL) versus the net drawdown for that award year. In addition, the ESOA provides (for the current processing day only) the YTD Unduplicated Recipient Count, the YTD Total Accepted and Posted Disbursements, the YTD Total ACA paid to schools, and the net drawdown payments in G5 up to the current processing day. That is, it provides the sum of school initiated drawdowns, direct payments for Obligate/Pay accounts, adjustments (+/-) less refunds and returns.

- ◆ Pending Disbursement List Report

The Pending Disbursement List Report contains disbursements not yet funded in COD. This "list by student" reports anticipated disbursements received and accepted, but not yet made, in a school's Pell Grant Program.

- ◆ Pell Grant YTD Record

A Pell Grant YTD Record can be requested for an individual student or for all Pell Grant recipients at your school. A YTD Record contains more detailed award and disbursement data than the Pell Grant Reconciliation Report. It contains information at the individual transaction level. The YTD Record can be used to replace a corrupt database or to reconcile records with accepted data on COD.

The YTD Record shows the award information that COD is using for each student. You can view each individual disbursement as well as the total disbursed to a student for the year. The YTD Summary will show the total number of recipients at your school, and the number of awards, and the disbursements accepted, rejected, or corrected. The detailed information in a YTD Record can help your school resolve discrepancies between school and COD data.

Completing Reconciliation

If a school is meeting all disbursement/adjustment reporting, excess cash, and reconciliation requirements, a final reconciliation should begin no later than the last award or payment period end date at the school for a given program and year. A school should be able to reconcile to a zero ending cash balance soon after its final disbursements and should not carry an ending cash balance (positive or negative) for an extended period.

All schools must finalize reconciliation of cash and reporting of Pell Grant and Iraq and Afghanistan Service Grant disbursements and disbursement adjustments by the annual deadline of September 30 of the award year (i.e. for 2012–2013, the deadline will be September 30, 2013). Any adjustments to disbursements after that date may require a request for extended processing. Both Pell Grant and Iraq and Afghanistan Service Grant are closed five years after the end of the award year. Therefore, no disbursement or disbursement adjustments may be made in those programs after that time. Any funds that need to be returned after the five-year period must be returned directly to the Treasury. If you need assistance returning funds after the five year cancellation date, please contact G5 customer service at 1-888-336-8930.

RECONCILIATION, RECORDS, AND INTERNAL CONTROLS IN THE CAMPUS-BASED PROGRAMS



A school is required to reconcile its Campus-Based program and financial records at least monthly. In addition, you perform annual reconciliation of your school's annual participation in the Campus-Based programs when you complete the *The Fiscal Operations Report* (FISOP). The FISOP is parts III, IV, V, and VI of the *The Fiscal Operations Report and Application to Participate* (FISAP).

Note: If you participated in any Campus-Based programs in an award year, you must report on your activities for those programs by completing the appropriate portions of the FISAP by the following October.

Your school must reconcile, at least monthly, your Campus-Based draws recorded in G5 to the funds received in the bank account your school has designated to receive electronic transfers and account for any discrepancies.

In addition, your school must have a system that, on at least a monthly basis, reconciles your drawdowns for the award year in the individual Campus-Based Programs plus any funds provided by your school or received from other sources to the amounts expended in the three programs.

Reconciliation and the Federal Perkins Loan Program



Your school must have a system that, on at least a monthly basis, reconciles and accounts for any discrepancies among:

- ◆ the cash on hand in your Perkins fund at the start of the period,
- ◆ any federal funds received and deposited in your Perkins fund during the period,
- ◆ any school funds deposited in the Perkins fund during the period,
- ◆ any payments of principal, interest, late charges, and collection charges received during the period,
- ◆ any other additions to the Perkins fund during the period, to loans made to students during the period,
- ◆ expenses paid from the fund during the period (including ACA),
- ◆ cash on hand in the fund at the end of the period.

Monthly Reconciliation Required

A school is required to reconcile its Campus-Based records no less frequently than once a month.

Schools may be required to provide records of their monthly reconciliations during the required annual audit or during a program review.

Perkins 34 CFR 674.19(d)(1)
FWS 34 CFR 675.19(b)(2)(iv)
FSEOG 34 CFR 676.19(b)(2)

FISAP

Campus-Based Programs 34 CFR 673.3
Perkins Loan Program 34 CFR 674.19(d)(2)
FWS 34 CFR 675.19(b)(3)
FSEOG 34 CFR 676.19(b)(3)

Reconciliation and the Federal Supplemental Educational Opportunity Grant Program



Your school must have a system that, on at least a monthly basis, reconciles the federal funds drawn down during the period for FSEOG awards, plus funds transferred (or carried) in from the other Campus-Based Programs during the period, plus any nonfederal funds (both institutional and noninstitutional) made available for grants to students during the period, plus any other resources designated as FSEOG awards to students during the period to FSEOG awards made to students during the period, plus ACA, and accounts for any discrepancies.

Reconciliation and the Federal Work-Study Program



You should reconcile monthly the amount drawn down and received to the amounts disbursed to students or returned to the Department, and explain all discrepancies.

Your school must have a system that, on at least a monthly basis, reconciles the federal funds drawn down during the period for FWS awards, plus funds transferred (or carried) in from the other Campus-Based programs during the period, plus any nonfederal (both institutional and noninstitutional) funds made available for FWS payments to students during the period to FWS funds paid to students during the period, plus ACA, plus Job Location and Development expenditures, and accounts for any discrepancies.

In addition, you should examine your FWS Program and fiscal records at the start of the award year and monthly thereafter.

- ◆ Do you have a method for verifying that a student's rate of pay in your payroll system matches the rate of pay on which the award was calculated, and if the rate assigned to the position and the experience level of the student matches the levels required by the school's policies and procedures?
- ◆ Do you have a system that records the maximum a student may earn in FWS wages and alerts you if a student approaches that amount?
- ◆ Do you periodically evaluate your rate of expenditures to determine if you are spending funds at the same rate, if you are spending less, or if you are spending more than the amount you budgeted for FWS expenditures?
- ◆ Are your matching funds consistently deposited at the same time you received your federal share?

In the FWS Program, your requests for funds should always be for a payroll for which data has been entered. The only time your need for funds should be greater or less than your draw is when anticipated payments from an off-campus employer are early or late. Excepting those occasions, do you often find yourself requesting additional funds or returning unused funds?

- ◆ Do you have a process in place to ensure that students are actually working the hours reported—that timesheets are accurate?
- ◆ Do you frequently audit payrolls to test whether hours recorded in the payroll system match the hours reported on student timesheets?
- ◆ Do you reconcile the expenditure of funds in the community service part or your work-study program to the reports submitted by employers?

Reconciliation in the Direct Loan Program

OVERVIEW OF DIRECT LOAN RECONCILIATION

A school that participates in the Direct Loan Program is required to reconcile cash (the funds it has received (from the G5 system) to pay its students) with disbursements (the actual disbursement records) it has submitted to the Common Origination and Disbursement (COD) system. Schools are required to reconcile monthly.

All Direct Loan schools are also required to complete a year-end closeout which is a final reconciliation of their Direct Loan accounts. This should be done as soon as possible after the end of the school's latest award period (loan period) end date, but no later than the program year closeout date. The Direct Loan Program year closeout date occurs on the last processing day of July in the year following the award year. For example, the program year closeout date for 2012–2013 will be July 31, 2014.

The starting point for reconciliation is the Ending Cash Balance (ECB) on the School Account Statement (SAS) that COD sends to the school each month. The SAS is the Department's official record of your school's cash and disbursement transactions. The ECB is simply the difference between the net drawdowns/payments your school has received from the G5 payment system, and the actual disbursement information you've reported to COD (and COD has accepted) for individual students and parents (known as Total Net Booked Disbursements).

Ideally, the net drawdown/payments your school has received in the past month will be fully substantiated by the total disbursements your school has reported (including any subsequent adjustments). Therefore, your school's monthly ECB should be as close to zero as possible keeping timing variances in mind.

Direct Loan monthly reconciliation required

34 CFR 685.102

$$\begin{array}{r}
 \text{Net Drawdowns/Payments (G5)} \\
 - \text{Total Net Booked} \\
 \text{Disbursements (COD)} \\
 \hline
 = \text{Ending Cash Balance}
 \end{array}$$

Booked vs. Unbooked Disbursements

For a disbursement to be considered booked, it must consist of the following three components.

1. It must be a part of an accepted loan origination record (as submitted to COD by the school);
2. It must have an accepted Master Promissory Note associated with it (linked MPN); and
3. It must be reflected as an actual disbursement in COD (the Disbursement Release Indicator = "True" and the date of disbursement must have occurred) .

Once these three things occur, the loan is booked and sent to a Department Servicer, and the student is liable in accordance with the terms and conditions stated in the Master Promissory Note.

Unbooked disbursements include any future dated transactions with disbursement dates falling after the end of the report.

Types of Disbursement Discrepancies

1. End-of-month timing issues.
2. Disbursement batches not yet sent to COD (or sent to COD but not acknowledged).
3. Rejected disbursements that have not been resolved.
4. Disbursements reported to COD but unbooked because of future disbursement date.
5. Disbursements made by business office but not supported by disbursement records in the financial aid office system and COD (*would show up in internal reconciliation*).

When the ECB for a month is greater or less than zero, you must be able to account for any differences between the net totals for Booked Disbursements and Drawdowns/Payments. The SAS provides you with the information that the Department has recorded for your actual disbursements to students and cash transactions (payments/drawdowns). You can use this information as a starting point in identifying the underlying reasons for the ECB.

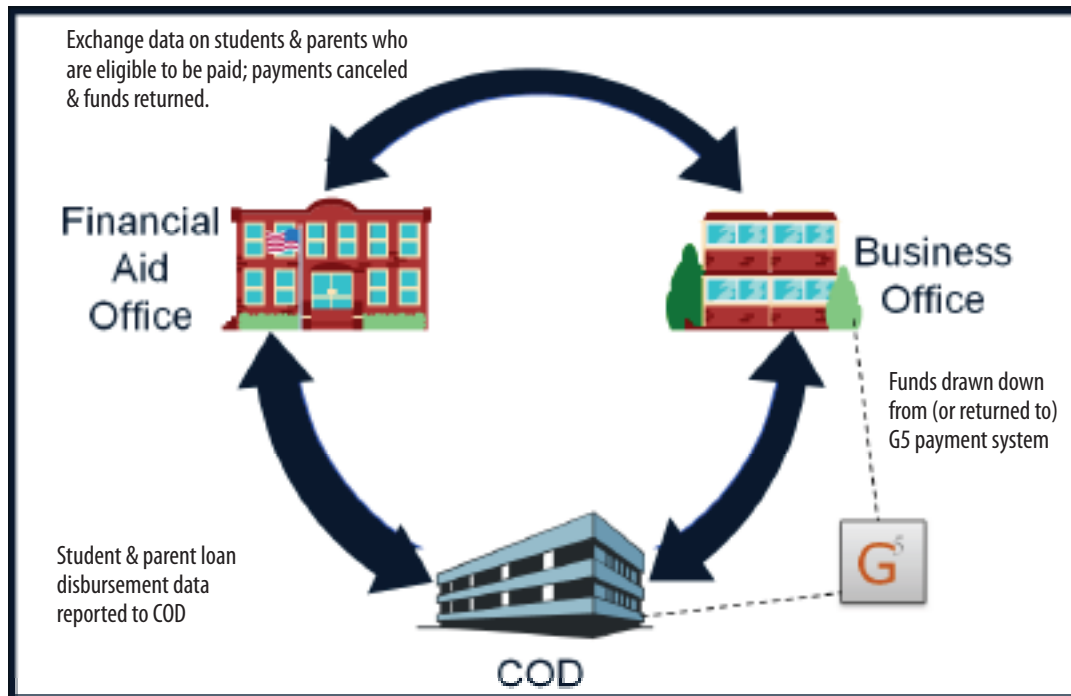
Sometimes the difference between Booked Disbursements and Cash Receipts is just a matter of end-of-month timing—funds were delivered to the school’s account at the end of one month and the disbursements were reported to COD at the beginning of the next month (or vice versa). If there are legitimate reasons for a positive or negative ECB from month to month, you may not need to correct or update any of the information your school has provided to the COD or G5 systems. Just document the reasons for the differences and you are done reconciling for that month.

During your review, you may also find omissions or errors in your school’s transactions with COD and G5. For instance, you may find that some disbursement data for your students was submitted to, but not accepted by, COD or that G5 transactions were entered for the wrong program year. In these cases, you will need to resubmit corrected disbursement records to COD or correct earlier transactions on the G5 system. Ensuring that your school records match exactly to the data in COD is an example of external reconciliation.

It is also possible that the discrepancy results from inconsistencies between the information in the school’s financial aid system and the information kept by its business office—these will need to be resolved by comparing and correcting your school’s records. This is an example of internal reconciliation. In order to have a common set of figures to reconcile against COD schools should complete an internal reconciliation before beginning the required external monthly reconciliation.

Reconciling ED and School Records

The SAS (sent by COD) includes both disbursement data and cash transactions from COD. This data in ED systems must be reconciled with data in your school's financial aid office and business office.



Discrepancies can occur for a variety of reasons, such as:

- Timing issues—funds are drawn down and disbursed in a different month from the month student/parent records are sent to COD.
- Misreporting of drawdowns or returns of aid—for instance, drawdowns or returns attributed to the wrong award year.
- Actual disbursements or adjustments that have not been processed in COD—including records batched but not sent by the financial aid office, and unresolved rejects.
- Actual disbursements reported to COD by the aid office but not reported to the business office for payment.
- Payments made or not made by the business office that are not reported to the financial aid office.

INTERNAL RECONCILIATION

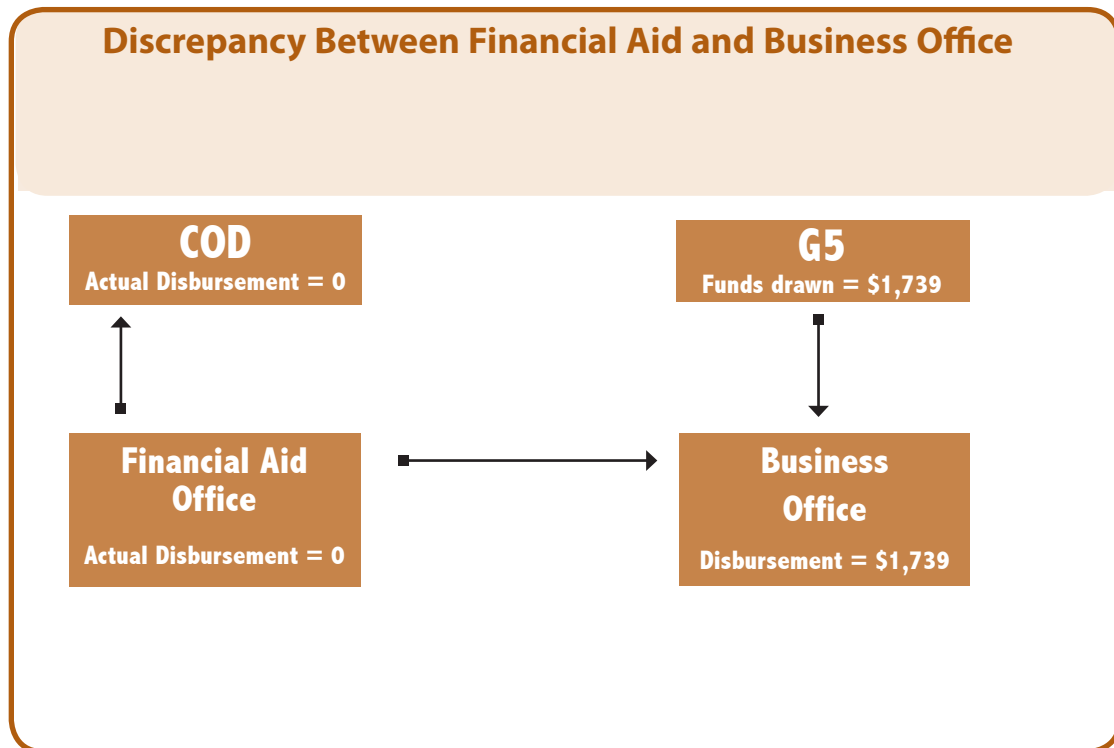
Possible Sources of Discrepancies Between Financial Aid & Business Office Records

- financial aid office calculates Return of Aid (R2T4) but doesn't notify business office.
- financial aid office schedules disbursement with business office but does not create "actual disbursement" record to send to COD. (Or, "actual disbursement" record sent by the financial aid office is rejected by COD.)
- business office cancels disbursement but does not inform financial aid office.
- business office makes refund of cash to G5 system but does not inform financial aid office.

Internal reconciliation is the process where the business and financial aid offices compare their records to ensure that they match, both in disbursement date and disbursement amount. The frequency and methods used for internal reconciliation are based on school decision and need but should occur at least monthly and before the required monthly reconciliation to the Direct Loan SAS.

The business office should review its Direct Loan account bank statement to ensure that funds drawn and returned are in the appropriate year. In addition the business office will need to regularly monitor the account to comply with cash management regulations, i.e., making sure that funds are drawn for immediate need and any funds that cannot be used within cash management guidelines are returned promptly.

To be in compliance with reporting disbursement and disbursement adjustments within 15 days, the business and financial aid offices will need to communicate frequently, making sure that their systems are in sync. It is very important that the date funds are posted to student accounts is the disbursement date the financial aid office reports to COD. This date is reported to the Direct Loan servicers and is the time when interest begins to accrue on the loan funds.



Discrepancies that occur between the financial aid and business offices are usually caused by a lapse in communication. Note that these discrepancies often do not show up in a comparison of the financial aid office's records to COD, or in the comparison of drawdowns/returns between the business office and G5 payment system. For instance,

- ◆ The financial aid office notifies the business office that the student is eligible for payment on a certain date, but the disbursement record is rejected by COD. If the financial aid office doesn't tell the business office to cancel the disbursement, the business office draws down funds and makes a disbursement to the student that is not supported in COD or in the financial aid office's records.
- ◆ The business office cancels a disbursement and/or makes a refund of cash to the G5 system without informing the aid office. Thus, the original amount will still be included in the net Booked Disbursements on the SAS but will not be reflected in the net Cash Receipts.

Discrepancies can be avoided by setting daily or weekly communication touchpoints between the two offices or by scheduling a data comparison between the two office systems. Resolving differences in internal reconciliation will lead to a smoother external reconciliation with the Department's official data as reflected in the SAS.

Steps in Monthly Reconciliation

Monthly Reconciliation Process

- ▶ Compare financial aid office records with business office disbursements.
Look for:
 - Refunds of cash made by business office to G5 but not recorded in the financial aid office system.
 - Disbursements made by business office, but not recorded in the financial aid office system or not sent to COD and accepted.
 - Instances when the financial aid office calculated a Return of Aid and reported a downward adjustment to COD, but the information was not recorded in the business office system and the funds were not returned to G5.
- ▶ Reconcile with SAS data from ED
Upon receiving the monthly SAS, first compare the cash summary information to your internal records. If the sub-totals and ECB match or any discrepancies can be explained and documented, you are done. If not, then proceed to the next step of comparing SAS cash detail with student account records in the business office (or elsewhere). Look for:
 - End-of-month submissions that were processed by COD in the next month.
 - Cash transactions attributed to wrong award year.
 - Funds drawn down from one award year but “recycled” to make disbursements for loans in a different award year.
- ▶ Compare SAS Loan/Disbursement Detail with financial aid office records.
(The “Loan Compare” function in DL Tools can be used to import school data and compare it to the SAS Loan Disbursement Detail.) Look for:
 - Disbursement batches not yet sent to COD (or sent to COD but not acknowledged).
 - Rejected disbursements that have not been resolved.
 - Disbursements reported to COD but unbooked because of future disbursement date.
 - Remember, you must document reasons for any discrepancies in your ECB.

COMPLETING EXTERNAL RECONCILIATION

After completing internal reconciliation between the business and financial aid office records, a school can begin its required monthly reconciliation process, comparing school data to the SAS.

Completing monthly reconciliation

A school has completed its monthly reconciliation when all differences between the SAS and the school's internal records (Direct Loan System, financial aid office, and business office system) have been resolved or documented. Schools should clearly outline their method of documentation in both business office and financial aid office procedures. The Department does not mandate or prescribe any particular method of documentation, which allows your school to determine the type and method that best suits your internal processes. Your school must maintain documented results of its monthly reconciliation to provide to auditors and reviewers at their request but does not need to send any proof of this reconciliation to the Department.

Each month you should:

- ◆ Identify any discrepancies due to timing and track them to make sure that the missing transactions appear in the next month's SAS.
- ◆ Identify any discrepancies due to misreporting or internal miscommunication and take necessary corrective actions to ensure they will not recur in the following month.
- ◆ Document all reconciliation efforts for future reference. In addition to resolving cash balance issues in a timely manner, careful monthly reconciliation will help you to complete year-end close-out much more efficiently.

Key Components of Monthly Reconciliation

- All discrepancies have been identified, resolved, and documented.
- Timing issues are tracked for reconciliation in next month's SAS.
- Historical records of issues are kept for later review or to update new or returning staff members.

Completing Year-End Closeout

We encourage you to complete the following simple steps while reviewing your school's internal records and the SAS:

- Ensure that all drawdowns and refunds of cash are accounted for and applied to the correct program year;
- Ensure that all disbursements and adjustments are accurate and have been reported to and accepted by the COD system;
- Ensure that all batches have been sent to and accepted by the COD system;
- Ensure that all unbooked loans are resolved;
- Resolve all outstanding rejected records; and
- Return all refunds of cash to the G5 payment system.

Direct Loan year-end closeout

Direct Loan schools must complete a final reconciliation and program year closeout. Program year closeout should occur within a month or two of your final disbursements but no later than the program year closeout deadline, which is the last processing day in July of the year following the end of the award year.

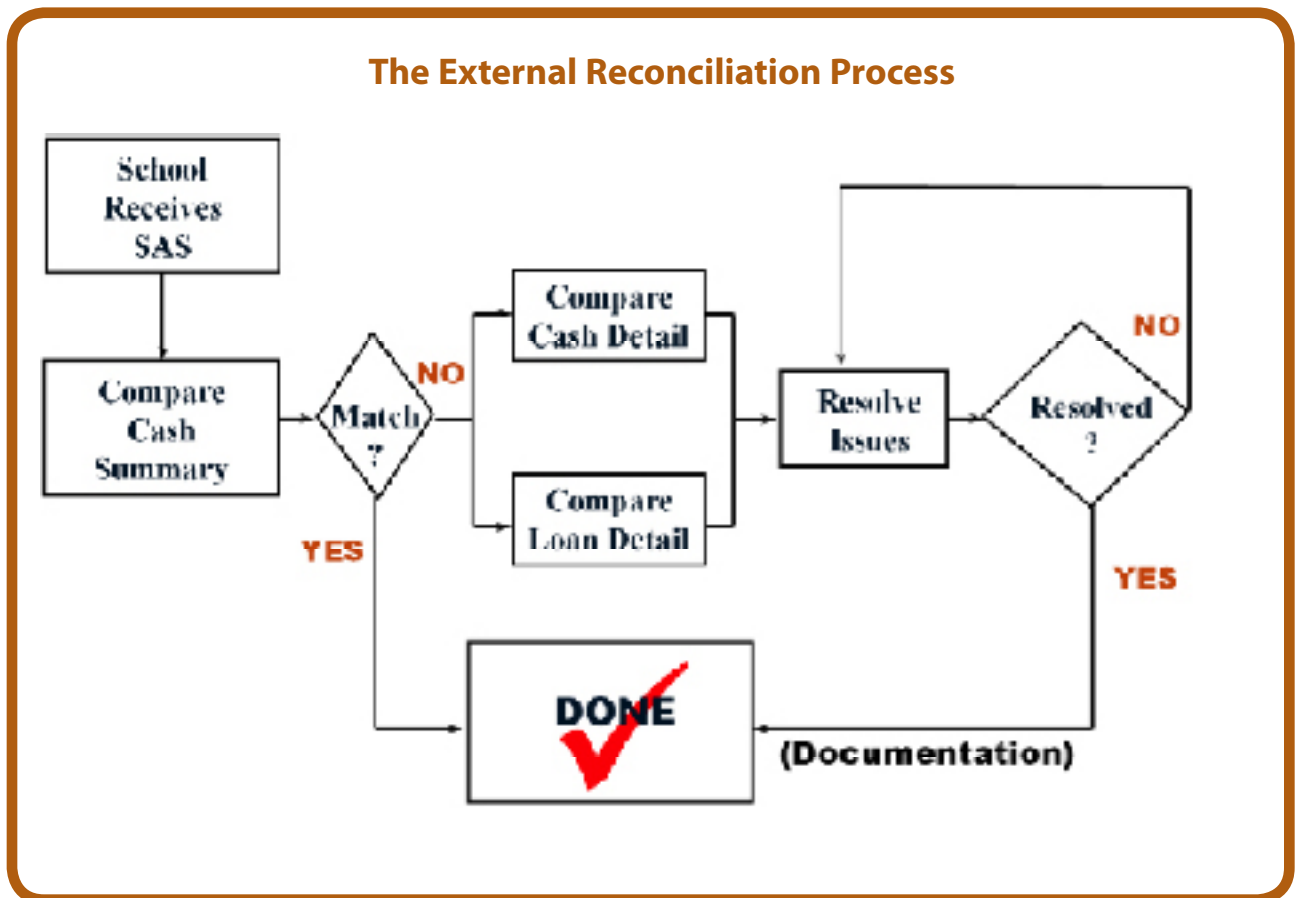
Note: Exceptions to the last processing day of the program year may be made on a case-by-case basis if the school's processing period extends beyond the closeout deadline. Schools falling within this category must request extended processing on line, or by contacting the COD School Relations Center.

To be considered successfully closed out, a school must:

- ♦ Have an ECB of \$0 and total Net Unbooked Disbursements of \$0 internally and as reflected on the SAS, and
- ♦ Complete the Balance Confirmation form on the COD website.

You will be notified of the closeout requirements through Electronic Announcements and COD system-generated closeout correspondence. As part of the closeout process, COD will send ongoing notices via Zero Balance or Remaining Balance emails. In addition, COD will distribute a Notification/Warning Letter via email to schools in May. This letter will go to the financial aid administrator and president at each school that has not confirmed closeout on the COD website (including any schools with a zero balance). It will serve as a reminder to finish processing and confirm closeout before the final deadline. After the closeout deadline, schools with remaining positive balances will be billed.

A school must be aware of its closeout status even if its Direct Loan processing is handled by the school's third-party servicer. We encourage each school to communicate regularly with its third-party servicer to ensure closeout is completed. It is the school's responsibility to ensure that it finishes processing and confirms closeout on time.



USING TOOLS AND REPORTS IN DIRECT LOAN RECONCILIATION

TIP

For more information on COD Reports, refer to the latest COD Technical Reference, Volume VI, Section 8, available at www.fsadownload.ed.gov.

For more information on COD web screens, refer to the COD website help text or download the free COD Computer Based Training from ifap.ed.gov under “Tools for Schools.”

NEW

In January of 2014, the Department announced the posting of three report readers. The readers provide a simplified way of importing the COD report files into an Excel spreadsheet for school reconciliation purposes.

A school that does not already have a process in place for using these reports to regularly reconcile its Pell Grant and Direct Loan data should consider downloading the readers for this purpose.

Note that to use the readers, a school must receive the **fixed-length format** of the reports.

There are report readers for the following reports.

- Pell Grant Reconciliation File
- Pell Grant YTD File
- SAS Disbursement Detail on Demand File

The readers, along with instructions on how to use them, are posted on the Common Origination and Disbursement (COD) website at <https://cod.ed.gov/cod/LoginPage>

If you have questions about the readers or need additional assistance with using them, contact the COD School Relations Center at 800/848-0978 for Direct Loans or 800/474-7268 for Pell Grants. You may also email CODSupport@ed.gov.

The Department provides several applications to assist your school in completing its Direct Loan reconciliation responsibilities. Among them are COD Reports and Direct Loan Tools.

COD Reports

COD provides a variety of reports and web screens (available at <http://cod.ed.gov>) to help you in your Direct Loan reconciliation. Detailed information including message classes, record layouts, and delivery methods for all Direct Loan reports can be found in the COD Technical Reference Volume VI Section 8. Highlighted here are a few reports and COD web screens useful to reconciliation:

- ◆ *School Account Statement (SAS)*—detail to follow.
- ◆ *30-Day Warning Report*—this report can help your school identify awards that are missing a piece needed for booking a loan. It is composed of two sections. The first lists origination records missing either a promissory note or an actual disbursement. The second section lists promissory notes missing origination and disbursement records.
- ◆ *Pending Disbursement Listing*—This report provides a list of all pending disbursements reported by your school and can help you to identify future funding needs, identify pending disbursements that should be reported as actuals, and identify awards or disbursements that need to be made deactivated (reduced to zero).
- ◆ *Inactive Loans Report*—This report provides a list of all loans made inactive (reduced to zero) during the reported period and can help you confirm that the correct loans have been inactivated.
- ◆ *Direct Loan Actual Disbursement List*—This weekly report displays actual disbursements from the previous Saturday (seven days before the report generation date) through the following Friday (one day before the report generation date). Actual disbursements appear on the report based on their post date, indicating when each actual disbursement or adjustment is posted on the COD System. The report includes booked, unbooked, and future dated actual disbursements and adjustments, provided they are created within the reporting period.
- ◆ *School Summary Information*—This COD web page provides an overview of your school’s current funding level (CFL) as well as cash greater than accepted and posted disbursements over 30 days. It is a great tool to use every time you log into COD to confirm that your school is reporting disbursements in a timely manner to substantiate the funds drawn.

- **Funding Info**—This COD web page lists your school’s current available balance as well as last CFL changes.
- **School Summary Financial Information**—This COD web page provides close to real time balance information for your school, formatted similarly to the year-to-date Cash Summary section of the SAS.
- **Cash Activity web page** – this COD web page provides up-to-date drawdown and refund of cash detail activity for your school as well as days remaining for on-time reporting.
- **Action Queue Search**—This COD web page allows you to search for current pending disbursement activity for your school. You can use the action queue as an ad hoc pending disbursement list by setting your own begin and end date parameters into the future. You can also use the action queue as a reconciliation tool by setting the begin search date to the beginning of the award year with the end date at the current date to view any pending disbursements that either should have been disbursed or reduced to zero. Note that this search can also be used for, (1) anticipating funding needs and, (2) identifying disbursements/loan periods that should be updated per GEN-13-13/150% requirements.

Direct Loan Tools

The Direct Loan Tools software application is designed to work with your own mainframe or middle-range application, or hand-in-hand with EDEExpress, to ensure that your Direct Loan records reconcile with the COD system. With a few simple keystrokes you can compare the SAS file you receive monthly from the COD System with your own database to identify discrepancies that need to be addressed.

Direct Loan (DL) Tools for Windows is a supplemental software product for Direct Loan participants. You can download software and related user documentation from the U.S. Department of Education’s Federal Student Aid Download (FSAdownload) website located at www.fsadownload.ed.gov.

You can use DL Tools during your reconciliation process to:

- ◆ print the SAS in a readable format;
- ◆ track Cash Receipts (drawdowns) and Refunds of Cash; and
- ◆ compare the SAS to loans and actual disbursements recorded in either EDEExpress or an external file (your school’s system), and/or compare the SAS to the DL Tools Cash database (records of receipts and Refunds of Cash).

Using DL Tools for Reconciliation

Many schools have found that DL Tools software helps them in the reconciliation process, even if they are not using EDEExpress.

DL Tools can be used to import and format information from the SAS. DL Tools can produce formatted reports for:

- Cash Summary
- SAS Cash Detail
- SAS Loan and Disbursement Detail

In addition, DL Tools can be used to compare the information from the SAS to the school’s data. We’ll talk more about these features under Cash Detail and Loan Disbursement Detail.

DL Tools runs on Windows-based PCs and can be downloaded free at www.fsadownload.ed.gov.

NOTE: Comparison reports are designed to be run using the SAS Reports with YTD detail, not monthly detail. You can change your report options (YTD detail, for example) by accessing the COD website at <http://cod.ed.gov/> (see section in this document titled, “School Account Statement Options”). (Note that fixed-length formatting is required in “Compare.” We find that schools that have changed their preference to, for instance, “comma delimited,” don’t realize that formats other than fixed length won’t work for Compare Reports.

For more information on the DL Tools Software, refer to the COD Technical Reference, Volume IV.

There is also training available on DL Tools on IFAP/Tools for Schools/EDEExpress Online Training and in the COD Computer-Based Training (CBT) modules under “Tools for Schools / COD CBT.”

Using DL Tools to Evaluate Your Average Processing Time

If your school uses EDExpress, you can use the Disbursement Measurement Tool (in DL Tools) to calculate

- average time from actual disbursement date to sending the actual disbursements in a batch to COD.
- average time from actual disbursement date to booking the loan.

These average times can be compared to the recommended tolerances you have established as your quality control standard.

Reports available to schools using DL include:

- ◆ SAS Cash Summary
- ◆ SAS Cash Detail
- ◆ SAS Loan and Disbursement Detail
- ◆ Internal Ending Cash Balance Report
- ◆ Cash Detail Comparison
- ◆ Loan Detail Comparison
- ◆ Disbursement Detail Comparison
- ◆ Disbursement Measurement Tool

THE SCHOOL ACCOUNT STATEMENT

Each month, the COD system sends a SAS to your SAIG Mailbox. This report is generated by COD during the first weekend of the month with data through the end of the previous month (for example, the first weekend in September, COD generates a report for August and sends it to your school). The SAS reflects all cash transactions performed in G5 as reported to COD and all loan and disbursement detail reported by your school and accepted in COD.

The SAS is a monthly statement, similar to a bank statement, that summarizes a school's processing activity for each month. (Your school can now request a *School Account Statement (SAS) Disbursement Detail* on an *on demand* basis.)

The SAS should be your school's primary tool for reconciliation and program year closeout, and should be compared to both financial aid and business office records. The SAS provides the Department's official ending cash balance as of the end date of the report, based on data submitted by the school. As such, all schools are required to receive the SAS on a monthly basis until they have officially closed out a program year.

Your school is required to reconcile the information on the SAS to its internal records on a monthly basis.

Note that your school will receive a separate SAS for each award year that it participates in Direct Loans until that award year is closed out as directed by ED. Since a school often has multiple award years open at the same time, it may receive more than one SAS for a given month.

To successfully "close out" your Direct Loan account at the end of an award year, you must have an ECB of zero and Total Net Unbooked Disbursements of zero, as reflected on your school's SAS.

DL Tools for Cash Management

You can use the "Cash Management" feature in DL Tools to keep a record of Cash Receipts (drawdowns) and Refunds of Cash for Direct Loans.

However, if you use this feature, you must take care to ensure that EVERY transaction is recorded in the Cash Management Tool. Thus, if your business office tracks transactions in other software, you may want to rely on that software to record cash transactions, rather than making duplicate entries.

If you are using the Cash Management feature of DL Tools, you can also run the following reports for all program years:

- Internal Ending Cash Balance Report
- Cash Detail Comparison.



The SAS is broken down into the following four sections:

- ◆ Cash Summary
- ◆ Disbursement Summary (by loan type)
- ◆ Cash Detail Report
- ◆ Loan or Disbursement Detail Report.

Cash Summary

This section of the SAS provides the Department’s official ECB for the school for the reported period. The ECB is the difference between Net Drawdown of Cash and Net Booked Disbursements. The Cash Summary contains both a monthly and a year-to-date summary of cash and loan data processed at COD for that program year. This section can be compared to summary information on the school’s internal systems. The comparison may then identify areas where further research is needed.

Ultimately, if a school’s Net Drawdowns/Payments are equal to its total Net Booked Disbursements, its ECB will equal zero.

Disbursement Summary by Loan Type

The Disbursement Summary by Loan Type section of the SAS provides monthly and YTD summary information by loan type for the reported period. It can be used to monitor loan volume at the summary level.

Cash Detail

The Cash Detail section of the SAS provides detail on cash transactions processed in COD during the reported period. This includes drawdowns, drawdown adjustments, or refunds of cash. If the monthly option is chosen, this section will only include cash transactions processed in COD during that month. If the YTD option is chosen, the section will include cash transactions processed at COD from the start of the program year through the end date of the report. If you choose the monthly option, this section will not include any cash transactions requested or sent during the month, but not processed on COD until after the last day of that month.

Using the SAS

Three sections of the School Account Statement (SAS) are particularly useful for purposes of reconciliation:

- Cash Summary →
compare to summary school data
- Cash Detail →
compare to business office records
- Loan Disbursement Detail →
compare to financial aid system

Setting Options for the Format And Content of the SAS

Schools can set their SAS format and content options on the COD website by selecting - School/Report Selection/Modify SAS Options.

SAS format choices are Fixed Length (the default), Comma-Delimited **Without** Headers, Comma-Delimited **With** Headers, or Pipe-Delimited. If you plan to use DL Tools to format your report and /or run a comparison to school records, you must select Fixed Length format. If you plan to open your SAS in Excel, you should select Comma-delimited **Without** Headers for data only report, or Comma-delimited **WITH** headers for a more formatted report. Note that the YTD report is what’s needed to run the Compare.

SAS content options include:

- Names of borrowers
- Monthly or YTD or both for cash and loan detail (if you choose both, you will receive two separate reports but both have the same message class)
- Disbursement summary by loan type
- Disbursement detail or loan level detail (YTD) or both.

You will always receive both YTD and monthly data on your Cash Summary regardless of which options you choose. For more information on available SAS Options, including message classes, see the COD Technical Reference Volume VI Chapter 8 at www.fsadownload.ed.gov.

Loan Detail/Loan Disbursement Activity Level

The *Loan Detail/Loan Disbursement Activity Level* section of the SAS contains loan detail transactions at either the loan level or the individual disbursement transaction level, depending on school options. If loan detail is requested at the loan level, the SAS will contain one record per loan, with YTD disbursement information. If loan detail is requested at the disbursement activity level, the SAS will contain all actual disbursement and disbursement adjustment activity that occurred during the preceding month or year-to-date (depending on the options selected by the school) as reported by the school and accepted by COD.

This portion of the report is helpful because it allows schools to match individual (student by student) COD accepted disbursements and adjustments against the individual disbursements and adjustments reflected in the school's financial aid system. By identifying discrepancies between disbursements in COD and your financial aid system, you will be able to resolve the differences.

In the following sections, we'll explain how to compare the summary and detail reports to your school data to identify any underlying discrepancies that may be affecting the ECB.

WORKING WITH THE SAS

Once your school receives the SAS, the first step in monthly reconciliation is to compare the Cash Summary data to the corresponding totals in your school's financial aid and business office systems. Ideally, your ECB will be zero, suggesting that there are no discrepancies to be explained. However, there could be rare instances where positive and negative discrepancies are canceling each other out, so you need to look at the rest of the Cash Summary to make sure that it matches your school's data.

In addition to the ECB, the Cash Summary shows:

- ◆ *Net Drawdowns/Payments*, which reflects *Cash Receipts* (funds drawn through G5) minus *Refunds of Cash* (funds returned through G5 or to COD by check), and
- ◆ *Total Net Booked Disbursements*, which reflects *Booked Disbursements* plus or minus *Booked Adjustments*.

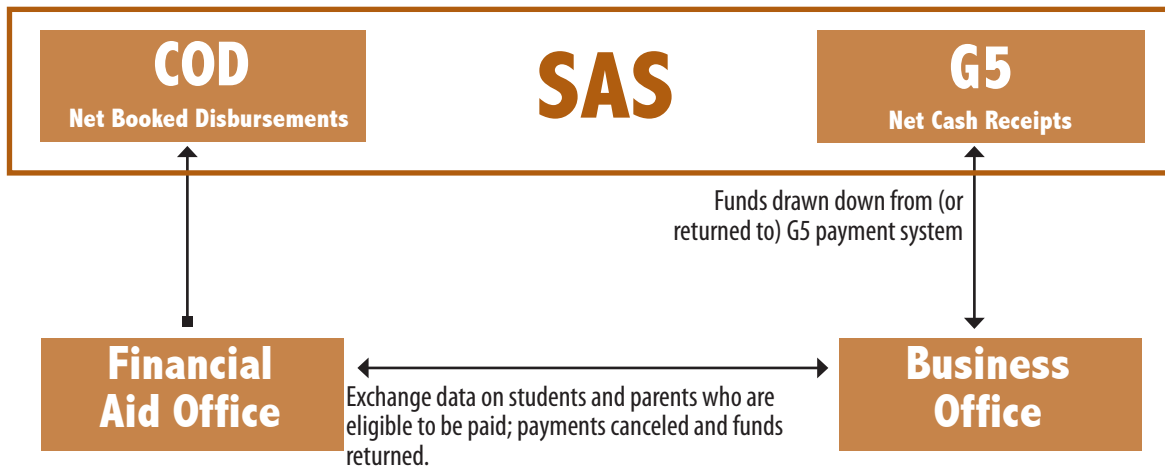
Many differences between your drawdowns from G5 and the disbursements reported to COD can be explained by timing issues. For instance, if your school draws down \$25,000 to pay students at the end of September but does not send in actual disbursement records for those

students until the beginning of October (within the 15-day reporting requirement), the SAS for the month of September will include \$25,000 in cash receipts from the G5 system that are not matched by booked disbursements in COD. (Also, keep in mind that loan disbursement records sent to COD near the end of the month may not be processed and acknowledged until the beginning of the next month.)

If you can identify such discrepancies and account for any remaining cash balance (positive or negative) at the Cash Summary level, then you've successfully completed reconciliation for the month. Remember that a school must document its reconciliation process and the results of each monthly reconciliation.

Reconciling Department and School Records

The SAS (sent by COD) includes both disbursement data and cash transactions at COD (but received from G5). This data in ED systems must be reconciled with data in your school's financial aid office and business office.



Discrepancies can occur for a variety of reasons, such as:

- Timing issues—funds are drawn down and disbursed in a different month from the month student/parent records are sent to COD.
- Misreporting of drawdowns or returns of aid—for instance, drawdowns or returns attributed to the wrong award year.
- Actual disbursements or adjustments that have not been processed in COD—including records batched but not sent by the financial aid office, and unresolved rejects.
- Actual disbursements reported to COD by the aid office but not to the business office for payment.
- Payments made or not made by the business office that are not reported to the financial aid office.



Example of SAS Cash Summary

The information in the Cash Summary is fairly general—you will usually need to examine the detail information in the SAS and in your school’s records to be able to identify the source of any discrepancies shown in the Summary. The example shown below is a monthly Cash Summary.

End Date: 09/30/2012
 School Code: G09009

1	Beginning Balance		\$0
	Cash Receipts	\$33,074	
	Refunds of Cash	-\$1,350	
2	Net Drawdowns/Payments		\$31,724
	Booked Disbursements	\$25,721	
	Booked Adjustments	-\$1,250	
3	Total Net Booked Disbursements		\$24,471
ECB	Ending Cash Balance		\$7,253
	4 Unbooked Disbursements Actual:	\$1,264	
	Unbooked Adjustments:	-\$0	
	Total Net Unbooked Disbursements		\$1,264
5	Cash > Accepted and Posted Disbursements:		\$5,989

Analysis of Sample SAS Cash Summary:

- 1** The Beginning Cash Balance is zero at the start of the award year. Otherwise it is equal to the previous month’s ending cash balance.
- 2** The SAS shows that the school drew down \$33,074 from the G5 payment system and returned \$1,350 in cash during September. If these amounts differ from the school’s summary data, the **SAS Cash Detail** should be compared to the business office’s records of cash transactions.
- 3** The SAS shows \$25,721 in Booked Disbursements reported to COD and a net of \$1,250 in adjustments that reduces the total disbursements.
- ECB** Because the school drew down more money from G5 in September than the amount of loan disbursements it reported to COD, the Ending Cash Balance has grown to \$7,253.
- 4** In this sample, one or more Unbooked Disbursements—possibly the result of future-dated disbursement records—are contributing to the positive Ending Cash Balance. If the \$1,264 in disbursements is booked in October, they will reduce the Ending Cash Balance. Comparing the Loan Disbursement Detail on the SAS with the financial aid office’s records may show unbooked disbursements that were not reported to COD (and thus don’t appear on the SAS).
- 5** The remainder (Cash > Accepted and Posted Disbursements) is the difference between Net Drawdowns/Payments and all actual disbursements accepted at COD, both booked and unbooked. It may be explained by timing issues between school actions and the date transactions are recorded in COD, differences between financial aid office and business office records, or rejected disbursement records at COD that have yet to be resolved.



Example of SAS Cash Detail

The Cash Detail shows each exchange of funds with the G5 (formerly known as GAPS) system as reported to COD. (Either cash received by the school or a Refund of Cash to G5.) The amounts listed in the Cash Detail often represent amounts for multiple loans that have been reported separately to the COD system.

Trans Type	Trans Date	Trans Amount	COD Process Date	G5 Control/Check Number
Receipt	09/06/2012	\$12,800	09/06/2012	2005091212345 ¹
Receipt	09/12/2012	\$12,024	09/12/2012	2005091267890
Refund	09/15/2012	\$1350 ²	09/22/2012	000000101100...
Receipt	09/26/2012	\$8,250	09/25/2012	2005091234567
³ Total Cash Receipt Records			3	
Total Refunds of Cash Records			1	
Total SAS Cash Detail Records			4	
⁴ Total Cash Receipt Amount			\$33,074	
Total Refunds of Cash Amount			\$725	

Analysis of Sample SAS Cash Detail:

- ¹ The transactions listed in the Cash Detail include **G5 control numbers** for drawdowns and refunds. It will also show the check number if the school made a refund (return of cash) directly to COD (not recommended).
From the Cash Detail, we see that the \$725 total **Refund of Cash** was made in a single transaction. Given the amount, it is possible that it represents the cancellation of a single loan disbursement, but one would have to examine the business office records to confirm this. (If the loan had already been reported to COD when it was cancelled, the Loan Disbursement Detail on the SAS should also show a subsequent adjustment to reduce the loan amount.)
- ² These three lines show the total number of drawdowns (cash receipts) by the school for the month vs. the total number of refunds sent back by the school during the same timeframe.
- ³ These two lines show the total amount drawn down for the month (cash receipts) and the total amount returned.

A comparison with the school's business office records may identify missing transactions. For instance, if the school intended to make a Refund of Cash for this award year but attributed it to the wrong award year, the amount of that transaction would not be reflected on the SAS for this award year, and the Total Refunds amount shown on the statement would be too low. (Conversely, the Total Refunds amount on the SAS for the other award year would be too high.)

However, in many cases, you may need to compare the SAS and school data at a more detailed level, using two other sections of the SAS:

- ◆ the SAS Cash Detail for cash receipts and refunds of cash; and
- ◆ the SAS Loan or Disbursement Detail for actual disbursement and adjustment data accepted in COD.

LOAN DISBURSEMENT DETAIL

In contrast to the bank transactions shown on the Cash Detail, the Loan Disbursement Detail is meant to be compared with the individual loan records in your financial aid office system. This detailed report includes all actual disbursement information and adjustments that have been accepted by COD during that month based on the date the individual transaction books at COD (Disbursement Booked Date).

The default option for the SAS is the Monthly Disbursement Detail. If you plan to use DL Tools to compare the SAS data with your school records, you should request this information in the form of the Year-to-Date Disbursement Detail (note that this will significantly increase the size of the report as the award year progresses). SAS options can be changed on the COD website.

DL Tools and the Loan Compare Report

You can use DL Tools to compare the SAS loan and disbursement detail recorded in your financial aid office's system. For more information on DL Tools and the comparison reports available see the *COD Technical Reference Volume IV* or view the DL Tools web-based training available on IFAP/Tools for Schools/EExpress Online Training and in the COD Computer-Based Training (CBT) modules under "Tools for Schools / COD CBT."

Timing issues and the School Account Statement

As noted earlier, timing issues could be a recurring source of discrepancies. Disbursement and adjustment transactions appear on the SAS for the month in which the COD system receives or acknowledges the transaction. An actual disbursement that is transmitted to COD in late September may not be acknowledged by the COD system until October and therefore will appear on the October SAS, which will arrive at the school in early November.

The same kind of discrepancy can occur when the business office draws down and disburses loan funds to the student in late September, but the financial aid office doesn't send the actual disbursement records for those loans until the beginning of October. If such discrepancies are common at your school, you may want to look at ways to make sure that actual disbursement records are sent to COD sooner.

Example of SAS Loan Detail (Disbursement Detail)

Report Date: 09/01/2013 U.S. DEPARTMENT OF EDUCATION
 Report Time: 12:01:01 DIRECT LOAN TOOLS—2013–2014

PAGE: 1

SAS Loan Detail

Sort by: Loan ID

THIS DOCUMENT CONTAINS SENSITIVE INFORMATION PROTECTED BY THE PRIVACY ACT

Date Range: 08/01/2013 to 08/31/2013

School Code: G99999

Booked Status: Booked and Unbooked

End Date: 08/31/2013

Loan Type: All

Student's Name

PLUS Borrower's Name
 Loan ID

Record
 Type

Gross
 Amount

Fee
 Amount

Int. Rebate
 Amount

Net
 Amount

Servicer Name

Disb #	Seq #	Type	Disb Date	Gross Amt	Net Amt
BLUE, BILL G					
999990002S13G99999001	1	Booked		\$0	\$743
DEPT OF ED PHEAA					
2 1	1	D	08/15/2013	\$750	\$743
ILLINOIS, ILENE					
999990065U13G99999001	3	Booked		\$0	\$495
DIRECT LOAN SERVICING CENTER					
4 1	1	D	08/15/2013	\$600	\$595
1	2	A	08/15/2013	\$500	\$495
OHIO, OLIVIA M					
999990070S13G99999001		Unbooked		\$0	\$1,238
DIRECT LOAN SERVICING CENTER					
1	1	D	08/15/2013	\$1,250	\$1,238

See the page that follows for an explanation of this SAS Loan Detail.

Analysis of Sample Loan Disbursement Detail

The SAS Loan Disbursement Detail shows the **actual** disbursements that have been accepted by the COD system. This example shows first disbursements of Direct Subsidized loans to Bill Blue and Olivia Ohio, and the first disbursement (with an adjustment) of a Direct Unsubsidized loan to Ilene Illinois.

- 1 The first line of the loan listing shows if the loan is booked or unbooked, the gross amount, fee, interest rebate, (interest rebates do not appear for loans first disbursed after July 1, 2012), and the net amount of the loan.
- 2 The second line shows the date of the disbursement or adjustment and the gross and net amounts of the disbursement.
- 3 The letter S, U, or P in the ninth position of the Loan ID indicates whether it is a Subsidized, Unsubsidized, or PLUS Loan.
- 4 For Ilene Illinois' Direct Unsubsidized Loan, we see that the disbursed amount has been adjusted (disbursement 1, sequence 2). Note that the adjusted amount is the amount of the disbursement *after* the change has been recorded. The adjustment itself is a reduction of \$100.00.

Next Steps

What's NOT on the SAS Loan Disbursement Detail is as important as the loans that are listed. Note that rejected disbursements will not appear on the SAS.

✓ Compare the loan disbursements on this Detail to the data in your financial aid office system.

If you are using DL Tools software, the Loan Detail Compare report will identify loans that appear in your school's database but not on the SAS, and vice versa. In addition, most software packages can generate reports showing the current status of all award records, MPNs, and actual disbursements in your database.

- Look for actual disbursements that are in your school's database but have not been transmitted to COD (or were rejected by COD).
- Look for any actual disbursements that were entered directly on the COD website, but not in the financial aid office software database.

✓ Check for unbooked loans

If you are not using DL Tools software, you can identify many unbooked loans by reviewing the 30-Day Warning Report sent by COD.

Look for any loans that are missing a necessary component (loan origination record, MPN, or first disbursement) to book the loan.

✓ Check the disbursement information in your school's business office records.

Via internal reconciliation, compare the disbursement records in the business office (credits and payments to students) to the *actual disbursements* listed in the financial aid office system.

- Look for any disbursements made by the business office that are not substantiated by an actual disbursement record submitted to COD (and accepted) in the same month.
- Look for any actual disbursements reported to COD but not made by the business office within the same month.

In either case, the disbursement amount may show up on the September SAS as part of a drawdown from G5 but not on the loan detail for September. You will need to check to make sure that the disbursement was accepted by COD, and document the discrepancy. You should also check to make sure that the disbursement is included when you receive the SAS Loan Detail for October.

Back up your data!

Before you begin reconciliation, be sure to back up all Direct Loan and other data files that may be affected by reconciliation.

BEST PRACTICES FOR RECONCILIATION

Best practices—establishing preventive procedures

Month end reconciliation can be a simple process for schools that maintain good daily processing practices and cash management procedures. During the month, your school's financial aid and business offices should ensure:

- ◆ All funds received have been substantiated with actual accepted disbursements in COD by regularly checking your financial aid database for any unsent or rejected batches and disbursements;
- ◆ Any downward adjustments have been accompanied by either a refund of cash or a disbursement of funds to another eligible student in the same award year (within cash management regulations);
- ◆ Any excess funds have been returned to the Department as a refund of cash;
- ◆ All funds requested are for disbursements to be made within the period of immediate need (three business days) and that funds are disbursed within that period or returned to the Department; and
- ◆ All awards and disbursements are reported within the 15-day reporting period allowed by regulation.

Best practices—preparing for monthly reconciliation

You can minimize discrepancies by making sure that all COD transactions have been completed and your internal records are up-to-date prior to the end of each month.

- ◆ Export all batches that are ready to be processed by COD at least two business days before the end of the month.
- ◆ Import the acknowledgements. Alternatively, you could run a query or report to identify unsent batches and rejects and use that to see what needs to be cleaned up.
- ◆ Run reports within your financial aid software to identify and resolve records (MPN, origination, and disbursement) that are not in an accepted (A) status.
- ◆ Review the batch activity list for any unconfirmed batches, and import any missing acknowledgments.

Reconcile internally with the business office or bursar’s office so that you have the same cash balance to compare to the balance shown on the SAS. For its part, the business office can:

- ◆ Review drawdown and refund activity in your school’s federal bank account and reconcile any discrepancies. Make sure that draws and refunds are posted to the correct award year.
- ◆ Communicate with the financial aid office when it has drawn cash or returned funds within the last three business days of the month. (These transactions may not be recorded on the most recent SAS, creating a timing issue and discrepancy in the Net Drawdown/Payments.)
- ◆ Return any refunds or excess cash using the electronic process through G5.



Sample Internal Report Comparing Financial Aid and Business Office Data for Loan Disbursements

Loan ID	Trans Code	Description	Disb Num	Trans Date	Bus Office Net Disb Amt	FA Office Net Disb Amt	Difference	Recon Flag	Explanation
444556666P13G09009001	DB	PLUS Loan Disb	1	9/05/2012	\$2,407.00	\$2,407.00	0.00	R	
222334444U13G09009001	DB	Staff UnSub Disb	1	9/12/2012	\$1,739.00		\$1,739.00	R	Still “anticipated” in FA Ofc Sys 1
222335555U13G09009001	DB	Staff UnSub Disb	1	9/19/2012	\$1,413.00		\$1,413.00	R	Still “anticipated” in FA Ofc Sys
222334444S13G09009001	DB	Staff Sub Disb	1	9/21/2012	\$950.00		\$950.00	R	Change made on COD; Not on FA Ofc Sys

1 These two disbursements were made by the business office but were not substantiated in COD because the financial aid office has not submitted an Actual Disbursement record to COD. As shown on the previous page, this discrepancy will not show up in a comparison of school data with the SAS’s Loan Disbursement Detail or Cash Detail. The discrepancy can only be identified by a comparison of loan-level data between the financial aid office’s system and the business office. On the next page, we show how these two transactions would appear as \$3,152 in excess cash on the Reconciliation worksheet.



Sample Report Comparing SAS and School Totals and Documenting Differences

This spreadsheet is one way to compare the totals from your school's system to the information on the School Account Statement, and document the reasons for any differences. A version of this spreadsheet is available on the Web (go to Direct Loans (direct.ed.gov) > Professionals > Publications > DL School Guide.

Reconciliation Worksheet School Systems to COD School Account Statement As of Date: 9/30/10

Note: Enter numeric data into shaded cells

	COLUMN 1 SCHOOL'S FINAID & BUSINESS SYSTEMS	COLUMN 2 SCHOOL ACCOUNT STATEMENT (SAS)	COLUMN 3 DIFFERENCE:	REASONS - DIFFERENCE IN ECB
Beginning Balance	\$0	\$0	\$0	
Cash Receipts	\$33,074	\$33,074	\$0	
Refunds of Cash	\$2,075	\$1,350	\$725	\$725 refund entered on G5 on Sept29; not included on Sept. SAS.
Net Drawdowns/Payments	\$30,999	\$31,724	-\$725	
Booked Disbursements	\$25,721	\$25,721	\$0	
Booked Adjustments	\$0	\$1,250	-\$1,250	\$1,250 (net) in adjustments done via COD Web site; not entered in Fin Aid Cde system at school.
Total Net Booked Disbs	\$25,721	\$24,471	\$1,250	
Ending Cash Balance	\$5,278	\$7,253	-\$1,975	Difference in ECB is explained by discrepancies noted above.
Unbooked Disbursements	\$2,126	\$1,264	\$862	
Unbooked Adjustments	\$0	\$0	\$0	
Total Net Unbooked Disbs	\$2,126	\$1,264	\$862	\$862 disbursement not yet sent to COD (unbooked).
Excess Cash (Cash > Net Accepted & Posted Disbursements)	\$3,152	\$5,989	-\$2,837	

SAS.

(Col. 1) and the SAS (Col. 2).

- According to the school's records, its Net Drawdowns/ Payments are \$5,278 more than it has substantiated in Net Booked Disbursements.
- The school's Ending Cash Balance includes \$2,126 in Total Net Unbooked Disbursements.
- The remainder (school's ECB – Net Unbooked Disbursements) is \$3,152. **Internal reconciliation** may help explain the \$3,152 of excess cash attributable to the month of September. Once you have determined the cause, you must either report actual disbursements, or return undisbursed cash.

- A comparison of the **Cash Detail** on the SAS with the business office's records identifies a refund to G5 that was initiated at the end of September but not recorded by G5 until October.
- A comparison of the **Loan Disbursement Detail** on the SAS with the school's financial aid system shows an online award adjustments not recorded in the financial aid system and an unbooked disbursement that has not yet been reported to COD.

Conclusions In this example, the school has been able to document all of the discrepancies that are shown on the worksheet. The ECB on the SAS is explained by:

- 5,989 excess cash (7)
- 725 refunds processed after 9/30
- 1250 adjustments made on Web only
- 862 unreported disbursements

\$3,152 Cash to be returned or disbursements to be posted and reported

This appendix is a general guide; it is not intended to replace accounting standards established by the American Institute of Certified Public Accountants (AICPA), Financial Accounting Standards Board (FASB), Governmental Accounting Standards Board (GASB), or the concept of generally accepted accounting principles (GAAP).

Requirements for Accounting and Internal Controls Systems at Schools Participating in the Title IV, Federal Student Assistance Programs



Participating schools must account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles (GAAP).

On a current basis, schools must establish and maintain the following:

- 1. Financial records that reflect each HEA, Title IV program transaction; and**
- 2. General ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from all other institutional financial activity.**
- 3. Accounting and internal controls system that:**
 - identifies the cash balance of the funds of each Title IV, HEA program that are included in the institution's bank or investment account as readily as if those program funds were maintained in a separate account; and**
 - identifies the earnings on Title IV, HEA program funds maintained in the institution's bank or investment account.**

34 CFR 668.24(b)(2) & 34 CFR 668.163(d)

The Department does not specify the type of system a school must use. However, the accounting and internal control system must be able to provide individuals examining the financial records of a school's participation in the federal student aid programs with the type of information described below.

A school's chart of accounts must identify all general ledger and subsidiary ledger accounts relevant to the Federal Student Aid Programs. In addition, a school's accounts, journals, and records must follow federal cash from the moment the funds are drawn through G5 to when funds are disbursed to students, including when cash is:

- ◆ deposited into institutional bank accounts;
- ◆ transferred between bank accounts;
- ◆ posted to general and subsidiary ledgers;
- ◆ posted to the individual student account ledgers; and
- ◆ if applicable, disbursed directly to students.

Note: An institution is not required to have a specific or minimum number of bank accounts. However, an institution's general and subsidiary ledgers must clearly identify the amount of Title IV, HEA funds, by program, in each account, including interest payments attributable to certain programs, such that a clear audit trail exists.

ACCOUNTING RECORDS

An effective institutional financial aid program requires a cooperative effort among all school offices involved in delivering financial aid to students. Separate reporting and recordkeeping responsibilities required of each office, as well as shared responsibilities, are detailed in the *Federal Student Aid Handbook, Volume 2*.

The business office is responsible for most financial accounting and recordkeeping (except for the detailed records and files on individual financial aid recipients that must be kept in the financial aid office). The remainder of this chapter is designed to help the business office satisfy its accounting responsibilities efficiently and with a minimum of effort.

Bookkeeping and recordkeeping

Bookkeeping and recordkeeping systems should be designed to:

- ◆ enable timely internal and external financial reporting;
- ◆ meet documentation requirements;
- ◆ ensure proper filing of applications; and
- ◆ create accurate reports.

FUND ACCOUNTING SYSTEMS AND THE FSA PROGRAMS

A fund accounting system is required whenever an entity is responsible to a third party for ensuring that funds are used as intended by the third party. Such funds must be restricted for use in accordance with the third-party's requirements and separate fund accounts must be established for each third-party program from which the entity is receiving funds. Fund accounting is the method of segregating assets into categories according to the individual program requirements placed on their use by the third party.

Fund accounting contrasts with the more widely known system used in corporate accounting in one fundamental way—entities receiving third-party funds may not exceed their budgets. Additionally, the concepts of encumbrance and budgeting obligations found in fund accounting are not found in corporate accounting.

Fund accounting is characterized by the following:

- ◆ A fund is a separate accounting entity with a self-balancing set of accounts consisting of assets, liabilities, and fund balances.
- ◆ Separate accounts are maintained for each fund to ensure observance of limitations and restrictions placed on the use of the resources of each fund.
- ◆ For reporting purposes, funds with similar characteristics are combined into fund groups.
- ◆ Expenditures are recorded in each fund and measured against budgets, thereby providing finite limits within which funded entities within the school must operate in carrying out their mission.

When designing an accounting system, the chart of accounts, books of original entry, billing and reporting requirements, and other FSA requirements must all be considered.

For example, the numerous ledger accounts suggested in the chart of accounts that appears later in this chapter for the Perkins Loan Program were created to assist schools in preparing year-end reports that must be filed with the Department. The school can simply copy the information from its ledgers to the electronic FISAP format supplied by ED.

When designing a chart of accounts, institutions also need to consider their fund-accounting needs, particularly with respect to restricted funds or funds that are initially restricted. The chart of accounts should accurately reflect the school's current organization and programs, and it should have the flexibility to accommodate any future changes in the organization.

Audit trails

Your accounting records and systems for FSA funds must provide a *clear audit trail* that makes it possible to trace all federal cash from drawdown to its final destination.

An audit trail, whether in a manual system, an automated system, or a combination of systems, includes the accounting record of a transaction and all the documentation that supports each transaction.

In accounting records, when data is recorded, a reference should also be recorded to identify the source of the data. The reference can be in the form of a date, a name, an address, or a number such as a journal page number, ledger account number, or check number. These references, used throughout the accounting cycle, form an *audit trail* that makes it possible to trace the details of a transaction from the source document to the financial statements and accounting records.

A vital part of an audit trail is *cross-referencing*. Cross-referencing is the recording of identifying numbers pointing both ways in offsetting or supporting accounting entries. For example, in your FSEOG cash account, for a deposit received from G5, you would record an entry that pointed to the journal page on which you recorded the names of students for whom this particular cash draw was intended to provide the federal share. Likewise, on the aforementioned journal page, you would record an identifier that pointed to the appropriate draw in your FSEOG cash account.

Chart of Accounts

As an aid in discussing records and accounting techniques for financial aid programs, the Summary Chart Of Accounts later in this chapter lists accounts considered necessary for institutions to account properly for FSA program funds. These accounts may be set up in either a manual or automated accounting system. Either system will need the basic suggested ledger accounts to meet the Department's minimum program and fiscal requirements, as well as the institution's external reporting requirements, such as basic financial statements and fund statements. Such a system will serve to meet the accounting needs of the school, the Department, and other federal agencies. Additional accounts may be added as deemed necessary by the school. These accounts should be reviewed at least annually to determine if additions or deletions are necessary to meet changes in federal regulations.

The chart of accounts is a primary internal control mechanism delineating the framework of the accounts. This chart has two components: (1) a fund number and (2) an account number that usually follows a standard account-code structure (a definition, by name, of the

account code). A uniform numbering scheme is used here to assist in identifying the parts of the financial statements on which ledger accounts are located. The numbers assigned to these ledger accounts are arbitrarily assigned, but in sequential order, and these specific numbers are not required to put these ledgers in place in institutional accounting systems.

In all cases, the first digit of an account number identifies an element of the financial statements, as follows:

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

The accounting record for each federal student aid program is self-balancing, and must be separated completely from the accounting records of all other federal student aid programs and from the accounting record for the general operating fund of the school. Within each program, the sum of ledger accounts with debit balances equals the sum of ledger accounts with credit balances.

In the following Summary Chart Of Accounts, award authorizations are not shown. It is recommended that they be booked as a memo journal entry or budget item. Then, as award authorizations are adjusted, appropriate adjustments to budget figures would be entered. This process helps ensure that drawdown amounts do not exceed authorization levels.

Note: The G5 account shown in the Summary Chart of Accounts, account # 1-2 (Accounts Receivable, G5) is used only if a school does not use the reimbursement payment method for drawing down FSA funds. The accounting for the reimbursement method will not be covered here. However, account # 1-2 should be booked as any other account receivable. Each respective subsidiary ledger would also book the receivable.

Reconciling Subsidiary Records to Account Balances

All accounts should be backed up by subsidiary ledger detail. Although a trial balance can be used to ensure that accounts balance in the aggregate, it does not guarantee that there is sufficient evidence that subsidiary records exist to support the totals in each account.

Errors can occur when corrections or changes are made to control accounts without corresponding adjustments being made to subsidiary records. Reconciliations between accounts and subsidiary record detail should be performed at least monthly and should be conducted on a more frequent basis during periods of high transaction volume. As mentioned earlier, most FSA programs require monthly reconciliations.

Examples of Information a School's Accounting System Must Be Able to Provide

- Documentation that for any drawdown of federal cash the funds were deposited in account in which the funds were clearly identified as **federal**.
- Documentation, if applicable, that for any drawdown the funds were transferred to the appropriate subsidiary ledgers, or if, intended for students, posted to the students' accounts within the three days permitted.
- Documentation that if the posting of federal cash to a student account created an FSA credit balance that the funds were made available to the student with the 14 days allowed by regulation (see *Volume 5* for a discussion of FSA credit balances).
- If the school holds FSA credit balances for students, documentation that there is a ledger that identifies all such credit balances and that there is sufficient cash in the school's bank account to cover all such credit balances.
- Documentation that for each Return of Title IV Funds required under 34 CFR 668.22, within the time frame allowed by regulation, cash has been transferred from the student's account to the school's federal funds account and then has either been returned to the Department or reallocated and disbursed to other eligible students.
- Through its accounting system a clear audit trail to account for all Title IV, HEA funds throughout the cash management cycle.
- For the Campus-Based Programs documentation that all nonfederal matching funds (when the matches are made with cash) were deposited before or at the same time that federal funds were received.
- For the Federal Work-Study Program, for schools without a waiver or exception, documentation that the school expended at least 7% of its FWS allocation in making payments to students employed in community service jobs for the year.
- For the Federal Supplemental Opportunity Grant Program, documentation that the awards made to students equal the federal share, plus the institutional share minus any ACA taken by the school, plus or minus any funds transferred or carried forward/back.

Examples of Information a School's Accounting System Must Be Able to Provide

- For the Federal Work-Study Program, documentation that the total gross compensation paid to students reported on the school's Fiscal Operations Report is supported by the school's payroll records including accounting records of any amount paid to students in noncash institutional matching.
- For a school receiving funds through the Heightened Cash Management 2 (HCM2) or Reimbursement Payment (Funding Controls) Methods, documentation that before submitting a request for federal cash for a student, the school made the disbursement(s) with its own funds to the student's account and identified the disbursement(s) appropriately (e.g., as a Federal Pell Grant).
- For a school receiving funds through the HCM2 or Reimbursement Payment Methods, documentation that if disbursing its own funds (labeled Title IV funds) to a student's account created a Title IV Credit Balance, that the school made that credit balance available to the student within the 14 days required by regulation.
- For any student who receives Title IV funds, a student subsidiary account /student ledger that clearly identifies the date and amount of each transaction, and the balance after each.
- Subsidiary financial aid ledgers that are year specific (though federal funds from different award years may be maintained in the same bank account).

Student Subsidiary Accounts/ Student Ledgers



The Department considers student subsidiary accounts, also known as student ledgers, part of a school's accounting system. Student ledgers and subsidiary accounts must follow the same rules as other sub accounts.

Summary Chart of Accounts

G5 Accounts (FSA Funds Only, Not Including Direct Loans)

To help in calculating excess cash and interest earnings on FSA funds (Federal Pell Grant, FSEOG, FWS, and Federal Perkins Programs) and, in accordance with cash management regulations issued on December 1, 1994, separate G5 accounts should be established for FSA funds and for non-FSA funds.

- 1 - Asset Accounts
 - 1 - 1 Cash Control, G5
 - 1 - 2 Accounts Receivable, G5
- 3 - Liability Accounts - None
- 4 - Capital Accounts - None
- 6 - Income Accounts - None
- 7 - Expense Accounts - None

National Finance Center (NFC) Accounts

NFC accounts are needed to reflect amounts of FSA program funds disallowed after the program authorization account has been closed (removed from G5).

- 1 - Asset Accounts
 - 1 - 1 Cash Unremitted to NFC
 - 1 - 2 Due from School
- 3 - Liability Accounts
 - 3 - 1 Accounts Payable, NFC
- 4 - Capital Accounts - None
- 6 - Income Accounts - None
- 7 - Expense Accounts - None

Federal Pell Grant Accounts

1 - Asset Accounts

1 - 1 Cash, Federal Pell Grants

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Revenue Accounts

6 - 1 Transfer from G5 - Federal Pell Grants for Students

6 - 2 Federal Reimbursement of Pell Grant Administrative Cost Allowance (ACA)

7 - Expense Accounts

7 - 1 Student Grants Paid - Federal Pell Grant

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution

Federal Supplemental Educational Opportunity Grant (FSEOG) Accounts

1 - Asset Accounts

1 - 1 Cash, FSEOG

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Income Accounts

6 - 1 Transfer from G5 - FSEOG

6 - 2 Institution's Cash Contribution

6 - 3 Institution's Noncash Contribution (Memo Account)

7 - Expense Accounts

7 - 1 Student Grants Paid - FSEOG

7 - 2 Student Grants - FSEOG from Noncash Contribution (Memo Account)

7 - 3 Administrative Cost Allowance (ACA) Paid to Institution (if applicable)

Federal Work-Study (FWS) Accounts

1 - Asset Accounts

- 1 - 1 Cash, Federal Work-Study
- 1 - 2 Accounts Receivable, Off-Campus Entities

3 - Liability Accounts

- 3 - 1 Federal Income Taxes Withheld
- 3 - 2 Social Security Taxes Withheld
- 3 - 3 State Income Taxes Withheld
- 3 - 4 Other Withholding
- 3 - 5 Accrued Wages Payable
- 3 - 6 Employer's Payroll Taxes Payable

4 - Capital Accounts - None

6 - Income Accounts

- 6 - 1 Transfer from G5 - Federal Work-Study
- 6 - 2 Institution's Cash Contribution
- 6 - 3 Institution's Noncash Contribution (Memo Account)
- 6 - 4 Off-Campus Employer's Contribution, Public/Private Nonprofit Entities
- 6 - 5 Off-Campus Employer's Contribution, Private For-Profit Entities

7 - Expense Accounts

- 7 - 1 Student Wages - On-Campus
- 7 - 2 Student Wages - On-Campus, Noncash Contribution for Nonfederal Share (Memo Account)
- 7 - 3 Student Wages - Off-Campus, Public/Private Nonprofit Entities
- 7 - 4 Student Wages - Off-Campus, Private For-Profit Entities
- 7 - 5 Regular Job Location and Development (JLD) Expenses Paid to Institution
- 7 - 6 Administrative Cost Allowance (ACA) Paid to Institution

Federal Perkins Loan Accounts

1 - Asset Accounts

- 1 - 1 Cash, Federal Perkins Loans
- 1 - 2 Funds Advanced to Students*

***If the school tracks funds advanced to students who are out of school, this information may be placed as a footnote to the subsidiary ledger.**

2 - Asset Reduction Accounts

- 2 - 1 Loan Principal Collected
- 2 - 2 Defaulted Loan Principal - Assigned to Federal Government
- 2 - 3 Loan Principal Canceled - Teaching Service (10% Rate), Loans Made Prior to 7/1/72
- 2 - 4 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made Prior to 7/1/72
- 2 - 5 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made Prior to 7/1/72
- 2 - 6 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made 7/1/72 and After
- 2 - 7 Loan Principal Canceled - Teaching Service (20% Rate), Loans Made 7/1/72 and After
- 2 - 8 Loan Principal Canceled - Teaching Service (30% Rate), Loans Made 7/1/72 and After
- 2 - 9 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (15% Rate), Loans Made 7/23/92 and After
- 2 - 10 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (20% Rate), Loans Made 7/23/92 and After
- 2 - 11 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (30% Rate), Loans Made 7/23/92 and After
- 2 - 12 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made 7/1/72 and After

- 2 - 13 Loan Principal Canceled - Death
 - 2 - 14 Loan Principal Canceled - Disability
 - 2 - 15 Loan Principal Canceled - Bankruptcy
 - 2 - 16 Loan Principal Canceled - Peace Corps or VISTA (15% Rate)
 - 2 - 17 Loan Principal Canceled - Peace Corps or VISTA (20% Rate)
 - 2 - 18 Loan Principal Canceled - Head Start (15% Rate)
 - 2 - 19 Loan Principal Canceled - Volunteer Service (15% Rate)
 - 2 - 20 Loan Principal Canceled - Volunteer Service (20% Rate)
 - 2 - 21 Loan Principal Canceled - Law Enforcement and Corrections Officer Service (15% Rate)
 - 2 - 22 Loan Principal Canceled - Law Enforcement and Corrections Officer Service (20% Rate)
 - 2 - 23 Loan Principal Canceled - Nurse/Medical Technician (15% Rate)
 - 2 - 24 Loan Principal Canceled - Nurse/Medical Technician (20% Rate)
 - 2 - 25 Loan Principal Canceled - Nurse/Medical Technician (30% Rate)
 - 2 - 26 Loan Principal Canceled - Child/Family and Early Intervention Service (15% Rate)
 - 2 - 27 Loan Principal Canceled - Child/Family and Early Intervention Service (20% Rate)
 - 2 - 28 Loan Principal Canceled - Child/Family and Early Intervention Service (30% Rate)
 - 2 - 29 Loan Principal Canceled for Loans Discharged Due to Closed Schools
 - 2 - 30 Loan Principal Adjustments - Other
- 3 - Liability Accounts - None

4 - Capital Accounts

- 4 - 1 Federal Fund Balance
- 4 - 2 Institutional Fund Balance

6 - Income Accounts

- 6 - 1 Funds Transferred from G5 - Perkins - FCC
- 6 - 2 Funds Transferred from Institution - Perkins - ICC
- 6 - 3 Interest Earned on Loans
- 6 - 4 Other Earnings - Late Charges on Loans Made 7/1/87 and After
- 6 - 5 Other Earnings - Miscellaneous
- 6 - 6 Reimbursement of Amounts Canceled on Loans Made 7/1/72 and After
- 6 - 7 Repayments to Federal Government
- 6 - 8 Repayments to Institution

7 - Expense Accounts

- 7 - 1 Litigation Expenses
- 7 - 2 Administrative Cost Allowance (ACA) Paid to Institution
- 7 - 3 Other Collection Expenses
- 7 - 4 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made Prior to 7/1/72
- 7 - 5 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made 7/1/72 and After
- 7 - 6 Cost of Loan Principal and Interest Canceled - Military Service, Loans Made Prior to 7/1/72
- 7 - 7 Cost of Loan Principal and Interest Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education), Loans Made 7/23/92 and After
- 7 - 8 Cost of Loan Principal and Interest Canceled - Military Service, Loans Made 7/1/72 and After

- 7 - 9 Cost of Loan Principal and Interest Canceled - Death
- 7 - 10 Cost of Loan Principal and Interest Canceled - Disability
- 7 - 11 Cost of Loan Principal and Interest Canceled - Bankruptcy
- 7 - 12 Cost of Loan Principal and Interest Canceled - Peace Corps or VISTA
- 7 - 13 Cost of Loan Principal and Interest Canceled - Head Start
- 7 - 14 Cost of Loan Principal and Interest Canceled - Volunteer Service
- 7 - 15 Cost of Loan Principal and Interest Canceled - Law Enforcement and Corrections Officer Service
- 7 - 16 Cost of Loan Principal and Interest Canceled - Nurse/Medical Technician
- 7 - 17 Cost of Loan Principal and Interest Canceled - Child/Family and Early Intervention Service
- 7 - 18 Cost of Defaulted Loan Principal and Interest Assigned to Federal Government
- 7 - 19 Other Costs or Losses

**William D. Ford Federal Direct Loan
(Direct Loan) Accounts**

- 1 - Asset Accounts
 - 1 - 1 Cash, Direct Loans
 - 1 - 2 Accounts Receivable, G5
- 3 - Liability Accounts - None
- 4 - Capital Accounts - None
- 6 - Income Accounts
 - 6 - 1 Income from G5 - Direct Loans
- 7 - Expense Accounts
 - 7 - 1 Funds Advanced to Borrowers

Federal TEACH Grant Accounts

1 - Asset Accounts

1 - 1 Cash, Federal TEACH Grants

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Revenue Accounts

6 - 1 Transfer from G5 - Federal TEACH Grants for
Students

7 - Expense Accounts

7 - 1 Student Grants Paid - Federal TEACH Grant

Iraq and Afghanistan Service Grant Accounts

1 - Asset Accounts

1 - 1 Cash, Iraq and Afghanistan Service Grants

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Revenue Accounts

6 - 1 Transfer from G5 - Iraq and Afghanistan Service Grants
for Students

7 - Expense Accounts

7 - 1 Student Grants Paid - Iraq and Afghanistan Service
Grants

G5 FSA Accounts

A different accounting treatment is needed if a school has been placed on the reimbursement payment method for drawing down FSA funds.

1 - 1 Cash Control, G5: This account may be a debit or credit balance account depending on the timing of drawdowns and disbursements. It is established to identify the balance of federal cash disbursed to a school through G5. The system described here segregates federal cash by using separate accounts for G5 FSA-funded programs. These separate G5 accounts allow reconciliation of funds sent and/or available through G5. Separate checking accounts need not be maintained for each program as long as school records indicate precisely where cash was used.

Debit this account for:

- All cash received from G5 for all FSA programs, except Pell Grant ACA reimbursement or Perkins Loan cancellation reimbursements (contra account # 1 - 2).
- All unexpended cash on programs when accountability has been transferred to NFC (contra account # 1 - 2).

Credit this account with:

- All cash transferred to programs.
- Excess cash billings paid to National Finance Center (NFC) (contra account # 1 - 2).

1 - 2 Accounts Receivable, G5: This account can be a debit or credit balance account depending on the timing of disbursements and drawdowns. It represents all amounts due from all open-status G5-funded programs.¹ The debit balance may exist between the time funds are requested from G5 and the time they are received.

Debit this account for:

- Amount of awards disbursed to students and recorded as income transferred from G5 in each respective FSA program account.

Credit this account for:

- Cash received from G5 (contra account # 1 - 1).
- Any unexpended program balances after accountability has been transferred to NFC (contra account # 1 - 1)

1. A different accounting treatment is needed if a school has been placed on the reimbursement payment method for drawing down FSA funds.

National Finance Center (NFC) Accounts

1 - 1 Cash Unremitted to NFC: This account is used to reflect that a portion of cash is no longer under G5 accountability; the accountability has been transferred to the National Finance Center (NFC).

This cash is segregated when a grant's final closing amount is in dispute. Accounting for the funds here reflects a transfer of accountability from G5. If more than one program is in dispute, separate subsidiary accounts should be set up for each program. Disallowed expenditures on open, current-year G5 accounts are recorded by reclassifying those expenditures from the specific program account to institutional accounts and then reinstating that same amount from the FSA program account to the G5 account.

Debit this account for:

- Cash received from the school for disallowed expenditure (contra account # 1 - 2).
- Interest earnings on FSA funds that exceed the regulatory threshold (contra account # 3 - 1).

Credit this account with:

- Amounts remitted to NFC (contra account # 3 - 1).

1 - 2 Due from School: This debit balance account reflects amounts due from the school as a result of disallowed expenditures on closed accounts not under G5 accountability.

Debit this account for:

- Billings from NFC for expenditures disallowed by program review or audit, excess cash, and the like (contra account # 3 - 1).

Credit this account for:

- Cash received from the school (contra account # 1 - 1).

3 - 1 Accounts Payable, NFC: This account is normally a credit balance account that reflects any liabilities to NFC as a result of cash accountability separated from G5 as described earlier or disallowed expenditures on programs not under G5 accountability or excess interest earnings returnable to ED through NFC.

Debit this account for:

- Amounts remitted to NFC (contra account # 1 - 1).

Credit this account with:

- Billings from NFC (contra account # 1 - 2).
- Interest earnings returnable to NFC (contra account # 1 - 1).

Federal Pell Grant Accounts

1 - 1 Cash, Federal Pell Grants: All receipts and disbursements of cash related to the Pell Grant Program are recorded in this account. Typically, this account would show a zero balance after each period's entries are posted, as the transfer of funds from G5 should equal only the amount of grants to be paid immediately to students.

Debit this account for:

- Transfers from G5 account (contra account # 6 - 1).
- Recoveries from recipients (contra account # 7 - 1).

Credit this account with:

- Payments to students (contra account # 7 - 1).

6 - 1 Transfer from G5 - Federal Pell Grants for Students: This credit balance account controls the transfer of cash from the G5 account "Cash Control, G5" to the Pell Grant account "Cash, Federal Pell Grants." Such cash transfers should be made only in the precise amounts needed immediately to pay grants to students.

Debit this account for:

- Closing entry at end of accounting fiscal year, the total amount of cash transferred from G5 account to meet disbursement needs for the period (contra account # 7 - 1).

Credit this account with:

- Cash transferred from G5 account to meet current disbursement needs (contra account # 1 - 1).

6 - 2 Federal Reimbursement of Pell Grant Administrative Cost Allowance (ACA): This credit balance account is used to deposit the reimbursements received by electronic funds transfer (EFT) from ED for Pell ACA.

Debit this account for:

- Closing entry at end of accounting fiscal year for the amount of Pell ACA reimbursements (contra account # 7 - 2).

Credit this account with:

- ACA payments received via EFT from ED (contra account # 1 - 1).

7 - 1 Student Grants Paid - Federal Pell Grant: This debit balance account is maintained to record payments made to students for Pell Grants.

Debit this account for:

- Grant payments made to students (contra account # 1 - 1).

Credit this account with:

- Recoveries from recipients (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year for the total amount of grant payments made to students for the accounting period (contra account # 6 - 1).

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution: This debit balance account is maintained to record payments made to the school for administrative costs. This amount cannot exceed the amount set by regulations.

Debit this account for:

- ACA paid to the school (contra account # 1 - 1).

Credit this account with:

- Closing entry at the end of the accounting period (contra account # 6 - 2).

ACCOUNT DETAILS

Federal Supplemental Educational Opportunity Grant (FSEOG) Accounts

1 - 1 Cash, FSEOG: All receipts and disbursements of cash related to the FSEOG Program are recorded in this account. Typically, this account shows a zero balance after each period's entries are posted, as the transfer of funds from G5 should be only for the amount of grants to be paid to students immediately and for administrative expenses.

Debit this account for:

- Transfers from G5 account (contra account # 6 - 1).
- Cash contributions of the school (contra account # 6 - 2).

Credit this account with:

- Payments to students (contra account # 7 - 1).
- Payments to school for administrative cost allowance (contra account # 7 - 3).

6 - 1 Transfer from G5 - FSEOG: This revenue account is maintained to control the transfer of cash from the G5 account "Cash Control, G5" to the FSEOG account "Cash, FSEOG." Such transfers of cash should be made only in the precise amounts needed to pay awards and ACA (if applicable) on a current basis.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra accounts # 7 - 1, 7 - 3).

Credit this account with:

- Amounts of cash transferred from the G5 account to meet the federal share of current FSEOG grants (contra account # 1 - 1).

6 - 2 Institution's Cash Contribution: This credit balance account is maintained to record cash contributions made by the school to provide (together with any noncash contribution) the nonfederal share of FSEOG grants.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra account # 7 - 1).

Credit this account with:

- Amounts of cash provided by the school to pay its share of current FSEOG awards (contra account # 1 - 1).

6 - 3 Institution's Noncash Contribution (Memo Account): This credit balance account is maintained to record noncash contributions made by the school to provide (together with any cash contribution) the required nonfederal share of FSEOG awards.

Debit this account for:

- Closing entry, the cash value of all tuition rebates or similar credits to student accounts as the nonfederal share of FSEOG awards at end of accounting fiscal year (contra account # 7 - 2).

Credit this account with:

- Noncash contributions provided from institutional resources to pay the nonfederal share of current FSEOG grants, including payments made directly to students from institutional funds (contra account # 7 - 2).

7 - 1 Student Grants Paid - FSEOG: This expense account is maintained to help prepare required FSEOG Program reports. If the school transfers cash to provide the required percent of the federal share, then this account would record both the federal and nonfederal shares of FSEOG awards. The debit balance in this account combined with account # 7 - 2, before closing, should agree with the sum of the individual award amounts shown in student records as FSEOG grants for the current year.

Debit this account for:

- Payments to students for FSEOG awards (contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 6 - 1).

7 - 2 Student Grants - FSEOG From Noncash Contributions (Memo Account): This expense account is used if the school makes noncash contributions and pays students a portion of their FSEOG awards directly from institutional resources.

Debit this account for:

- Payments to students for FSEOG awards from institutional resources (contra account # 6 - 3).

Credit this account for:

- Closing entry at end of accounting fiscal year (contra account # 6 - 3).

7 - 3 Administrative Cost Allowance (ACA) Paid to Institution (if applicable): This expense account is used to record ACA as it is paid to the school. Such payments are limited by regulations and may not be made from FSEOG funds unless students received FSEOG funds during the period.

Debit this account for:

- Payments to school for administrative expenses (contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 6 - 1).

Federal Work-Study (FWS) Accounts

1 - 1 Cash, Federal Work-Study: All receipts and disbursements of cash related to the Federal Work-Study (FWS) Program are recorded in this account. Any debit balance remaining after payroll payment should consist solely of institutional and/or off-campus employer funds, as federal funds should be transferred from the G5 Cash Control Account (G5 account # 1-1) only in the precise amount needed for the federal share of current disbursements.

Debit this account for:

- Federal contributions transferred from G5 account (contra account # 6 - 1).
- Cash contributions of the school (contra account # 6 - 2).
- Cash payments of off-campus employers (contra account # 1 - 2).
- Cash paid into fund by the school for later payment of employer's share of payroll taxes (contra account # 3 - 6).
- Cash contributions paid by the school for off-campus employers that have not paid their nonfederal share (contra account # 1 - 2).

Credit this account with:

- Federal share of on-campus compensation and federal and nonfederal shares of off-campus compensation to students (contra accounts # 3 - 5, 7 - 3, 7 - 4).
- Administrative expenses paid to the school (contra account # 7 - 6).
- Refund of contribution to the school (contra account # 6 - 2).
- Refund of contribution to off-campus employers (contra account # 1 - 2).

- Payment for compensation withheld (contra accounts # 3 - 1, 3 - 2, 3 - 3, 3 - 4).
- Payment of employer's payroll taxes (contra account # 3 - 6).
- Job Location and Development Program expenses paid to the school (contra account # 7 - 5).

1 - 2 Accounts Receivable, Off-Campus Entities: This account is used to record the amounts due from off-campus employers for the nonfederal share of student wages. Separate subsidiary accounts should be set up for each off-campus entity.

Debit this account for:

- Amounts to be provided by off-campus employers to pay the required percent of the nonfederal share of wages of students employed off campus (contra accounts # 6 - 4, 6 - 5).
- Refunds to off-campus employers of excess cash contributions (contra account # 1 - 1).

Credit this account for:

- Cash paid by off-campus employers (contra account # 1 - 1).
- Cash paid by the school for off-campus employers that have not paid their nonfederal share (contra account # 1 - 1).

3 - 1 Federal Income Taxes Withheld

3 - 2 Social Security Taxes Withheld*

3 - 3 State Income Taxes Withheld

3 - 4 Other Withholding

*Students working in FWS jobs do not need to pay FICA if they are employed on campus.

If withholding is necessary, these accounts are used to record the tax amounts withheld from the pay of students employed under the FWS Program.

Debit these accounts for:

- Taxes paid to the appropriate agency for federal income taxes, Social Security taxes (when applicable), state income taxes, and other taxes (contra account # 1 - 1).

Credit these accounts with:

- Amounts withheld from students' pay for payment of federal income taxes, Social Security taxes (when applicable), state income taxes, and other taxes (contra accounts # 7 - 1, 7 - 3, and 7 - 4).

3 - 5 Accrued Wages Payable: This account is used to accumulate student wages earned but not paid by the end of a report period. This is necessary because the FWS portion of the FISAP report requires compensation earned during the reporting period to be reported, regardless of when it is paid. The drawdown of cash from the G5 Cash Control Account is on a cash basis, and funds are not drawn down until accrued wages have actually been disbursed (paid).

Debit this account for:

- Amounts of gross compensation earned in the previous reporting period and paid during the current period (contra account # 1 - 1).

Credit this account with:

- Gross compensation earned, but not yet paid at the end of the reporting period (contra accounts # 7 - 1, 7 - 2, 7 - 3, 7 - 4).

3 - 6 Employer's Payroll Taxes Payable: This credit balance account is maintained to record the amount of payments due by the school for the employer's share of payroll taxes on accounts of students employed under the FWS Program. Federal Work-Study funds may not be used to pay any portion of such taxes. At some schools, the employer's share of payroll taxes is handled directly from the general fund, and off-campus employers' payments for their share of payroll taxes are reimbursed to the general fund rather than transferring the amount into the FWS fund. In this case, account # 3 - 6 would not be needed in the FWS set of accounts.

Debit this account for:

- Amounts of payroll taxes paid (contra account # 1 - 1).

Credit this account with:

- Amounts of payroll taxes payable from cash amounts transferred by the school or off-campus employers to pay their share of payroll taxes (contra account # 1 - 1).

6 - 1 Transfer from G5 - Federal Work-Study: This credit balance account controls the transfer of cash from the G5 account, "Cash Control, G5" to the FWS account, "Cash, Federal Work-Study." Such transfers of cash should be made only in the precise amounts needed for the federal share of current payroll, plus administrative expenses and Job Location and Development Program expenses. No transfer of cash should occur until the federal share of the currently payable payroll has been calculated.

Debit this account for:

- The federal share of wages earned (contra accounts # 7- 1, 7 - 3, 7 - 4).
- Administrative expenses paid to the school (contra account # 7 - 6).
- Job Location and Development Program expenses paid to the school (contra account # 7 - 5).

Credit this account with:

- Amounts of cash transferred from the G5 account “Cash Control, G5” to meet current disbursement needs (contra account # 1 - 1).

6 - 2 Institution’s Cash Contribution: This credit balance account is used only if the school transfers cash to provide the required percent of the nonfederal share of student wages on campus, then pays both the federal share and nonfederal shares of campus wages from these accounts.

Debit this account for:

- Refund to the school of excess cash advances (contra account # 1 - 1).
- Closing entry, the nonfederal share (that is, the share for which FWS funds are not available) of cash wages paid to students employed on campus (contra account # 7 - 1).

Credit this account with:

- Amounts of cash provided by the school to pay its share of on-campus student wages (contra account # 1 - 1).

6 - 3 Institution’s Noncash Contribution (Memo Account): This credit balance account records the amount of wages “paid” to students by the school through tuition rebates and other such noncash means, as well as amounts paid directly to students from institutional funds.

Debit this account for:

- Closing entry, the cash value of all tuition rebates or similar credits to student accounts made by the school during the reporting period as its share of on-campus student wages (contra account # 7 - 2).

Credit this account with:

- Each pay period, the cash value of all tuition rebates or similar credits to student accounts as its share of on-campus student wages (contra account # 7 - 2).

6 - 4 Off-Campus Employer's Contribution, Public/Private Nonprofit Entities

6 - 5 Off-Campus Employer's Contribution, Private For-Profit Entities

These credit balance accounts are maintained to record contributions due from off-campus employers to provide the required percent (or more) of the nonfederal share of student wages earned off campus.

Debit these accounts for:

- Closing entry, nonfederal share (that is, the share for which Federal Work-Study funds are not available) of wages paid to students employed off campus (contra accounts # 7 - 3, 7 - 4).

Credit these accounts with:

- Amounts to be provided by off-campus employers to pay the required percent of the nonfederal share of wages of students employed off campus (contra account # 1 - 2).

Note: A student may be exempt from tax withholding while enrolled. However, if the student is employed between terms or in the summer, when the student is not enrolled, withholding must be made.

7 - 1 Student Wages - On-Campus: This expense account is maintained to record the federal share of FWS wages. If the school transfers cash to provide the required percent of the federal share, then this account would record both the federal and nonfederal shares of wages. This account may be further subdivided into categories such as instruction, research, public service, and so on, to facilitate nonfederal functional reporting.

Debit this account for:

- The federal share of wages earned by students in on-campus employment from the first day to the last day of the reporting period (posted from payroll vouchers, adjusted as necessary for accruals) (contra accounts # 1 - 1, 3 - 1, 3 - 2, 3 - 3, 3 - 4, 3 - 5).

Credit this account with:

- Closing entry for the federal share of wages earned on campus (contra account # 6 - 1).

7 - 2 Student Wages - On-Campus, Noncash Contribution for Nonfederal Share (Memo Account): This expense account is maintained to record the nonfederal share of student wages paid from the institution's tuition rebates or similar credits.

Debit this account for:

- The nonfederal share of wages "paid" to students through tuition rebates and other noncash means (contra account # 6 - 3).

Credit this account for:

- Closing entry for, the nonfederal share of wages earned on campus (contra account # 6 - 3).

7 - 3 Student Wages - Off-Campus, Public/Private Nonprofit Entities

7 - 4 Student Wages - Off-Campus, Private For-Profit Entities

These expense accounts are maintained to help prepare required Federal Work-Study Program reports.

Debit these accounts for:

- Gross amount of wages earned by students in off-campus employment from the first day to the last day of the reporting period (posted from payroll vouchers, adjusted as necessary for accruals) (contra accounts # 3 - 1, 3 - 2, 3 - 3, 3 - 4, and 3 - 5).

Credit these accounts with:

- Closing entry for the nonfederal share of wages earned off campus (contra accounts # 6 - 4, 6 - 5).

7 - 5 Regular Job Location and Development (JLD) Expenses Paid to Institution: This expense account is maintained to record payments made to the school for JLD Program expenses. This amount cannot exceed the lesser of \$50,000 or 10 percent of the institution's FWS authorization for the award year to locate and develop off-campus jobs, including community-service jobs. Jobs located or developed under the program may be for either a for-profit or nonprofit employer. A school is not allowed to use its JLD allocation to locate on-campus service jobs. The federal funds that a school sets aside from its FWS allocation to be used for JLD activities may be used to pay up to 80% of allowable costs. The school must provide the remaining 20% of allowable costs, either in cash or services.

Debit this account for:

- Amounts paid to the school (contra account # 1 - 1).

Credit this account with:

- Closing entry at the end of the accounting period, the amounts paid to the school during the reporting period (contra account # 6 - 1).

7 - 6 Administrative Cost Allowance (ACA) Paid to Institution: This expense account is maintained to record payments made to the school in reimbursement for administrative expenses. Such payments to the school have totals limited by regulations, and they may not be made from FWS funds unless students earned FWS wages during the award year.

Debit this account for:

- Payments to school for administrative expenses (contra account # 1 - 1).

Credit this account with:

- Closing entry at the end of the accounting period, the total amount paid to the school during the reporting period (contra account # 6 - 1).

Federal Perkins Loan Accounts

1 - 1 Cash, Federal Perkins Loans: This is a debit balance account that shows the total cash available.

Debit this account for:

- Federal Capital Contributions (FCCs) as transferred from G5 cash (contra account # 6 - 1).
- Institutional Capital Contributions (ICCs) as transferred from institutional cash (contra account # 6 - 2).
- Refunds of amounts advanced to students (contra account # 1 - 2).
- Collections of loan principal from borrowers (contra account # 2 - 1).
- Collections of loan interest from borrowers (contra account # 6 - 3).
- Collections of late charges assessed (contra account # 6 - 4).
- Collections of penalty charges assessed (contra account # 6 - 5).
- Other income (contra account # 6 - 5).
- Reimbursements from the U.S. government on loan cancellations (contra account # 6-6).
- Repayments from borrowers for litigation expenses (contra account # 7 - 1).
- Collections of borrower - paid collection costs from gross-remittance collection agencies (contra account # 7-3).

Credit this account with:

- Advances to students (contra account # 1 - 2).
- Overpayments refunded to borrowers (contra account # 2 - 1).
- Reversals of payments made by returned check (contra accounts # 2 - 1, 6 - 3, 6 - 4, 6 - 5, 7 - 3).
- Repayments of capital to the U.S. government (contra account # 6 - 7).
- Repayments of capital to the school (contra account # 6 - 8).
- Withdrawals of late charges payable to the school (contra account # 6 - 4).
- Withdrawals to pay litigation expenses (contra account # 7 - 1).
- Withdrawals for administrative cost allowance (contra account # 7 - 2).
- Withdrawals to pay collection costs to gross-remittance collection agencies (contra account # 7 - 3).
- Withdrawals to pay other collection expenses (contra account # 7 - 3).

1 - 2 Funds Advanced to Students: This debit balance account is a control account for advances to borrowers. The total of the amounts shown as advances on individual student master records for all students should be reconciled to the balance in this account at the end of each month.

Debit this account for:

- The amount advanced to borrowers (contra account # 1 - 1).

Credit this account with:

- Any return of advances made (contra account # 1 - 1).

2 - 1 Loan Principal Collected: This is a credit balance account maintained to show the total amount of loan principal collected since the beginning of the program.

Debit this account for:

- The principal amount of returned checks (contra account # 1 - 1).
- Overpayments refunded to borrowers (contra account # 1 - 1).

Credit this account with:

- The amount of cash collections related to loan principal (contra account # 1 - 1).
- Reclassification of the amount of interest paid that is subsequently canceled (contra account # 2 - 1).

2 - 2 Defaulted Loan Principal - Assigned to Federal Government: This credit balance account is maintained to show the cumulative amount of defaulted loan principal assigned to and accepted by the U.S. government.

Debit this account for:

- No entries, except for correcting errors.

Credit this account with:

- The amount of loan principal assigned to and accepted by the U.S. government on loans in default (contra account # 7 - 18).

2 - 3 Loan Principal Canceled - Teaching Service (10% Rate), Loans Made Prior to 7/1/72

2 - 4 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made Prior to 7/1/72

2 - 5 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made Prior to 7/1/72

Accounts # 2 - 3, 2 - 4, and 2 - 5 may be merged and maintained as one account titled “Loan Principal Canceled - Loans Made Prior to 7/1/72.”

2 - 6 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made 7/1/72 and After

2 - 7 Loan Principal Canceled - Teaching Service (20% Rate), Loans Made 7/1/72 and After

2 - 8 Loan Principal Canceled - Teaching Service (30% Rate), Loans Made 7/1/72 and After

2 - 9 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (15% Rate), Loans Made 7/23/92 and After

2 - 10 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (20% Rate), Loans Made 7/23/92 and After

2 - 11 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (30% Rate), Loans Made 7/23/92 and After

2 - 12 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made 7/1/72 and After

2 - 13 Loan Principal Canceled - Death

2 - 14 Loan Principal Canceled - Disability

Accounts # 2-13 and 2-14 may be merged and maintained as one account titled “Loan Principal Canceled - Death or Disability.”

All other canceled-loan entries are similar and are not shown here. Refer to the chart of accounts for the other cancellation accounts.

These separate cancellation accounts are maintained to show the cumulative amounts of loan principal canceled under the provisions of the law.

Debit these accounts for:

- No entries, except for correcting errors.

Credit these accounts with:

- Amounts of each appropriate category of loan principal canceled under the provisions of the law (contra accounts # 7 - 4 through 7 - 17).

2 - 29 Loan Principal Adjustments - Other: This is a credit balance account maintained to show the cumulative total amount of loan principal lost because of other reasons (such as write-offs) as specified by the Department. Each credit entry to this account should be adequately labeled to identify the reason for the adjustment.

Debit this account for:

- No entries, except for correcting errors.

Credit this account with:

- Amount of loan principal lost because of other approved reasons (write-offs) (contra account # 7 - 19).

4 - 1 Federal Fund Balance: This is a credit balance account maintained to show the federal share of the fund balance. This account should always show a credit balance for the federal share of income and expenses since the school began participating in the program.

Credit this account with:

- Closing entry at end of accounting fiscal year (federal share of contra accounts # 6 - 1, 6 - 3 through 6 - 7, 7 - 1 through 7 - 19).

4 - 2 Institutional Fund Balance: This credit balance account is maintained to show the institutional share of the fund balance. This account should always show a credit balance for the institutional share of income and expenses since the school began participating in the program.

Credit this account with:

- Closing entry at end of accounting fiscal year (institutional share of contra accounts # 6 - 2 through 6 - 6, 6 - 8 through 7 - 19).

6 - 1 Funds Transferred from G5 - Perkins - FCC: This credit balance account is maintained to track the total FCC transferred to the Perkins Loan fund from the G5 cash control account.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra account # 4 - 1).

Credit this account with:

- Transfer from G5 - FCC (contra account # 1 - 1).

6 - 2 Funds Transferred from Institution - Perkins - ICC: This credit balance account is maintained to track the total ICC transferred to the Perkins Loan fund from the school.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra account # 4-2).

Credit this account with:

- Mandatory transfers of the institution's matching share of the Perkins Loan allocation. This is one-third (33 1/3%) of the FCC amount or one-quarter (25 percent) of the combined FCC plus ICC (contra account # 1 - 1).

6 - 3 Interest Earned on Loans: This credit balance account is maintained to show the total interest that has been collected or has been canceled because of teaching service, military service, death, or any other authorized cancellation. It also includes interest from loans assigned to ED.

Debit this account for:

- The interest amount of returned checks and correction of errors (contra account # 1 - 1).
- Reclassification of the interest amount paid that is subsequently canceled (contra account # 2 - 1).
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

Credit this account with:

- The amount of loan interest collected (contra account # 1 - 1).
- The amount of loan interest canceled for teaching service (contra accounts # 7 - 4, 7 - 5).
- The amount of loan interest canceled for teaching service (where the field of expertise is: math, science, foreign language, bilingual education), on loans made 7/23/92 and after (contra account # 7 - 7).
- The amount of loan interest canceled for military service (contra accounts # 7 - 6, 7 - 8).
- The amount of loan interest canceled for death (contra account # 7 - 9).
- The amount of loan interest canceled for disability (contra account # 7 - 10).
- The amount of loan interest canceled for bankruptcy (contra account # 7 - 11).

- The amount of loan interest canceled for Peace Corps or VISTA (contra account # 7 - 12).
- The amount of loan interest canceled for Head Start (contra account # 7 - 13).
- The amount of loan interest canceled for Volunteer Service (contra account # 7 - 14).
- The amount of loan interest canceled for Law Enforcement and Corrections Officer (contra account # 7 - 15).
- The amount of loan interest canceled for Nurse/Medical Technician (contra account # 7 - 16).
- The amount of loan interest canceled for Child/Family and Early Intervention Service (contra account # 7 - 17).
- The amount of loan interest related to defaulted loans assigned to the U.S. government (contra account # 7 - 18).
- The amount of loan interest written off for other costs or losses (specify) (contra account # 7 - 19).

6 - 4 Other Earnings - Late Charges on Loans Made 7/1/87 and After:
This credit balance account is maintained to show the earnings of the fund due to late charges assessed on loans made after 7/1/87.

Debit this account for:

- Late charge amounts reimbursed to the school (contra account # 1 - 1).
- Late charge amounts of returned checks (contra account # 1 - 1).
- Late charge amounts for correcting errors.
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

Credit this account with:

- Late charges assessed and collected (contra account # 1 - 1).
- Amounts reimbursed by the school for the late charge portion of returned checks (contra account # 1 - 1).
- Late charges accrued and written off (contra account # 7 - 18).

6 - 5 Other Earnings - Miscellaneous: This credit balance account is maintained to show the earnings of the fund (other than interest on student loans or late charges assessed on loans made 1/1/86 and after), such as penalty charges on loans made 12/31/85 and before, and interest earned on fund cash balances. As it will be necessary to report separately on each type of earnings (penalty charges, interest, earnings, and so on), a subsidiary ledger account for each type of earnings is required. There may be periods when slack demand for loans, coupled with funds received for collection activities, might produce a temporary excess cash balance in the Perkins Loan fund; as a result, institutions are now required to maintain fund balances in insured interest-bearing accounts.

Debit this account for:

- Penalty charges for returned checks (contra account # 1 - 1).
- Correcting errors.
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

Credit this account with:

- Penalty charges assessed and collected (contra account # 1 - 1).
- Interest earned on fund cash (contra account # 1 - 1).
- Any other earnings of the fund (contra account # 1 - 1).
- Penalty charges accrued and written off (contra account # 7 - 19).

6 - 6 Reimbursement of Amounts Canceled on Loans Made 7/1/72 and After: This credit balance account is maintained to show the amounts received from the U.S. government as a result of reimbursements on loans canceled for teaching (Head Start) and military service on loans made 7/1/72 and after, for Peace Corps or VISTA service for loans made after 6/30/87, for employment in law enforcement or as a corrections officer for loans made on or after 11/29/90, and for all cancellations authorized by the 1992 reauthorization of the Higher Education Act (HEA).

Debit this account for:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

Credit this account with:

- Amounts received from the U.S. government for reimbursement of the aggregate amount of institutional funds plus federal funds canceled due to any of the authorized cancellation provisions (contra account # 1 - 1).

6 - 7 Repayments to Federal Government: This debit balance account is maintained to show the total distribution of fund capital in case of partial dissolution of the Perkins Loan fund.

Debit this account for:

- Amount of the appropriate FCC repaid in partial dissolution of the fund (contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 4 - 1).

6 - 8 Repayments to Institution: This debit balance account is maintained to show the total distribution of fund capital in case of partial dissolution of the Perkins Loan fund and to show when a school withdraws an overmatch.

Debit this account for:

- Amount of the appropriate ICC repaid in partial dissolution of the fund (contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 4 - 2).

7 - 1 Litigation Expenses: This is a debit balance account maintained to show the net amount paid for litigation arising in connection with Federal Perkins Loans.

Debit this account for:

- Amounts paid for litigation expenses (contra account # 1 - 1).

Credit this account with:

- Amounts collected from borrowers repaying litigation expenses (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution:

This is a debit balance account maintained to show the amount of administrative expenses charged to the fund rather than reimbursement to the school by the Department. Such payments to the school are limited in total by regulations and may not be made from the Perkins Loan fund unless students receive advances of Perkins Loan funds during the award period.

Debit this account for:

- Amounts charged to the fund as authorized ACA (contra account # 1 - 1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 3 Other Collection Expenses: This is a debit balance account maintained to show the net amount charged to the fund for collection expenses other than costs of litigation, such as commissions (as approved by the Department) paid to a collection agency.

Debit this account for:

- Amounts authorized to be charged to the fund as other collection expenses (contra accounts # 1 - 1 or 2 - 1).
- Amount of borrower-paid collection cost portion of returned checks (contra account # 1 - 1).

Credit this account with:

- Amounts collected from borrowers repaying costs of collection other than litigation expenses (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 4 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made Prior to 7/1/72

7 - 5 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made 7/1/72 and After

These debit balance accounts are maintained to show the total cost of loan cancellations for teaching service.

Debit these accounts for:

- Amounts of total principal and interest canceled for teaching service (contra accounts # 2 - 3, 2 - 4, 2 - 6, 2 - 7, 2 - 8, and 6 - 3).

Credit these accounts with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 6 Cost of Loan Principal and Interest Canceled - Military Service, Loans Made Prior to 7/1/72

7 - 7 Cost of Loan Principal and Interest Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education), Loans Made 7/23/92 and After

These debit balance accounts are maintained to show the total cost of loan cancellations for military and teaching service.

Debit these accounts for:

- Amounts of total principal and interest canceled for these specific service areas (contra accounts # 2 - 5, 2 - 9, 2 - 10, 2 - 11, and 6 - 3).

Credit these accounts with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 8 Cost of Loan Principal and Interest Canceled - Military Service 7/1/72 and After

This debit balance account is maintained to show the total cost of loan cancellations for military service.

Debit this account for:

- Amounts of total principal and interest canceled for military service (contra accounts # 2 - 12, 6 - 3).

Credit these accounts with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 9 Cost of Loan Principal and Interest Canceled - Death: This is a debit balance account maintained to show the total cost of loan cancellations for death.

Debit this account for:

- Amounts of total principal and interest canceled for death (contra accounts # 2 - 13, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 10 Cost of Loan Principal and Interest Canceled - Disability: This is a debit balance account maintained to show the total cost of loan cancellations for disability.

Debit this account for:

- Amounts of total principal and interest canceled for disability (contra accounts # 2 - 14, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 11 Cost of Loan Principal and Interest Canceled - Bankruptcy: This is a debit balance account maintained to show the total cost of loan cancellations for bankruptcy.

Debit this account for:

- Amounts of total principal and interest canceled for bankruptcy (contra accounts # 2 - 15, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 12 Cost of Loan Principal and Interest Canceled - Peace Corps or VISTA: This is a debit balance account to show the total cost of principal and interest canceled for service in the Peace Corps or VISTA for loans made after June 30, 1987.

Debit this account for:

- Amounts of total principal and interest canceled for service in the Peace Corps or VISTA (contra accounts # 2 - 16, 2 - 17, and 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 13 Cost of Loan Principal and Interest Canceled - Head Start: This is a debit balance account to show the total cost of principal and interest canceled for the Head Start Program.

Debit this account for:

- Amounts of total principal and interest canceled for the Head Start Program (contra accounts # 2 - 18, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 14 Cost of Loan Principal and Interest Canceled - Volunteer Service: This is a debit balance account to show the total cost of principal and interest canceled for volunteer service.

Debit this account for:

- Amounts of total principal and interest canceled for volunteer service (contra accounts # 2 - 19, 2 - 20, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 15 Cost of Loan Principal and Interest Canceled - Law Enforcement and Corrections Officer: This is a debit balance account to show the total cost of principal and interest canceled for borrowers employed in law enforcement or corrections.

Debit this account for:

- Amounts of total principal and interest canceled for a borrower's employment as a law-enforcement or corrections officer (contra accounts # 2 - 21, 2 - 22, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 16 Cost of Loan Principal and Interest Canceled - Nurse/Medical Technician: This is a debit balance account to show the total cost of principal and interest canceled for a borrower's employment as a nurse or medical technician.

Debit this account for:

- Amounts of total principal and interest canceled for a borrower's employment as a nurse or medical technician (contra accounts # 2 - 23, 2 - 24, 2 - 25, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 17 Cost of Loan Principal and Interest Canceled - Child/Family and Early Intervention Service: This is a debit balance account to show the total cost of principal and interest canceled for a borrower's employment in a child/family or early intervention service.

Debit this account for:

- Amounts of total principal and interest canceled for the child/family or early intervention service (contra accounts # 2 - 26, 2 - 27, 2 - 28, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 18 Cost of Defaulted Loan Principal and Interest Assigned to Federal Government: This is a debit balance account maintained to show the total cost of defaulted loans assigned to, and accepted by, the U.S. government.

Debit this account for:

- Amounts of total principal and interest related to defaulted loans assigned to the U.S. government (contra accounts # 2 - 2, 6 - 3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

7 - 19 Other Costs or Losses: This is a debit balance account maintained to show the total amount of other costs or losses. Any entries to this account, such as accounts written off, should have full documentation of the reasons. In some cases, approval by the Department must be included as part of the documentation.

Debit this account for:

- Amounts of total principal, interest, penalty, and late charges written off because of other costs or losses. The reason for the write-off should be specified for easy identification in the account (contra accounts # 2 - 29, 6 - 3, 6 - 4, 6 - 5).

Credit this account with:

- Amounts of previous write-offs reversed due to collection (contra accounts # 2 - 29, 6 - 3, 6 - 4, 6 - 5).
- Closing entry at end of accounting fiscal year (contra accounts # 4 - 1, 4 - 2).

William D. Ford Federal Direct Loan Accounts

1 - 1 Cash, Direct Loans: All receipts and disbursements of cash related to the Direct Loan Program are recorded in this account.

Debit this account for:

- Transfers from G5 accounts (contra account # 6 - 1).
- Recoveries from recipients (contra account # 7 - 1).

Credit this account for:

- Payments to students (contra account # 7 - 1).
- Return of excess cash to via FEDWIRE or ACH (contra account # 6 - 1).

1 - 2 Accounts Receivable, G5: This debit balance account controls the transfer of cash directly from the G5 account established for Direct Loans.

Debit this account for:

- Amounts due from G5 for disbursement needs for the period (contra account # 6 - 1).
- Return of excess cash (contra account # 1 - 1).

Credit this account with:

- Cash transferred directly from the G5 account (contra account # 1 - 1).

6 - 1 Income from G5 - Direct Loans: This credit balance account reflects the income from the Direct Loan Program. This amount is not a transfer from the G5 account referred to in section 5.3. These separate accounts allow for reconciliation with the institution's records as part of the Direct Loan reconciliation process.

Debit this account for:

- Closing entry at end of accounting fiscal year, the income from G5 to meet disbursement needs for the period (contra accounts # 7 - 1, 7 - 2).

Credit this account with:

- Income from G5 recorded to meet current disbursement needs (contra account # 1 - 2).

7 - 1 Funds Advanced to Borrowers: This debit balance account is maintained to record payments made to students or parents for loans. This account may be further subdivided to separate disbursements for PLUS, subsidized, and unsubsidized loans.

Debit this account for:

- Loan payments made to students or students' parents (contra account # 1 - 1).

Credit this account with:

- Recoveries from loan recipients (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year for the total amount of loan disbursements made to students or students' parents for the accounting period (contra account # 6 - 1).

Federal TEACH Grant Accounts

1 - 1 Cash, Federal TEACH Grants: All receipts and disbursements of cash related to the TEACH Grant Program are recorded in this account. Typically, this account would show a zero balance after each period's entries are posted, as the transfer of funds from G5 should equal only the amount of grants to be paid immediately to students.

Debit this account for:

- Transfers from G5 account (contra account # 6 - 1).
- Recoveries from recipients (contra account # 7 - 1).

Credit this account with:

- Payments to students (contra account # 7 - 1).

6 - 1 Transfer from G5 - Federal TEACH Grants for Students: This credit balance account controls the transfer of cash from the G5 account "Cash Control, G5" to the TEACH Grant account "Cash, Federal TEACH Grants." Such cash transfers should be made only in the precise amounts needed immediately to pay grants to students.

Debit this account for:

- Closing entry at end of accounting fiscal year, the total amount of cash transferred from G5 account to meet disbursement needs for the period (contra account # 7 - 1).

Credit this account with:

- Cash transferred from G5 account to meet current disbursement needs (contra account # 1 - 1).

7 - 1 Student Grants Paid - Federal TEACH Grant: This debit balance account is maintained to record payments made to students for TEACH Grants.

Debit this account for:

- Grant payments made to students (contra account # 1 - 1).

Credit this account with:

- Recoveries from recipients (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year for the total amount of grant payments made to students for the accounting period (contra account # 6 - 1).

Federal Iraq and Afghanistan Service Grant Accounts

1 - 1 Cash, Federal Iraq and Afghanistan Service Grants: All receipts and disbursements of cash related to the Iraq and Afghanistan Service Grant Program are recorded in this account. Typically, this account would show a zero balance after each period's entries are posted, as the transfer of funds from G5 should equal only the amount of grants to be paid immediately to students.

Debit this account for:

- Transfers from G5 account (contra account # 6 - 1).
- Recoveries from recipients (contra account # 7 - 1).

Credit this account with:

- Payments to students (contra account # 7 - 1).

6 - 1 Transfer from G5 - Federal Iraq and Afghanistan Service Grants for Students: This credit balance account controls the transfer of cash from the G5 account "Cash Control, G5" to the Iraq and Afghanistan Service Grant account "Cash, Federal Iraq and Afghanistan Service Grants." Such cash transfers should be made only in the precise amounts needed immediately to pay grants to students.

Debit this account for:

- Closing entry at end of accounting fiscal year, the total amount of cash transferred from G5 account to meet disbursement needs for the period (contra account # 7 - 1).

Credit this account with:

- Cash transferred from G5 account to meet current disbursement needs (contra account # 1 - 1).

7 - 1 Student Grants Paid - Federal Iraq and Afghanistan Service Grant: This debit balance account is maintained to record payments made to students for Iraq and Afghanistan Service Grants.

Debit this account for:

- Grant payments made to students (contra account # 1 - 1).

Credit this account with:

- Recoveries from recipients (contra account # 1 - 1).
- Closing entry at end of accounting fiscal year for the total amount of grant payments made to students for the accounting period (contra account # 6 - 1).

