
Volume 4

Processing Aid and Managing FSA Funds

Table of Contents

Introduction	4-1
Chapter 1—Requesting and Managing FSA Funds	4-5
PURPOSE OF CASH MANAGEMENT REGULATIONS	4-5
EDCAPS AND G5	4-6
EDCAPS	4-6
G5 Overview	4-6
Accessing G5	4-7
Setting up bank information	4-7
ACH	4-7
ACH processing times.....	4-7
Fedwire	4-8
Fedwire processing time.....	4-8
Obtaining a user ID and password	4-9
Using the user ID and password.....	4-9
Two-factor authentication.....	4-9
Projecting cash needs.....	4-10
Immediate need.....	4-10
Timing.....	4-11
Recording payments.....	4-11
Delayed, denied, or reduced payment requests.....	4-11
AWARD PERIODS	4-11
Performance period.....	4-11
Liquidation period.....	4-12
Suspension period.....	4-12
Closeout period.....	4-12
DRAWING DOWN FSA FUNDS	4-13
The methods under which the Department provides Title IV funds to schools.....	4-13
Advance payment method	4-13
Drawing down funds in the Pell and TEACH Grant Programs.....	4-14
Drawing down funds in the Campus-Based Programs.....	4-14
Drawing down funds in the Direct Loan Program	4-14
Graphic: The Heightened Cash Monitoring (HCM) and Reimbursement Payment Methods	4-15

MAINTAINING AND ACCOUNTING FOR FUNDS	4-16
<i>When a school does not maintain a separate account</i>	4-16
SEPARATE DEPOSITORY ACCOUNT	4-16
<i>Bank account notification requirements</i>	4-16
<i>Interest-bearing account</i>	4-17
<i>Additional Perkins Loan requirements</i>	4-17
EXCESS CASH	4-18
<i>Allowable excess cash tolerances</i>	4-18
<i>Consequences for maintaining excess cash</i>	4-19
<i>Deadlines by which funds must be returned to avoid excess cash penalties</i>	4-19
ADMINISTRATIVE COST ALLOWANCE (ACA)	4-20
A SCHOOL'S FIDUCIARY RESPONSIBILITY	4-20
<i>Accounting and fiscal records</i>	4-21
GARNISHMENT OF FSA FUNDS IS PROHIBITED	4-21
ESCHEATING OF FSA FUNDS IS PROHIBITED	4-22
 Chapter 2—Disbursing FSA Funds	 4-23
NOTIFICATIONS	4-23
<i>Notification of disbursement</i>	4-23
<i>General notification</i>	4-23
<i>Loan and TEACH Grant notification</i>	4-23
AUTHORIZATIONS	4-25
<i>Using electronic processes for notifications and authorizations</i>	4-27
<i>Limitations on using power of attorney in disbursing FWS and Perkins funds</i>	4-28
INSTITUTIONAL CHARGES	4-28
<i>Institutional versus noninstitutional charges</i>	4-28
<i>Apportioning and prorating charges</i>	4-29
<i>Chart: Three Principles Associated With Institutional Charges</i>	4-30
PAYING INSTITUTIONAL CHARGES	4-31
<i>Paying pass-through charges</i>	4-31
<i>Example: Apportioning Charges that Are All Posted During the First Payment Period</i>	4-32
<i>Paying prior-year charges</i>	4-34
<i>Disbursements by payment period</i>	4-34
CHECKING ELIGIBILITY AT THE TIME OF DISBURSEMENT	4-35
<i>Conditions under which a third-party servicer is responsible for confirming a student's eligibility</i>	4-36
TIME FRAMES FOR PAYING FSA FUNDS	4-36
<i>Prompt disbursement (three-day) rules</i>	4-36
<i>Submitting disbursement records</i>	4-37
EARLY DISBURSEMENTS	4-37
<i>Chart: Defining the Date of Disbursement (34 CFR 668.164(a))</i>	4-38
RETROACTIVE PAYMENTS	4-39
LATE DISBURSEMENTS	4-39
<i>Conditions for a late disbursement</i>	4-39
<i>Limitations on making a late disbursement</i>	4-40

<i>Late disbursements that must be made vs. late disbursements that may be made</i>	4-40
<i>Paying a late disbursement</i>	4-41
DISBURSING FWS WAGES.....	4-41
<i>Chart: Conditions and Limitations on Late Disbursements</i>	4-42
<i>Crossover payment periods</i>	4-43
Holding FWS funds on behalf of the student.....	4-43
METHOD OF DISBURSEMENT	4-43
<i>Credit to the student's account</i>	4-43
<i>Direct disbursement to the student or parent</i>	4-44
When the Department considers a check to have been issued	4-45
FSA CREDIT BALANCES	4-45
PAYING FSA CREDIT BALANCES.....	4-46
<i>Paying FSA credit balances by issuing a check</i>	4-46
<i>Paying FSA credit balances by initiating an EFT</i>	4-46
<i>Graphic: Example— 14-day Time Frame for Paying Credit Balances</i>	4-47
<i>Special provisions for books and supplies</i>	4-48
TIME FRAME FOR RETURNING AN UNCLAIMED TITLE IV CREDIT BALANCE	4-49
<i>Graphic: When A School Must Return A Title IV Credit Balance After 240 Days</i>	4-50
HOLDING FSA CREDIT BALANCES.....	4-51
<i>Authorization to hold an FSA credit balance</i>	4-51
<i>Graphic: Sample Authorization to Hold an FSA Credit Balance</i>	4-52
Schools on the HCM and reimbursement payment methods are prohibited from holding credit balances.....	4-53
THIRD-PARTY SERVICERS DISBURSING CREDIT BALANCES BY EFT	4-53
<i>Schools must provide students a choice of the way they receive Title IV credit balances</i>	4-53
<i>Graphic: Third-Party Servicer Agreements</i>	4-55
TIER ONE AND TIER TWO ARRANGEMENTS.....	4-56
<i>Tier 1 arrangements</i>	4-56
Privacy and security in T1 accounts	4-56
Student access to and costs for T1 accounts	4-57
Other responsibilities of schools that offer T1 accounts	4-58
When a student who receives T1 payments is no longer enrolled.....	4-59
<i>Tier 2 arrangements</i>	4-59
Formula for determining the required level of school compliance.....	4-59
Privacy and security in T2 accounts	4-60
Student access to and costs for T2 accounts	4-60
Other responsibilities of schools that offer T2 accounts	4-61
When a student who receives T2 payments is no longer enrolled.....	4-61
Schools that fall below the threshold.....	4-62
Cobranding of financial accounts that are not T2 accounts.....	4-62
<i>Disclosure Requirements for T1 and T2 Arrangements</i>	4-62
SCHOOL-ISSUED, STORED-VALUE CARDS WITH NO THIRD-PARTY INVOLVEMENT	4-63

Chapter 3—Overawards and Overpayments.....	4–65
OVERAWARDS.....	4–65
<i>Pell Grants</i>	<i>4–66</i>
<i>Iraq and Afghanistan Service Grants.....</i>	<i>4–66</i>
<i>Teacher Education Assistance for College and Higher Education Grants</i>	<i>4–66</i>
When a student has no need-based aid.....	4–66
When a student is receiving need-based aid.....	4–66
<i>Campus-Based Programs.....</i>	<i>4–67</i>
<i>FWS Program.....</i>	<i>4–67</i>
<i>FSEOG Overpayments.....</i>	<i>4–67</i>
<i>Graphic: TEACH Grant Overpayments—Examples.....</i>	<i>4–68</i>
<i>Direct Loans</i>	<i>4–69</i>
<i>A resolved overaward may become an overpayment.....</i>	<i>4–70</i>
WHEN A STUDENT FAILS TO BEGIN ATTENDANCE	4–70
<i>When a student begins attendance on a less than half-time basis</i>	<i>4–72</i>
<i>When funds are considered to have been returned for a student who fails to begin attendance.....</i>	<i>4–72</i>
TREATMENT OF OVERPAYMENTS.....	4–72
<i>Overpayments for which the school is responsible.....</i>	<i>4–72</i>
<i>Prohibition on receiving funds for enrollment at more than one school and Potential Overawards (POP).....</i>	<i>4–73</i>
Concurrent Enrollment.....	4–74
Pell Potential Overaward Process.....	4–74
<i>Overpayments for which the student is responsible.....</i>	<i>4–76</i>
Exceptions to student liability.....	4–77
<i>Overpayments created by inadvertent overborrowing</i>	<i>4–77</i>
Repayment of the excess loan amount	4–79
Satisfactory repayment arrangements	4–79
<i>Graphic: What a School Must Do When It Has Disbursed a Title IV Loan to an Ineligible Student</i>	<i>4–80</i>
<i>Graphic: What a School Must Do When It Has Disbursed a Title IV Grant to an Ineligible Student.....</i>	<i>4–81</i>
<i>Recording student payments and reductions in the Direct Loan Program.....</i>	<i>4–82</i>
<i>Returning Direct Loan funds.....</i>	<i>4–82</i>
<i>Recording student payments and reductions in the Pell, TEACH, and Iraq and Afghanistan Service Grant Programs</i>	<i>4–82</i>
REPORTING OVERPAYMENTS TO NSLDS	4–83
REFERRING OVERPAYMENTS.....	4–84
<i>Referring overpayments to the Default Resolution Group.....</i>	<i>4–84</i>
<i>School responsibility after referral and accepting payments on referred overpayments</i>	<i>4–85</i>
<i>Responsibilities of the Default Resolution Group.....</i>	<i>4–86</i>
<i>Suggested Format: Information Required When Referring Student Overpayments to the Default Resolution Group</i>	<i>4–88</i>

Chapter 4—Returning FSA Funds	4–89
RETURNING FUNDS	4–89
<i>Returning funds by depositing them in a school account.....</i>	<i>4–89</i>
<i>Returning funds by depositing them in a federal funds account</i>	<i>4–90</i>
<i>Return of Title IV funds when a school does not maintain a separate federal bank account</i>	<i>4–90</i>
WHEN FUNDS ARE CONSIDERED TO HAVE BEEN RETURNED	4–90
RETURNING FUNDS FROM AN AUDIT OR PROGRAM REVIEW	4–91
DOWNWARD ADJUSTMENT OF FSA GRANT AND DIRECT LOAN	
DISBURSEMENT RECORDS REQUIRED	4–91
RETURNING DIRECT LOAN FUNDS.....	4–92
RETURNING FUNDS AFTER 240 DAYS	4–93
<i>Amending a FISAP after the close of an award year or after the December 15 correction deadline</i>	<i>4–94</i>
RETURNING FUNDS THROUGH G5 FOR BOTH OPEN AND CLOSED AWARDS	4–95
RETURNING FUNDS FROM FFEL LOANS PURCHASED/SERVICED BY THE DEPARTMENT	4–96
RETURNING FEDERAL PERKINS LOAN PROGRAM FUNDS TO THE DEPARTMENT.....	4–97
 Chapter 5—Reconciliation in the Pell Grant and Campus-Based Programs.....	 4–99
THE IMPORTANCE OF TITLE IV RECONCILIATION.....	4–99
<i>Reconciliation and fiduciary responsibility.....</i>	<i>4–99</i>
<i>Who is responsible for reconciliation?.....</i>	<i>4–101</i>
<i>Reconciliation and a school's coordinating official</i>	<i>4–101</i>
<i>Recommended general reconciliation practices</i>	<i>4–102</i>
<i>Internal reconciliation.....</i>	<i>4–103</i>
<i>External reconciliation.....</i>	<i>4–104</i>
RECONCILIATION IN THE PELL GRANT PROGRAM.....	4–104
<i>Reconciling school-level data</i>	<i>4–105</i>
<i>Reconciling school-level data with COD Pell Grant data.....</i>	<i>4–106</i>
<i>Final reconciliation of a Pell Grant award year</i>	<i>4–108</i>
Data submission deadline	4–108
Funding cancellation deadline	4–108
RECONCILIATION, RECORDS, AND INTERNAL CONTROLS IN THE	
CAMPUS-BASED PROGRAMS	4–109
<i>Reconciliation and the Federal Perkins Loan Program</i>	<i>4–109</i>
<i>Reconciliation and the Federal Supplemental Educational Opportunity Grant Program</i>	<i>4–110</i>
<i>Reconciliation and the Federal Work-Study Program.....</i>	<i>4–110</i>
CONTACT INFORMATION FOR RECONCILIATION	4–111

Chapter 6—Reconciliation in the Direct Loan Program.....	4–113
OVERVIEW OF DIRECT LOAN RECONCILIATION	4–113
<i>Who is responsible for Direct Loan reconciliation?</i>	4–114
<i>Graphic: Reconciling ED and School Records</i>	4–115
TYPES OF DIRECT LOAN RECONCILIATION	4–116
<i>Internal reconciliation for Direct Loans</i>	4–116
<i>Graphic: Discrepancies between the Financial Aid and Business Offices</i>	4–117
<i>External reconciliation</i>	4–117
<i>Documenting monthly reconciliation</i>	4–117
TOOLS AND REPORTS FOR DIRECT LOAN RECONCILIATION	4–118
<i>COD reports and webpages</i>	4–118
COD reports	4–118
<i>Graphic: Monthly Reconciliation Process</i>	4–119
COD webpages	4–120
<i>Direct Loan Tools</i>	4–121
THE SCHOOL ACCOUNT STATEMENT	4–122
<i>Cash summary</i>	4–122
<i>Disbursement summary by loan type</i>	4–123
<i>Cash detail</i>	4–123
<i>Loan Detail/Loan Disbursement Activity Level</i>	4–123
<i>Graphic: Reconciliation to the SAS</i>	4–124
WORKING WITH THE SAS	4–125
<i>Graphic: Reconciling Department and School Records</i>	4–126
<i>Graphic: Example of SAS Cash Summary</i>	4–127
<i>Graphic: Example of SAS Cash Detail</i>	4–128
LOAN DISBURSEMENT DETAIL	4–129
<i>Timing issues and the school account statement</i>	4–129
<i>Graphic: Example of SAS Loan Detail (Disbursement Detail)</i>	4–130
<i>Graphic: Analysis of Sample Loan Disbursement Detail</i>	4–131
BEST PRACTICES FOR RECONCILIATION	4–132
<i>Establishing preventive procedures</i>	4–132
<i>Preparing for monthly reconciliation</i>	4–132
<i>Graphic: Sample Internal Report Comparing Financial Aid and Business Office Data for Loan Disbursements</i>	4–133
<i>Direct Loan year-end closeout</i>	4–133
<i>Graphic: Sample Report Comparing SAS and School Totals and Documenting Differences</i>	4–134
SUMMARY	4–135
<i>Graphic: Additional Information About Direct Loan Reconciliation and Closeout</i>	4–137
<i>Graphic: Additional Resources for Reconciliation</i>	4–137

Appendix A—Accounting Systems	4–139
<i>Graphic: Requirements for Accounting and Internal Control Systems.....</i>	<i>4–139</i>
ACCOUNTING RECORDS.....	4–140
<i>Bookkeeping and recordkeeping.....</i>	<i>4–140</i>
FUND ACCOUNTING SYSTEMS AND THE FSA PROGRAMS	4–141
<i>Audit trails.....</i>	<i>4–142</i>
<i>Chart of Accounts.....</i>	<i>4–142</i>
<i>Graphic: Examples of Information a School's Accounting System Must Be Able to Provide.....</i>	<i>4–144</i>
<i>Summary Chart of Accounts</i>	<i>4–146</i>
G5 Accounts (FSA Funds Only, Not Including Direct Loans)	4–146
National Finance Center (NFC) Accounts	4–146
Federal Pell Grant Accounts	4–147
Federal Supplemental Educational Opportunity Grant (FSEOG) Accounts.....	4–147
Federal Work-Study (FWS) Accounts.....	4–148
Direct Loan Accounts	4–149
Federal TEACH Grant Accounts.....	4–149
Iraq and Afghanistan Service Grant Accounts.....	4–149
G5 FSA Accounts	4–150
National Finance Center (NFC) Accounts	4–151
Federal Pell Grant Accounts	4–152
ACCOUNT DETAILS	4–153
<i>Federal Supplemental Educational Opportunity Grant (FSEOG) Accounts</i>	<i>4–153</i>
<i>Federal Work-Study (FWS) Accounts</i>	<i>4–156</i>
<i>Direct Loan Accounts.....</i>	<i>4–161</i>
<i>Federal TEACH Grant Accounts</i>	<i>4–163</i>
<i>Federal Iraq and Afghanistan Service Grant Accounts</i>	<i>4–164</i>
 Appendix B—A School's Financial Management Systems	 4–165
FINANCIAL MANAGEMENT SYSTEMS	4–165
THE NETWORK OF RESPONSIBILITIES.....	4–167
<i>The CEO's office.....</i>	<i>4–167</i>
<i>Graphic: The CEO's/President's Responsibilities.....</i>	<i>4–168</i>
<i>The financial aid office</i>	<i>4–169</i>
<i>Graphic: Responsibilities commonly assigned to a school's financial aid office.....</i>	<i>4–169</i>
<i>The business (bursar's) office.....</i>	<i>4–170</i>
<i>Graphic: Responsibilities commonly assigned to a school's business office.....</i>	<i>4–171</i>
<i>Synchronizing operations and responsibilities</i>	<i>4–172</i>
<i>Graphic: FWS Questionnaire on Network of Responsibilities.....</i>	<i>4–173</i>
INTERNAL CONTROLS—A SYSTEM OF CHECKS AND BALANCES	4–174
<i>What is internal control</i>	<i>4–174</i>
<i>Components of internal control</i>	<i>4–174</i>
<i>Control activities important in managing FSA funds.....</i>	<i>4–178</i>
The separation of functions	4–178
Trial balance.....	4–180
Reconciliation of bank records	4–180

Reconciling FSA funds4–181

Graphic: Example of an Audit Trail for an FSEOG Cash Draw.....4–182

Electronic data processing (EDP) controls4–183

Other checks and balances4–184

Policies and procedures manuals.....4–185

Graphic: Examples of topics that should be included in a school's FSA policies and procedures.....4–186

EVALUATING AND IMPROVING YOUR SCHOOL'S FINANCIAL MANAGEMENT SYSTEMS4–188

Self-evaluation.....4–188

Peer evaluation4–190

Sample Format: Direct Loan Reconciliation Worksheet4–191