

# A School's Financial Management Systems



APPENDIX

B

*The accounting procedures and financial management systems used by a school to record and report on the transactions in the Federal Student Aid programs play a major role in the school's management of those programs. In this chapter, we will discuss the minimum criteria for those procedures and systems, identify areas where problems might arise, and point out potential system weaknesses.*

## FINANCIAL MANAGEMENT SYSTEMS

A school's financial management system (including the school's accounting system) must provide effective control over and accountability for all funds received from the U.S. Department of Education's (ED's) Grant Management System (G5). An FSA fiscal management system includes procedures for

- ◆ requesting funds from ED;
- ◆ disbursing funds to eligible students and parents;
- ◆ accounting for funds and financial activities;<sup>1</sup>
- ◆ keeping accurate and auditable records including providing the clear audit trail required by cash management regulations;<sup>1</sup>
- ◆ meeting the documentation requirements of the individual program regulations;
- ◆ managing cash;
- ◆ ensuring proper filing of timely applications; and
- ◆ enabling timely internal and external financial reporting.

At a minimum, a school's financial management system including its accounting system must provide

1. accurate, current, and complete disclosure of the financial condition of each federal aid program or project sponsored by ED;
2. records that adequately identify the source and application of funds for sponsored activities and contain information on institutional awards, authorizations, obligations, unobligated balances, assets, income, liabilities, revenues, expenditures, and cash disbursements;<sup>1</sup>

### Financial management systems

34 CFR 668, Subpart K

#### Accounting System Defined

A school's accounting system includes those procedures that deal with the organization and controls necessary to identify and record transactions in a school's journals and ledgers, while systematically providing for the supporting documentation for all journal entries. The accounting system is a subset of the school's larger system of financial management.

1. Accounting system function

3. effective control over and accountability for all funds, property, and other assets, including adequate safeguarding of all such assets to ensure that they are used solely for authorized purposes;<sup>1</sup>
4. comparison of actual expended amounts with amounts budgeted for each FSA program;<sup>1</sup>
5. procedures to ensure the timely, efficient transfer of funds when they are advanced through electronic methods (these procedures must limit the time between the transfer of funds from the U.S. Treasury and cash disbursement by the school to students so that funds are disbursed no later than three business days following the receipt of funds, and do not result in excess cash.);<sup>1</sup>
6. procedures according to the applicable terms of the FSA program for determining reasonableness, allowability, and allocability of costs;<sup>1</sup>
7. accounting records that are supported by audit trail documentation;<sup>2</sup>
8. monthly reconciliation of individual student FSA awards as recorded in the financial aid, business office, student account, and Department systems (for Pell and Direct Loan);<sup>1</sup> and
9. examinations in the form of external or internal audits, which must be made according to generally accepted auditing standards and government auditing standards.<sup>1</sup>

Schools organize and manage their financial operations differently depending on such factors as the size of the school, administrative structure, staffing, automation, and federal program participation. Although fiscal operations can vary from school to school, successfully managing FSA programs at any school depends on coordinated efforts across institutional offices.

Coordination has become increasingly important as automated systems have replaced paper-based ones. Automated systems bring many benefits, such as enhanced data integrity and speedy data exchange, but they also present challenges. **Perhaps the most critical challenge is that automation can blur responsibility for functions that, by law, must be kept separate, such as awarding and disbursing federal funds.**



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1. Financial management system functions  
2. Accounting function

## THE NETWORK OF RESPONSIBILITIES

Managing FSA assistance is a school-wide responsibility. FSA program funds are provided to the school, and all offices at a school must work together to ensure successful program management. A school's FSA program management generally takes place in three functional areas:

- ♦ the office of the chief executive (CEO, president, chancellor, owner, etc.),
- ♦ the financial aid office, and
- ♦ the business (bursar's) office.

Schools differ in how they divide these functions among administrative offices. However, the president's office, the financial aid office, and the business office always play key roles.

### *The CEO's office*

Ultimate responsibility for a school's FSA programs resides with the school's CEO. Although authority and responsibility are delegated to other offices, the leadership and support of the CEO are crucial to successfully administering FSA programs. By recognizing the importance of federal aid programs, making FSA program administration a high priority, and holding key officials accountable, CEO leadership can foster an environment that promotes an effective and responsive financial aid program that meets institutional goals, students' needs, and federal requirements.

The next page lists the administrative responsibilities of a school's CEO.

### The CEO's/President's Responsibilities

- Meets the financial standards for administering the FSA programs
- Has an individual capable of administering the FSA programs and coordinating federal and nonfederal financial aid
- Has an adequate number of qualified staff to administer FSA programs
- Has a procedure to report changes to ED about the school's current eligibility status (for example, changes in ownership, address, name, officials, third-party servicers, programs, and locations)
- Has a procedure to ensure that FSA funds for new programs and locations are not disbursed until approvals (when required) are received from ED
- Has established clear lines of responsibility among the pertinent school offices
- Has good communication and cooperation among personnel in the pertinent school offices
- Maintains effective recordkeeping systems for both student records and financial records
- Has an adequate system of checks and balances to ensure separation of award functions from disbursement functions
- Has accurate information about student applicants for FSA aid and resolves any discrepancies or inconsistencies
- Provides adequate financial aid and loan debt management counseling to students
- Refers any suspected cases of FSA fraud, abuse, or misrepresentation to ED's Office of Inspector General
- Obtains a letter of credit (if the school has failed to meet the standards of financial responsibility)
- Has an independent auditor perform an annual federal audit of the school's FSA financial operations
- Cooperates fully with any program reviews or audits and makes available all necessary information to the reviewers or auditors
- Has no criminal or fraudulent activities occur as it manages federal funds and administers FSA programs
- Has established reasonable standards of satisfactory academic progress (SAP) for students
- Has established a fair and equitable institutional refund policy (if required by the school's accrediting agency)
- Has an operable and accessible drug abuse prevention program, as required by the Drug-Free Schools and Communities Act
- Has a drug-free workplace, as required by the Drug-Free Workplace Act
- Makes available all published information required by the Student Right-to-Know Act and the Campus Security Act and any other applicable laws and regulations
- Provides the services described in its publications

For complete information about the requirement to obtain a letter of credit when a school fails to meet the standards of financial responsibility and the requirement to obtain an independent audit of a school's participation in the FSA programs please see the *Federal Student Aid Handbook, Volume 2*.

## The financial aid office

While the financial aid office usually has most of the responsibility for administering the FSA programs, its role in the school's fiscal operation is typically limited. In some cases, functions such as loan counseling might be performed by the business office instead of the aid office.

### Responsibilities Commonly Assigned to a School's Financial Aid Office

- Advise and counsel students and parents about financial aid
- Provide students with consumer information, as required by federal regulations
- Develop written policies and procedures about the way the school administers FSA programs
- Determine students' eligibility for financial aid
- Make financial aid awards to students
- Adhere to the principle of separation of functions (no single office or individual may authorize payments and disburse FSA funds to students)
- In administering financial aid programs, coordinate financial aid activities with those of other school offices
- Interact with various outside groups, agencies, associations, and individuals about issues concerning the school's administration of financial aid programs
- Monitor students' satisfactory academic progress (SAP)
- Maintain school records and student records that document the administration of the financial aid office and provide data for reports
- Keep current on changes in laws and regulations to ensure that the school remains in compliance
- Assist in reporting program expenditures
- Manage and report on activities that involve financial aid funds
- Calculate the return of Title IV funds and, if it applies, authorize post-withdrawal disbursements to students
- Assist in reconciling loan records (for schools in the Direct Loan Program)
- Reconcile student financial aid data provided to the business office to ensure all payments have been made, return of FSA funds have been accounted for, and expenditures have been reported
- Have a procedure to report any changes to ED about the school's current eligibility status (for example, change in ownership, address, name, officials, third-party servicers, etc.)
- Perform limited fiscal operations, such as
  - authorizing payment of FSA funds to student accounts or to students directly
  - authorizing return of Title IV funds to program accounts and post-withdrawal disbursements to students
  - notifying a student who owes an overpayment as a result of the student's withdrawal from the school in order for ED or the school to recover the overpayment
  - notifying ED of the overpayment
  - coordinating submission of the Fiscal Operations Report and Application to Participate (FISAP)
  - verifying records that have been updated in COD to ensure subsidized usage limit calculations are accurate for students, per the guidance of DCL GEN-13-13 and the relevant September 25, 2015, electronic announcement.
- Provide entrance and exit counseling to borrowers of FFEL Program loans and Direct Loan Program loans as part of the award and delivery process<sup>1</sup>
- Provide entrance and exit counseling to borrowers of Federal Perkins Loans as part of the award and delivery process<sup>1</sup>

1. At some schools, the business office performs this function.

### ***The business (bursar's) office***

Most FSA related fiscal operations are handled by a school's business office. This office may also be known as the fiscal office, finance office, comptroller's office, bursar's office, treasurer's office, or student accounts office. For the duration of this text, this office will be referred to simply as *the business office*.

The business office provides critical services to the school in managing both federal and nonfederal financial aid programs. Administering the accounting, recordkeeping, and reporting functions related to the school's use of federal and other funds requires many detailed, complex systems. Strong internal controls and sound business and financial management practices are keys to the success of these operations and delivering funds to students.

The next page lists some of the common responsibilities of the business office.

## Responsibilities Commonly Assigned to a School's Business Office

- Coordinate activities and cooperate with the financial aid office in
  - projecting cash needed to cover disbursements
  - processing cancellations and institutional refunds
  - obtaining authorization to pay FSA funds
  - being aware of the changes in FSA laws and regulation
  - submitting accurate and timely reports
  - reconciling records to ensure that financial aid adjustments are properly recorded
- Establish and implement the institution's refund policy (if required by the school's accrediting or state agency)<sup>2</sup>
- Process return of Title IV funds to program accounts and post-withdrawal disbursements to students according to the applicable federal laws and regulations
- Assist in reporting FSA expenditures to the Department in a timely manner
- Reconcile accounts, including
  - reconciling cash between school records and bank statements and reports
  - reconciling federal funds between bank statements and federally reported balances
- Maintain a system of internal controls that includes adequate checks and balances
- Ensure that the functions of authorizing and disbursing FSA funds remain separate
- Maintain records consistent with Generally Accepted Accounting Principles, and government auditing standards
- Maintain records to ensure a clear audit trail
- Draw down and return FSA funds to program accounts
- Disburse funds to eligible students from FSA program accounts
- Maintain a system of student accounts that records charges, credits, and amounts due
- Collect Federal Perkins Loans<sup>1</sup>
- Calculate the return of Title IV funds, and if it applies, authorize post-withdrawal disbursements to students<sup>2</sup>
- Assist in completing applications, fiscal reports for federal funds, and FISAP
- Maintain a cash management system to meet disbursement requirements and federal laws and regulations
- Provide general stewardship for federal funds, including maintaining bank accounts and investments as appropriate
- Prepare for and participate in FSA program reviews and audits
- Before making a first disbursement of Direct Loan funds, confirm that new borrowers have completed entrance counseling<sup>2</sup>
- Ensure that Direct Loan and Perkins Loan borrowers have completed exit counseling within the time permitted by the appropriate regulations and school policies<sup>3</sup>
- Establish and monitor Federal Work-Study (FWS) payroll and time sheets<sup>4</sup>

1. At some schools a separate student loan office collects these loans.
2. At some schools the financial aid office does this.
3. At some schools the financial aid office ensures this. Also, the business office may be responsible for administering other aspects of the Perkins Loan Program. While the financial aid office may be responsible for awarding Perkins Loan funds, the business office may be responsible for collecting and handling promissory notes, billing borrowers in repayment, collecting payments, authorizing deferments, cancelling loans, and reporting Perkins Loans to NSLDS.
4. At some schools the personnel office does this.

### ***Synchronizing operations and responsibilities***

Typically, several offices at your school will share responsibility for managing any one FSA program. To illustrate this network of responsibilities, consider the relatively routine activity of managing FWS Program time sheets for student employees. The financial aid office typically authorizes FWS awards and monitors student earnings to ensure students have not exceeded their authorized awards. On the other hand, the business office usually processes payroll and monitors the school's nonfederal share of FWS to ensure the school is adequately matching the federal share. Your school's processes should demonstrate similar interdependence in your management of its FSA programs. To further explore this principle, if your school participates in the FWS programs, please complete the FWS questionnaire on the next page as it applies to your school.



### FWS Questionnaire on Network of Responsibilities

1. The Federal Work-Study (FWS) Program time sheet requires oversight certification. Who is authorized to certify that a student has worked the hours reported and earned the amount paid?  
\_\_\_\_\_
2. Students must remain eligible from one term to the next. Who monitors student eligibility and academic progress?  
\_\_\_\_\_  
\_\_\_\_\_
3. Some eligibility requirements are school policies. Who develops these policies for the school?  
\_\_\_\_\_  
\_\_\_\_\_
4. Students are paid wages on the basis of their time sheets.
  - Who collects the time sheets from students? \_\_\_\_\_
  - Who processes the payroll? \_\_\_\_\_
  - Who reconciles the payroll to the time sheets? \_\_\_\_\_
5. Students may only earn up to the amount of their authorized FWS awards.
  - Who determines the amount of the award? \_\_\_\_\_
  - Who monitors students' earnings to ensure they do not earn more than that amount?  
\_\_\_\_\_
6. Schools must develop and place students in FWS jobs.
  - Who locates and develops these jobs? \_\_\_\_\_
  - Who places students in these jobs? \_\_\_\_\_
7. All schools are required to spend at least 7% of the federal allocation of their FWS funds to employ students in community service positions.
  - Who locates and develops these jobs? \_\_\_\_\_
  - Who monitors the percentage of funds used for these jobs? \_\_\_\_\_  
\_\_\_\_\_
8. Student earnings are part of the institution's overall FWS budget.
  - Who develops the budget? \_\_\_\_\_
  - Who monitors allocations and disbursements? \_\_\_\_\_
  - Who monitors expenditures? \_\_\_\_\_
9. Schools that receive FWS funds are required to apply for those funds and to report to the Department on the use of those funds.
  - Who completes the application? \_\_\_\_\_
  - Who completes the report? \_\_\_\_\_

## INTERNAL CONTROLS—A SYSTEM OF CHECKS AND BALANCES

### Checks and balances

34 CFR 668.16(c)(1)

34 CFR 674.19(a)

34 CFR 675.19(a)

34 CFR 676.19(a)

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the FSA programs include an adequate system of internal controls or checks and balances.

### *What is internal control?*

Internal control is an integral component of an organization's management. An effective internal control structure includes a school's plan of organization and all the policies, procedures, and actions taken by the school to provide **reasonable assurance** that the school will achieve its objectives in the following areas:

1. Effectiveness and efficiency of operations
2. Accuracy of operating data
3. Reliability of program reporting
4. Protection of funds against fraud and misuse
5. Compliance with organizational policies and applicable FSA laws and regulations

The first category addresses a school's administrative objectives, including performance and financial goals and safeguarding of resources. The second relates to the need to ensure that the decisions made by a school in its day-to-day operations are based on accurate information. The third relates to the preparation of financial statements, audits, and other fiscal and operational reports a school is required to make to the Department. The fourth refers to a school's fiduciary responsibility to safeguard FSA funds and ensure they are used for the purposes and by the recipients intended. The fifth addresses the requirement that a school comply with all applicable federal, and state, laws and regulations, as well as the regulations of its accrediting agency.

### *Components of internal control*

Internal control consists of five interrelated components derived from the way a school is managed. The components are

- ♦ *Control environment*—The control environment sets the tone of an organization and influences the mind-set of its employees. It is the foundation for all other components of internal control, providing its discipline and structure. Control environment factors include the integrity, ethical values, and competence of the school's people; management's philosophy and operating style; and the way a school's administration assigns authority and responsibility and organizes and develops its employees.

Administrators must convey the message that integrity and ethical values cannot be compromised, and employees must receive and understand that message. Adopting codes of conduct and other policies regarding acceptable institutional practices, conflicts of interest, and expected standards of ethical and moral behavior help establish an organizational climate in which the other components of internal control are able to achieve their purposes.

- ♦ *Risk assessment*—Every entity faces a variety of risks from external and internal sources. Risk assessment is the identification and analysis of risks that have the potential to negatively affect a school's satisfactory management of the FSA programs, its financial strength, its public image, and the overall quality of its programs and services.

Many techniques have been developed to identify risks. The majority—particularly those developed by internal and external auditors to determine the scope of their activities—involve qualitative or quantitative methods to prioritize and identify higher risk activities. The FSA Assessment Tools can help your school identify needed areas of improvement. In addition, your case management team can provide you with a list of those fiscal and administrative responsibilities that were most often problematic during recent program reviews.

Certain circumstances demand special attention because of their potential impact on the control environment. For example, when any of the following occur, a school should examine the ways in which it affects the schools operations and the appropriate response.

- *A change in the operating environment.* Changes in the HEA or state law, ED's regulations, or accrediting agency procedures might require a change in organizational procedures.
- *New personnel.* Turnover of personnel in the absence of effective training and supervision can result in breakdowns in the control environment.
- *New or revamped information systems.* Normally effective controls can break down when new systems are developed, particularly when those systems are brought online under tight time constraints or at a critical time (e.g., just before registration).
- *Rapid growth.* When a school experiences rapid growth in the number of FSA recipients or the amount of federal funds it is receiving on behalf of those recipients, existing control systems may break down.
- *New technology.* When a new technology is incorporated into management practices, a high likelihood exists that internal controls will need to be modified. Adopting EFT as the method of distributing FSA

credit balances, and changing to the use of *smart cards* as a mechanism for providing access to student's FSA funds are examples of technologies that may require changes in control procedures.

- ♦ *Information and communication.* Pertinent information must be identified, captured, and communicated in a form and time frame that enables employees to carry out their responsibilities. One type of communication involves the creation of an appropriate control environment. A second involves operational, financial, and compliance related information.

All employees must receive a clear message from senior administrators that control responsibilities must be taken seriously. Employees must understand their own roles in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information to those administrators who can affect change.

Employees at all levels need access to information to make appropriate operational, financial, and compliance decisions. The quality of information is determined by the degree to which the

- *content is appropriate*—Is the needed information there?
  - *information is timely*—Is it there when required?
  - *information is current*—Is it the latest available?
  - *information is accurate*—Are the data correct?
  - *information is accessible*—Can it be obtained easily by appropriate parties?
- ♦ *Monitoring*—Internal control systems need to be monitored—a process that assesses the quality of the system's performance over time. This can be accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities and other actions employees take in performing their duties.

On the other hand, successful institutions pause from time to time to evaluate the degree to which they are achieving their objectives and plan for changes needed to improve performance where needed. Evaluating the success of internal control procedures should be part of an institution's periodic overall evaluations.

- ♦ *Control activities*—Control activities are the policies and procedures that help ensure a school's administrative directives are followed. They help guarantee that the actions necessary to reduce risk are carried out. Control activities occur throughout an organization and include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, and periodic reviews of performance, security of funds, and separation of function.

Control activities usually involve two elements: (1) a policy that establishes what should be done (and that serves as a basis for the second element), and (2) procedures to implement the policy. The most effective policies and procedures are those that are written. Control activities should be part of new employees' orientation, and the subject of periodic training for continuing employees.

Of course, no matter how well designed and operated, internal control cannot provide absolute assurance that all objectives will be met. Factors outside the control or influence of management can affect the entity's ability to achieve all of its goals. In addition, modern data management systems create special problems because often, paper and audit trails may be problematic. Good systems of internal control should provide for paper documentation at key points in the electronic system.

One key feature of any internal control system should be built in **independent checks** on performance. In large organizations, the internal audit function should report directly to the CEO or board of directors. This helps avoid the difficulties and conflicts of interests that result when the internal audit staff reports to the accounting manager, Vice President for Finance, or Chief Financial Officer. In small organizations where total separation of duties is not an economically viable alternative, owners and presidents must be involved in the control system through independent performance checks. In addition, they must assume key duties such as check signing and monthly bank account reconciliations.

**A thorough discussion of the creation of a school-wide internal control environment is beyond the scope of this volume. However, we want to emphasize the importance of a school-wide commitment to control activities that begins with a school's chief executive and involves all employees who in any way participate in the school's FSA programs or are responsible for FSA funds.**

### ***Control activities important in managing FSA funds***

To participate in federally funded student financial aid programs, a school must be able to demonstrate that adequate checks and balances are in place. A school's internal control system should, at a minimum, include

- ♦ **separating the functions** of authorizing and awarding FSA aid and disbursing FSA program funds;
- ♦ **taking trial balances** (to determine whether accounts are in balance);
- ♦ **reconciling cash** (a reconciliation between accounting [ledger] balances and bank balances);
- ♦ **reconciling federal funds** (ensuring that all federal funds drawn down are appropriately disbursed or returned within the time frames allowed by regulation); and
- ♦ maintaining adequate **electronic data processing (EDP) controls**.

A school should use its internal audits or external audits to verify that the systems of checks and balances in place at the school have been properly designed and are being followed routinely.

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#### **Separating functions**

34 CFR 668.16(c)(2)

#### **The separation of functions**

To accomplish separation of duties, duties are divided among different individuals to reduce the risk of error or inappropriate action (for example, when the employee or office responsible for safeguarding an asset is someone other than the employee or office that maintains accounting records for that asset). In general, responsibility for related transactions should be divided among employees so that one employee's work serves as a check on the work of other employees. When duties are separated, there must be collusion between employees for assets to be stolen and the theft disguised in the accounting records.

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#### **Family defined**

A member of a person's family is a parent, sibling, spouse, child, spouse's parent or sibling, or sibling's or child's spouse.

34 CFR 668.15(f)(3)

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#### **Definition of control**

34 CFR 600.31(b)

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#### **Ownership interest**

34 CFR 668.15(f)

Federal regulations require a school to separate the functions of authorizing payments and disbursing funds so that no single office or individual exercises both functions for any student receiving FSA funds. Even very small institutions with limited staff are not exempt from this requirement. These two functions must be performed by individuals who are not members of the same family (as defined in the margin), who do not together exercise substantial control over the school, and who are organizationally independent.

Individuals responsible for authorizing or disbursing FSA funds may not do both, but they may perform other functions as well. If a school performs these functions by computer, no one person may have the ability to change data that affect both the authorization and disbursement of FSA funds.

Typically, the financial aid office is responsible for authorizing disbursements by awarding aid through the need analysis and packaging processes. Awards are then turned over to a business office that typically requests funds from ED's Grant Administration and Payment System (G5), and disburses the funds by crediting student accounts, delivering checks to students, authorizing an EFT, or delivering cash to students. The person (or office) that awards FSA funds may not sign checks or deliver them to students, nor be permitted to disburse cash to students, or to credit student accounts with FSA funds to cover allowable costs (such as tuition, fees, books, supplies, or other authorized charges).

There should also be a segregation of functions within the business office. This separation should provide that the individual within the school who reconciles federal cash does not also receive federal cash or disburse it. This will ensure that several individuals at the school evaluate federal funds and, at each step of the process, that the applicable regulations are being followed.

The person performing reconciliations should receive bank statements and Direct Loan reconciliation reports directly from the respective, appropriate sources. Supervisory approval of the completed reconciliations should also be obtained and documented on the forms.

While electronic processes enhance accuracy and efficiency, they also can blur separation of functions so the awarding and disbursement occur virtually simultaneously. Schools must set up controls that prevent an individual or an office from having the authority (or the ability) to perform both functions. In addition, your system also should have controls that prevent cross-functional tampering. For example, financial aid office employees should not be able to change data elements that are entered by the registrar's office. Finally, your system only should allow individuals with special security classifications to make changes to the programs that determine student need and awards, and it should be able to identify the individuals who make such changes.

For further guidance on the separation of functions, contact the Department's Case Management and Oversight Team that serves your school's state.

**Remember, because electronic processes can blur separation of functions, a school must be careful to create controls that ensure separation of authorizing FSA payments and disbursing FSA payments. This also applies within the business office itself. One individual should not be solely responsible for receiving funds and reconciling those funds.**

### 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 and/or need, 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 or program that can affect the level of a student's award (anyone who initiates a budget or award override).



### **Trial balance**

A trial balance is the confirmation that debit and credit balances are equal. A trial balance for federal student financial aid programs is a confirmation that accounts receivable, program expenditures, and the cash balance equal the amount of aid that has been authorized by the financial aid office.

To be effective, taking a trial balance should be performed at least monthly and reconciling cash should be performed when bank statements are received or at least monthly if statements are received more frequently.

### **Reconciliation of bank records**

Since cash is more susceptible to manipulation than other assets, multiple checks and balances are necessary for effective internal control of cash.

Reconciling cash is one confirmation that the cash balance shown in the school's accounting records is in agreement with the balance reflected in the school's bank statement. Differences between the school's accounting records and the school's bank statement balance can be caused by timing variances, errors, or unrecorded entries. The bank reconciliation process can lead to adjusting entries for

- ◆ bank service charges;
- ◆ non-sufficient funds (NSF) charges;
- ◆ debit and/or credit memoranda; and
- ◆ correcting errors.

The individual performing bank reconciliation should be trained to recognize and report sources of errors such as

- ◆ delays in deposit;
- ◆ checks that remain outstanding after long periods of time;
- ◆ irregularities in funds transfers and adjustments; and
- ◆ deviations on canceled checks (payee, signature, or endorsement).

The prompt and thorough performance of bank reconciliation duties enhances the internal control system.

Note that if a school maintains separate bank accounts for each program, a separate bank reconciliation process should be performed for each account/program.



## Reconciling FSA funds

**Reconciliation of FSA funds is a key component of internal control in the FSA programs.** A school reconciles data when, for example, on the FISAP it reports cumulative data for its Federal Perkins Loan portfolio. A school also performs reconciliation on an annual basis when it reports annual FSEOG data on the FISAP and when it closes out its general ledger. However, to help fulfill its responsibility to safeguard federal funds and ensure they are expended as intended, a school must perform reconciliation in each FSA program monthly. That is, to provide adequate internal controls, a school must have a system for comparing separately, for each FSA program, the total draws recorded in G5 in a 30-day period to the amount disbursed to students or returned to the Department and explaining all discrepancies.

Reconciliation in the FSA programs is an internal control procedure that helps ensure that a school has met its fiduciary responsibility to use its FSA funds in the manner and for the purposes prescribed by regulations. The process of reconciliation as required in the regulations applies primarily to a school's accounting records. Other internal control procedures ensure that a school's other fiscal records and its program records are being maintained properly and that they accurately reflect the school's FSA operations.

During reconciliation, a school compares its G5 records to its banking records, and the accounting entries in its FSA cash accounts to the accounting entries in its FSA disbursement accounts. The reconciliation process will seek to explain the differences between the funds the school received and the funds the school disbursed or returned.

**Regulations require that all federal funds drawn down be accounted for. Moreover, a school must identify expenditures of FSA funds on a student-by-student basis.** So, if the trial balances run for one or more of the FSA programs fail to show that all federal funds received by the school were disbursed or returned in the time frames allowed by regulations, the school will have to examine its accounting detail (student-by-student records) to identify the discrepancies keeping the accounts out of balance. **All discrepancies must be explained for the accounts to be considered reconciled.**

A key element in the reconciliation process is the clear audit trail a school's accounting records should provide. That audit trail should track FSA funds from G5 to individual students.

Part of the monthly reconciliation a school must perform requires examining fiscal and program records to ensure that they agree with and substantiate the reconciled accounting records.

**Note:** Generally, program records are maintained by the financial aid office and fiscal records by the business office.

## Required fiscal records

34 CFR 668.24(b)

Reconciliation is one of the tools a school uses to evaluate its system for accounting for the receipt and expenditure of FSA funds in accordance with generally accepted accounting principles.

## Monthly reconciliation required

34 CFR 674.19 (d)(1),  
34 CFR 675.19(b)(2)(iv), 34 CFR 676.19(b)(2),  
and 34 CFR 685.102(b)

## FSA Assessments

The FSA Assessments can help you in reconciling and other fiscal management activities.

The direct link to the FSA Assessments is <https://ifap.ed.gov/qahome/fsaassessment.html>. You can also get there from the IFAP homepage at <https://ifap.ed.gov> by clicking on the left side of the page Participation Links—Programs > Quality Assurance Program > Tools for Schools.

The assessments that might interest the business office are those on default prevention & management, Direct Loans, fiscal management, return of Title IV funds, FSEOG, and FWS.

### Example of an Audit Trail for an FSEOG Cash Draw

1. Examining its cash draws as recorded in G5 for the previous 30-day period, a school finds a record of a drawdown of \$75,000 in federal funds identified as FSEOG federal share.
  2. The school examines its bank records for the account the school has designated to receive FSA funds to ensure that the funds were received.
  3. In the school's G5 Cash Control Account, the \$75,000 is entered as an offset to \$75,000 in G5 Accounts Receivable.
  4. The records show a \$75,000 credit to the G5 Cash Control Account (an asset account) and a \$75,000 debit to the income account, FSEOG Transfer from G5.
  5. At the same time the records should show that the school deposited its match<sup>1</sup>—credited its Institutional Cash Account with \$25,000, and debited Institution's Cash Contributions (its G5 income account) with \$25,000. (Note that the detail record for this transaction is the school's bank records and its internal subsidiary ledgers.)
  6. The records show a \$75,000 credit in FSEOG Transfer from G5 and \$25,000 credit in Institution's Cash Contributions and debits of \$25,000 and \$75,000 to the expense account Student Grants Paid—FSEOG.
  7. Student Grants Paid—FSEOG shows a credit of \$100,000 to the individual student accounts. (The records might show one credit of \$100,000 to a memo account in which the detail of the individual students who received the grants is present.)
  8. The student account records (student account cards in a manual system) are fiscal records (not program records). The account records are the detail records that substantiate the subsidiary ledger Student Grants Paid. They substantiate that the \$75,000 G5 draw was used as intended.
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1. If a school matches with tuition, fees, room and board, waivers, etc., the school's accounting records must show a clear audit trail from the noncash match in the student's account to the memo account "Institution's Noncash Contribution."

Questions you can ask about your program and fiscal records include the following:

- ♦ What program records does your school use to determine the amount of your federal funds request to G5. Do the date and amount of your anticipated disbursements of grant, loan, and FWS payroll funds support the cash requests you've made to G5?
- ♦ Do the amounts and dates of your school's calculations of refunds or overpayments made or due to ED, and the amounts and dates of return calculations for students who withdraw substantiate the entries in the G5 cash control contra account *Funds Returned to ED*?

As part of your school's internal control procedures, you should have a system that examines your fiscal and program records to ensure they are in agreement and support your accounting records. We will provide examples of those internal control procedures in our discussion of the individual FSA programs.

### Electronic data processing (EDP) controls

The Department continues to encourage and support schools' use of electronic recordkeeping and communications. Of course, any time a school electronically transfers funds, records or transmits confidential information, or obtains a student's confirmation, acknowledgment, or approval, the school must adopt reasonable safeguards against possible fraud and abuse. Such safeguards include:

- ♦ creating written policies and procedures for the security and proper operation of student information systems that go all the way down to the individual user level;
- ♦ informing authorized users of guidelines for proper system use, and having users acknowledge their responsibilities by signing an acknowledgment statement;
- ♦ issuing unique user IDs and passwords to each employee to ensure individual user accountability;
- ♦ changing passwords frequently;
- ♦ revoking access for unsuccessful logins;
- ♦ segregation of computer security duties and responsibilities, including granting appropriate levels of access to staff and limiting an employee's access to only those functions necessary to perform his/her assigned duties;
- ♦ establishing adequate software-security controls, audit functions, user identification, entry point tracking, and system surveys (these security controls should be sufficient to indicate or detect possible misuse, abuse, or unauthorized activity on the system), and conducting random audits of the system using the aforementioned functions;

- ♦ providing adequate provisions for system and data back up, contingency, disaster recovery, and business resumption;
- ♦ conducting security tests of code access; and
- ♦ physical computer security.

Before the start of an award year, you should test your school's automated packaging program to ensure that the calculations used to determine the amount of students' grant, loan, or FWS awards yield consistent results, and that the awards that result are within the amounts allowed by regulation. In addition, you should compare the records of awards made to students by the financial aid office to the records of those awards in the business office.

### Other checks and balances

#### Assigning specific duties to individual employees

When the responsibility for a particular work function is assigned to one employee or to a small group of employees, that employee (or that group) is accountable for specific tasks. Then, if a problem occurs, the employee responsible can be easily identified.

#### Rotating job assignments

Some schools cross train their employees and rotate job assignments each fiscal year. This policy discourages employees from engaging in long-term schemes to defraud the school and ED. Rotating assignments also makes it more likely that theft or misuse will be discovered quickly because an employee in a new assignment will quickly identify behavior or records that are out of compliance with school policy or ED regulations.

#### Mechanical devices and system safeguards

Requiring the use of simple mechanical devices can often reduce temptation and prevent theft. For example, schools that distribute FSA credit balances by check should adopt procedures that ensure that checks that cannot be delivered are returned to a lockbox type device—not to the school's mail room. Returned checks should be recorded and provided the same safeguards as cash.

## ***Policies and procedures manuals***

Control activities usually involve two elements—policies establishing what should be done, and procedures to effect the policies. For example, in evaluating satisfactory academic progress (SAP), a school might have a *policy* that, to be considered to be making satisfactory academic progress, a student must have a 2.0 GPA once that student has attempted 60 credits. The *procedures* associated with that policy are the action steps the school takes to measure a student's progress in increments and intervene with students who appear to be in danger of failing to achieve the required GPA.

Many factors support the creation of a written policies and procedures manual for a school's participation in the FSA programs. The first factor is compliance with Department regulations. In some cases, e.g., verification deadlines, withdrawal procedures, approved leaves of absence and SAP, schools are required by ED regulations to have written procedures and to make them available. Second, for policies and procedures to be created with input from all appropriate offices within an organization the draft versions must be in writing so everyone works from the same starting point. Third, thoughtful, conscientious, and consistent implementation of any organization-wide activity requires a mutually agreed upon and understood framework for the activity. Finally, a comprehensive, well-written policies and procedures manual can

- ◆ document how and when the school establishes specific policies and procedures;
- ◆ provide a single location for the school's policies and procedures;
- ◆ serve as a valuable reference during a program review or audit; and
- ◆ provide the basis for orientation and training of new employees and refreshing the skills of current employees.

**TIP**

The FSA Assessments can also help schools create a policy and procedure manual. On the webpage given earlier, the first item under the schools section is [A Guide to Creating a Policies and Procedures Manual](#).

**The Department strongly recommends that participating schools create policies and procedures manuals that cover the entirety of the school's participation in the FSA programs. We believe that an all-inclusive policies and procedures manual is critical to establishing internal controls and ensuring effective and efficient operation of a school's FSA programs.**

**We encourage those individuals responsible for participating in schools' business operations to join with their colleagues in financial aid in creating a comprehensive FSA policies and procedures manual for their schools.**

## **Examples of Topics That Should Be Included in a School's FSA Policies and Procedures**

- the organizational structure of the school's business and financial aid offices including how your school determines the number of qualified individuals required to administer the Title IV Programs
- the school's procedures for ensuring its E-APP is kept current
- the checks and balances built into your school's financial management systems that ensure separation of functions and cash control
- identification of the required coordinating official
- procedures for ensuring that the coordinating official is kept informed of all information received by the school that might affect a student's eligibility for federal student aid
- an annual calendar of aid-related activities
- a list of all financial charges
- descriptions of all financial assistance available at the school, the eligibility criteria, and the procedures for applying for aid
- procedures for processing aid applications
- policy and procedures for resolving conflicting information
- general financial counseling available to students
- general eligibility criteria for FSA program funds
- procedures for ensuring that all recipients meet FSA eligibility requirements
- eligibility criteria for school-based assistance
- the school's packaging philosophy and the procedures for awarding FSEOG funds and FWS jobs
- TEACH Grants—identifying eligible students, counseling, and awarding
- payment periods and loan periods
- procedures for ensuring that all students for whom funds are being requested have begun all the classes on which their aid is based
- procedures for determining that students who received a Direct Loan disbursement were enrolled in at least six credits at the time of the disbursement
- procedures for ensuring that individual Title IV program requirements (for the award year or payment period) have been met before FSA funds are posted to a student's account
- procedures for requesting and drawing down federal funds
- disbursement procedures
- crediting student accounts
- variables considered and procedures applicable to using professional judgement
- variables considered and procedures applicable to changing dependency status (overrides)
- how, where, and for how long all documents relating to federal student aid are maintained
- the fiscal recordkeeping process
- the fiscal reporting process
- procedures for determining that students who failed to earn a passing grade in any of their courses remained in attendance through the 60% point in the period for which the student received FSA funds

- the return of Title IV funds procedures
- procedures for handling overpayments
- Federal Work-Study Program—Assigning FWS jobs, job descriptions, rates of pay and the procedures for determining the rate of pay when a position has multiple rates, procedures for reporting FWS hours worked for on-and off-campus positions, payroll records, and reporting procedures
- Job Location and Development (JLD) procedures and records, Work Colleges Program procedures and records
- Direct Loan—packaging, confirmation, certifying, MPN, counseling, disbursing
- information on whether the school provides any of the required matches to federal funds for any of the Campus-Based Programs from noncash sources and how that might affect a student's FWS earnings
- monthly reconciliation procedures for all FSA programs
- Federal Perkins Loan Program master promissory note (MPN), disclosure, counseling, records, forbearance, deferment, due diligence
- rules for recalculating Pell Grant and other FSA assistance when students add or drop classes
- carried forward/carried back procedures for FSEOG and FWS
- transferring funds between the Campus-Based Programs
- NSLDS procedures and responsibilities
- G5 procedures and responsibilities
- FISAP procedures and responsibilities
- student and parent authorizations
- procedures for handling credit balances
- procedures for making post-withdrawal disbursements
- procedures to ensure security of returned checks
- procedures to ensure that FSA funds do not escheat, and other internal control procedures
- verification procedures and deadlines
- satisfactory academic progress policies, including appeal procedures
- procedures for negotiating and recording those parts of contracts and consortia agreements
- procedures for ensuring compliance with regulations on correspondence and telecommunications limitations
- procedures for ensuring that required updates to the E-APP are filed in a timely manner
- the required voter registration program
- the required anti-drug program
- directions on how to obtain the reports a school is required to make available under The Campus Security/Clery Act, The Student-Right-to-Know Act, and the Equity in Athletics Disclosure Act
- copies of all forms, applications, standard correspondence, and other materials routinely used by the business office and financial aid office
- method of insuring that all employees of the financial aid office receive up-to-date training on the administration of the FSA programs
- procedures for evaluating and improving the operations of the business and financial aid offices
- procedures for requesting and criteria for awarding leaves of absence



## EVALUATING AND IMPROVING YOUR SCHOOL'S FINANCIAL MANAGEMENT SYSTEMS

Improving the way schools manage the Federal Student Aid programs is a priority for the Department, and should be one for school business and financial aid officers. Strengthening your school's administration of FSA aid begins with an annual analysis of existing procedures, practices, and policies, is followed by an honest evaluation of where you have been successful and where improvements are needed, and concludes with planning for the upcoming year. An annual program of analysis, evaluation, and planning can help your school ensure its compliance with statutory and regulatory requirements and promote constant improvement in your procedures, practices, and policies.

The primary methods for evaluating a school's management of the FSA programs are self-evaluation and peer evaluation.

### ***Self-evaluation***

Compliance is a requirement, but quality is a choice. If your school is serious about this choice, the Department provides a way for you to conduct a practical self-evaluation of your FSA programs. The Department has developed an *FSA Assessment Tool* that is intended to help schools examine and improve their management of the FSA programs.

The FSA Assessment Tool can be used to evaluate and analyze a school's existing policies, procedures, and practices to determine where improvements are needed. The Department encourages schools to use the assessment activities on an ongoing basis to ensure compliance and establish the foundation for continuous improvement.

The FSA Assessment Tool consists of a comprehensive set of activities and questions designed to help your school assess its current FSA operations. Each assessment contains the major functional requirements, as well as suggested assessment steps.

The assessments can help you

- ♦ anticipate and address problems;
- ♦ spot-check the systems you are using to manage information;
- ♦ prepare for an audit or other review;
- ♦ maximize the efficiency of your staff in handling their duties; and
- ♦ continuously revise your approaches to management of the FSA programs according to your campus needs.



FSA Assessment topics currently available include the following:

1. Student Eligibility
2. Satisfactory Academic Progress
3. FSA Verification
4. Institutional Eligibility
  - Recertification
  - Change In Ownership
  - Administrative Capabilities
5. Default Prevention Management
6. Direct Loans
7. Consumer Information
8. Fiscal Management
  - Disbursing Aid
  - Reporting and Reconciling
9. Return of FSA Funds
10. Perkins Due Diligence
11. Perkins Repayment
12. Perkins Cancellation
13. Perkins Forbearance and Deferment
14. Federal Work-Study
15. Federal Supplemental Educational Opportunity Grants
16. Automation

To enhance their effectiveness, the Assessment Tools include activities to test compliance and procedures. The Assessment Tools also are linked to the latest regulations, Dear Colleague Letters, Federal Registers, and other related documents. Downloadable Microsoft Word documents include the hyperlinks as well. Those who download any of the FSA Assessments can access all hyperlinks through their Internet service provider (ISP).

Since financial aid is an institutional responsibility, some assessments may need to involve several offices on campus (financial aid, business office, admissions) to complete the assessment.

A second tool for self improvement is *The Self-Evaluation Guide*, published by the National Association of Student Financial Aid Administrators (NASFAA). It provides a step-by-step outline for reviewing financial aid and fiscal policies, procedures, and practices. It can help your school develop a comprehensive system for evaluating its FSA participation.

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### **DL quality assurance**

34 CFR 685.300(b)(9)

See the [electronic announcement of November 13, 2013](#), for information about the Direct Loan quality assurance requirement. See also Activity 2 on [the Direct Loans page of the QA website](#). Note that the DL quality assurance requirement is not the same as, nor does it fall under, the QA Program.

### ***Peer evaluation***

Peer evaluation is another technique your school can employ to obtain an independent, objective review of your administration of FSA programs. A peer evaluator can be a financial aid administrator or fiscal officer from another school or a financial aid consultant.

During a peer evaluation, a school obtains an objective assessment of its operation from someone at a similar school. The person performing the evaluation also benefits by getting a firsthand look at how another school manages financial aid programs. Comparing notes and exchanging ideas are methods by which colleagues in financial aid offices and business offices can share their expertise for improved FSA administration.

DIRECT LOAN RECONCILIATION WORKSHEET

SCHOOL FINAID SYSTEM TO COD SCHOOL ACCOUNT STATEMENT RECONCILIATION REPORT  
As of Date:

	SCHOOL'S FINAID SYSTEM:	COD SCHOOL ACCT STATEMENT (SAS):	EXPLAIN DIFFERENCES &/OR REASONS FOR ECB:
Beginning Balance	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div>DIFFERENCE:</div><div></div></div>
Cash Receipts	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Refunds of Cash*	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Net Drawdowns/Payments	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Booked Disbursements	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Booked Adjustments	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Total Net Booked Disbs	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Ending Cash Balance	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Unbooked Disbursements	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Unbooked Adjustments	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Total Net Unbooked Disbs	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>
Cash>Net Accepted and Posted Disbs	<div><div></div><div></div></div>	<div><div></div><div></div></div>	<div><div></div><div></div></div>

\*Refunds of Cash are entered as negative numbers on this spreadsheet for the summation for Net Drawdowns/Payments to calculate correctly.

## INTERNAL RECONCILIATION WORKSHEET

## SCHOOL INTERNAL RECONCILIATION REPORT

As of Date:

<b>SCHOOL'S BUSINESS OFFICE:</b>	\$0
Beginning Balance	
Cash Receipts	
Refunds of Cash*	
<b>Net Drawdowns/Payments</b>	\$0
Disbursements**	
Adjustments**	
<b>Total Disbursed</b>	\$0
<b>Ending Cash Balance</b>	\$0

<b>SCHOOL'S FINAID SYSTEM:</b>	\$0
Beginning Balance	
Cash Receipts	
Refunds of Cash*	
<b>Net Drawdowns/Payments</b>	\$0
Disbursements**	
Adjustments**	
<b>Total Disbursed</b>	\$0
<b>Ending Cash Balance</b>	\$0

EXPLAIN DIFFERENCES  
&/OR REASONS FOR ECB:

\*Refunds of Cash are entered as negative numbers on this spreadsheet, for the summation for Net Drawdowns/Payments to calculate correctly.  
 \*\*Since the Business Office usually does not distinguish booked from unbooked, these figures are a total of all actual disbursements at the school.