

Returning FSA Funds



This chapter provides 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 (R2T4). For information about R2T4, see Volume 5.

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;
- ◆ the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment (R2T4);
- ◆ having FSA funds with no expectation they can be disbursed to other eligible students within three business days (excess cash);
- ◆ owing the Department for expenditures disallowed during a program review or audit; and
- ◆ having earned interest in excess of \$500 on its federal funds (other than in its Perkins account). As noted in *Chapter 1*, schools must remit any interest over \$500.

Returning funds in a timely manner is one of the factors examined by the Department in evaluating a school's financial responsibility.

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, or
- ◆ initiated an electronic funds transfer (EFT) to the Department.

Please keep in mind that the excess cash rules (discussed in *Chapter 1*) must be adhered to once Title IV funds have been placed in the

school's federal funds account. Within three business days after being deposited, the Title IV funds must be disbursed to other eligible students or returned to the appropriate FSA program via G5.

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 within all required time frames (e.g. 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.

Returning funds through G5

Schools must return funds electronically using G5 except in unusual circumstances. If a school is required to return funds as part of a liability assessed in an audit or program review, it must follow the instructions provided by the issuing school participation division (discussed later in this chapter). In addition, all returns of FSA grants and Direct Loan funds previously disbursed (unclaimed credit balances) will also be made through G5.

For help with G5, go to <https://g5.gov> or call the G5 help desk at 888-336-8930 Monday through Friday, 8:00 a.m. to 6:00 p.m., EST. You can also email G5 at edcaps.user@ed.gov.

Title IV funds and nonattendance

34 CFR 668.21

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

For a student who does not begin attendance, the school must return any Title IV funds no later than 30 days after the date that the school became aware that a student will not begin or has not begun attendance.

The Department considers a school to have returned FSA funds timely if, no later than 30 days after the date that it became aware that a student will not begin or has not begun attendance, it:

- deposits or transfers the funds into its federal funds account,
- initiates an electronic funds transfer, or
- issues a check.

A school does not satisfy this requirement if:

- its records show the check was issued more than 30 days after the date it became aware the student would not begin or had not begun attendance, or
- the date on the cancelled check shows that the bank used by the Department endorsed the check more than 45 days after the date the school became aware the student would not begin or had not begun attendance.

RETURNING FUNDS FROM AN AUDIT OR PROGRAM REVIEW

If a school is required to repay FSA funds due to a program review or audit, a copy of its final audit determination letter (FADL) or final program review determination (FPRD) letter is sent to the Accounts Receivables and Bank Management Group 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 the total liabilities owed to the Department are less than \$1,000, the school is instructed to make any required adjustments in COD and return funds through G5.
- ◆ If the total liabilities owed to the Department are \$1,000 or more but less than \$100,000, the school returns the funds by check to a lock box in St. Louis, Missouri.

Payment and/or adjustments made via G5 will not be accepted as payment of this liability. Before sending its payment, the school must make any required adjustments in COD as required by the applicable finding(s). Upon receipt of the school's payment, the Department will apply the funds to the appropriate G5 award (if necessary).

- ◆ If the total liabilities owed to the Department are \$100,000 or more, the school returns the funds through its financial institution via electronic transfer (Fedwire).

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.

Unless specifically instructed by the Department, a school should always repay funds using the appropriate function in G5. If an FADL or FPRD letter requires that you return FSA funds by check, you must make the check payable to the U.S. Department of Education and include the following with your payment:

- the amount of the liability,
- the school's DUNS number,
- its 9-digit tax ID number, and
- the program review or audit control number.

DOWNWARD ADJUSTMENT OF FSA GRANT AND DIRECT LOAN DISBURSEMENT RECORDS REQUIRED

Returns of FSA grant funds (except FSEOG and Iraq and Afghanistan Service Grants) and Direct Loan funds, other than funds not associated with a student that are being returned to stay in compliance with any excess cash requirements, must be offset by downward reductions to a student's record in the COD System. This helps ensure a school is able to properly reconcile its Title IV program accounts (see *Chapters 5 and 6* for more information on reconciliation).

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 the COD System.

RETURNING DIRECT LOAN FUNDS

If a school has to return Direct Loan 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 the funds to the Department through G5 following the same procedures used when making other G5 refunds/returns.

All Direct Loan funds that are not disbursed to student or parent borrowers within three business days after the date that the drawdown is received (or within the additional seven calendar day tolerance period as permitted) must be returned to the Department in accordance with the cash management regulations regarding excess cash (34 CFR 668.166).

However, Direct Loan funds are not student-specific but are school-, program-, and award year-specific. This means a school can disburse the funds to other eligible students who will be receiving Direct Loans for the same award year if it can disburse the funds within three business days. If the school cannot disburse the funds within the required time frames, the funds must be returned.

Schools should not use drawdown adjustments in G5 to make a refund of cash. Also, refunds of cash are school-, program-, and award-year-specific and should not be netted with a drawdown from another school, program, or award year.

If a school is returning cash as a result of refunds made to a borrower's account, a corresponding downward disbursement adjustment must also be reported to the COD system. For more information about returning Direct Loan disbursements and making disbursement adjustments, please see the [February 12, 2015](#) and [November 21, 2011, electronic announcements](#) on FSA's Knowledge Center website.

Direct Loan disbursements, disbursement adjustments, and refunds of cash should be reported or submitted in whole dollar amounts only. Using pennies in Direct Loan processing may affect a school's ability to successfully complete monthly reconciliation because net drawdowns may not match net disbursements reported to the COD system.

For questions about adjusting student loan amounts, call the COD School Relations Center at 1-800-848-0978 or email CODSupport@ed.gov.

RETURNING PELL GRANT AND CAMPUS-BASED FUNDS

If Pell Grant funds are required to be returned, a school must:

- ♦ enter the student's revised Pell Grant award in the COD System; and
- ♦ either return the funds to the Department through G5, or if applicable, disburse the funds to other eligible students.

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.

In addition, if Pell funds are returned after the FISAP has already been filed, the school must make any appropriate changes to the Pell Grant expenditures section of the corresponding FISAP.

If FSEOG funds are required to be returned, a school must:

- ♦ enter the student's revised FSEOG award both in the individual student's account and the school's FSEOG ledger; and

- ♦ return the funds to the Department through G5, disburse the funds to other eligible students as applicable or carry the funds forward to the next award year.

The school must ensure that all changes and adjustments to FSEOG disbursements are properly accounted for in the initial or corrected FISAP.

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.

If Perkins Loan funds from a *prior award year* are required to be returned (schools are no longer permitted to award new Perkins Loans), a school must:

- ♦ reimburse its Perkins Loan fund;
- ♦ report those funds as income in Part III, Section A of the FISAP;
- ♦ 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; and
- ♦ update NSLDS to reflect the Perkins Loan amount that the student received.

The school should not make any changes to the student's Perkins promissory note.

In addition, as discussed in *Chapter 2*, schools must ensure that all unclaimed Title IV credit balance funds are returned no later than 240 days after the date it issued the first check. If an EFT to a student's or parent's financial account is rejected, a school may make additional attempts to disburse the funds, provided that those attempts are made no later than 45 days after the EFT was rejected (attempts cannot exceed the overall 240 day time frame). In cases where the school does not make another attempt, the funds must be returned to the Department before the end of this 45-day period.

Amending a FISAP after the close of an award year or after the December 15 correction deadline

Note: The deadline for submitting data corrections is in December of the year in which a school submits its FISAP. This is usually the 15th except in years when that day falls on the weekend, in which case it is the Friday before. The time between the October 1 submission deadline and the December correction deadline provides schools an opportunity to review and correct their submitted FISAP data.

If a school needs to amend a prior-year's FISAP or its current FISAP after the correction deadline, it must use the Change Request Process. The Change Request Process may not be used to request an:

- ◆ increase in Campus-Based funding, or
- ◆ increase in a school's administrative cost allowance.

To submit a change request, a school logs in to the COD System and selects the appropriate FISAP from the FISAP Dashboard page. After the school has made the appropriate changes and saved the data, the school selects "Submit."

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 R2T4 requirements).

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 school's financial aid director indicating 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 contact the COD School Relations Center at **1-800-848-0978** or **CODSupport@ed.gov**.

RETURNING FEDERAL PERKINS LOAN PROGRAM FUNDS TO THE DEPARTMENT

The preferred method for returning Perkins funds is to use the G5 website, which allows you to electronically refund the money directly to the Department using the "Miscellaneous Refunds" option. Using G5 reduces chances for human error and processing delays.

Please be advised that before submitting a refund via G5, the customer should notify their bank that they will be doing so as some banks will not release the funds unless notified in advance. The bank should be provided with the following ACH Company ID for the U.S. Department of Education: 910 200 0102.

A User with the “Payee” role in G5 can then submit the refund via G5 by following these steps for returning Perkins Loan funds to the Department:

1. Log in to G5: <https://g5.gov>.
2. Click on Payments.
3. Click on Create Refunds.
4. Under Refunds Creation, click on the Miscellaneous Refunds tab and select Continue.
5. On the Create Miscellaneous Refunds tab, enter the required details below and continue to submit:
 - a) Refund amount
 - b) Bank account information to be debited
 - c) Select appropriate refund type
 - Perkins Excess Cash—Use this type when returning the federal share of the distribution of assets
 - Perkins Liquidation—Use this type when closing out your Perkins Loan fund and returning the federal share at the end of the school’s liquidation process

NOTE: In order to initiate a refund in G5, the Payee user must have already entered refund banking information under Payments> Refund Bank Account Maintenance, even if there is already a bank account connected to the Payments functionality.

Only in exceptional circumstances should schools return Perkins funds by check.

If your school has no recourse other than to pay by check, you must do the following:

1. Make the check payable to the “U.S. Department of Education.”
2. Include with the remittance the correct school name and/or OPEID number, and DUNS numbers.
3. Include the reason for the remittance on any accompanying paperwork included with the check:
 - Distribution of Assets—when returning the federal share of the distribution of assets;
 - Perkins Liquidation—when closing out your Perkins Loan fund and returning the federal share at the end of the school’s liquidation process.
4. Mail the check and remittance information to this address:

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

5. Notify the Campus-Based Division that a check was sent by sending an email to perkinsliquid@ed.gov.

If you have questions or need help, contact the G5 Help Desk by email at edcaps.user@ed.gov or by phone at 1-888-336-8930.

RETURNING FUNDS THROUGH G5 FOR BOTH OPEN AND CLOSED AWARD YEARS

From time to time, a school will have to return funds from a previous award year. A school that needs to return funds from a previous award year logs into G5 as it would when requesting funds or returning funds from the current award year and selects “Payments” from the command bar near the top of the screen.

On the next page (the payments screen), under “Refunds” select “Refunds Creation.” On the “Create Refunds” screen, you will see two main sections: “Refunds” and “Miscellaneous Refunds.”

There are four award periods:

1. Performance period (59 months)
2. Liquidation period (1 month)
3. Suspension period (1 month)
4. Closeout period

Note: Federal Student Aid uses the term “return” for the process of sending money back to the program the funds were drawn from. G5 uses the term “refund” for that process.

Awards that are in the performance, liquidation, and suspension periods will appear under “Refunds.” When you are returning funds for an award year that is open, always return the funds to the program from which the funds were drawn. For the award in question, in the column “Refund Amount,” enter the amount you want to return. In the next column (Bank Account) select the bank account from which you want the funds drawn from the drop down menu.

When you have entered an amount for all the programs to which you wish to return funds, select “Continue” to navigate to the summary screen. If you believe the information on the summary screen is correct, select the “Submit Refund Request(s)” button to process the refund (return). If you’ve completed the process correctly, you’ll find yourself on the confirmation screen. From the confirmation screen, copy and save your tracking number. (If a refund has not been properly processed, an error message will be displayed at the top of the summary screen and you can select the “Previous” button at the bottom of the screen to go back and correct your data.)

Once an award year has closed (is no longer in the performance, liquidation, or suspension periods), a school will not be able to return funds to a specific program. However, a school can return funds even when a year is closed. To return funds from an award year that is closed a school uses the “Miscellaneous Refunds” tab at the top of the “Create Refunds” screen. (Note that because refunds made in the “Miscellaneous Refunds” section are not program specific, if you have to return funds from multiple closed awards you can lump them together in one refund.)

To return funds that originated in what is now a closed award year, on the “Create Refunds” screen, select the tab “Miscellaneous Refunds” and click the “Continue” button. In the column “Refund Amount,” enter the amount you want to return. In the next column (“Bank Account”) select the account from which you want the funds drawn from the drop down menu. In the column “Refund Type,” select the type of refund you wish to make from the drop down menu. For example, if you are returning a Title IV credit balance that you have discovered was never delivered to the appropriate student, you would select “Closed Awards.” Once you have completed your entries, select “Continue” to navigate to the summary screen. If you believe information on the summary screen is correct, select the “Submit Refund Request(s)” button to process the refund (return). If you’ve completed the process correctly, you’ll find yourself on the confirmation screen. From the confirmation screen, copy and save your tracking number. (If a refund has not been properly processed, an error message will be displayed at the top of the summary screen and you can select the “previous” button at the bottom of the screen to go back and correct your data.)

RETURNING FUNDS FROM FFEL LOANS PURCHASED/SERVICED BY THE DEPARTMENT

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 servicing 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 in the Knowledge Center under the “Topics” menu (Loan Servicing and Collection Information> Loan Servicing Centers for Schools).

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, along 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
11. The name and phone number of the school official returning the funds

