

Requesting and Managing FSA Funds

CHAPTER 1

Except for funds received as an administrative cost allowance (ACA), Federal Student Aid (FSA) funds received by a school are held in trust by the school for students and the Department. The cash management regulations discussed in this chapter establish rules and procedures that a school must follow in requesting, maintaining, disbursing and managing FSA program funds. These rules and procedures also apply to third-party servicers.

PURPOSE OF CASH MANAGEMENT REGULATIONS

The cash management regulations are intended to:

- ◆ promote sound cash management of FSA program funds by schools;
- ◆ minimize the costs to the government of making FSA program funds available to students and schools; and
- ◆ minimize the costs to students who receive FSA loans.

Except for funds provided by the Secretary for administrative expenses and funds used for the Job Location and Development Program under 34 CFR part 675, subpart B, funds received by an institution under the Title IV programs are held in trust for the intended beneficiaries. **The school, as a trustee of those funds, may not use the funds as collateral or engage in any practice that risks the loss of those funds. Moreover, a school must exercise the level of care and diligence required of a fiduciary in managing Title IV program funds.**

A school must have in place a cash management system that adheres to federal regulations and other standards. A school's cash management practices are governed by:

- ◆ Generally Accepted Accounting Principles (GAAP),
- ◆ Federal Office of Management and Budget (OMB) standards,
- ◆ U.S. Department of Treasury regulations, and
- ◆ U.S. Department of Education (ED/the Department) regulations.

Note that the cash management requirements are not applicable to state grant and scholarship programs. If a state is the grantee, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) are administered under rules established by the state.

You can evaluate your school's fiscal management procedures by

Cash management

34 CFR Subpart K

Purpose of regulations

34 CFR 668.161

Standard of conduct

34 CFR 668.161(c) & 34 CFR 668.82

referring to the “[Fiscal Management](#)” section of the FSA Assessments located on IFAP under the central information box labeled “Tools for Schools.”

EDCAPS AND G5

EDCAPS

The Education Central Automated Processing System (EDCAPS) is designed to integrate the Department’s financial processes, including financial management, contracts and purchasing, grants administration, and payment management.

EDCAPS integrates four formerly separate system modules into a single system. EDCAPS consists of the following:

- ◆ Financial Management Systems Software,
- ◆ Travel Management,
- ◆ Contracts and Purchasing Support System, and
- ◆ Grant Management System (G5). (G5 controls cash for both FSA and non-FSA Title IV programs.)

G5 is the EDCAPS module that directly affects schools’ participation in the FSA programs and the only part of EDCAPS to which schools have access.

G5 Overview

G5 is a delivery system that supports program award and payment administration. It is a component of EDCAPS, ED’s integrated financial processing system, managed and administered by the Department’s Office of the Chief Information Officer (OCIO). Users must register for access to G5, and there is no limit to the number of G5 users an organization may have. Business officers and financial aid administrators are encouraged to use G5 to reconcile FSA funds.

G5 provides financial management support services for the grant life cycle in a single system. It supports the planning, obligating, authorizing, disbursing, returning, and the final closing of Department of Education grant awards. G5 is the central repository for payment transactions of schools that receive funds from the Department.

Schools may use G5 to request payments, adjust drawdowns, and return cash. G5 also provides continuous access to current grant and payment information, such as authorized amounts, cumulative drawdowns, current award balances, and payment histories.

A school uses G5 to request cash for the:

- ◆ Direct Loan Program,

- ◆ Federal Pell Grant Program,
- ◆ Federal Work-Study (FWS) Program,
- ◆ Federal Supplemental Educational Opportunity Grant (FSEOG) Program,
- ◆ TEACH Grant Program, and
- ◆ Iraq and Afghanistan Service Grant Program.

The G5 website is <https://g5.gov>. For questions contact the G5 help desk by calling 1-888-336-8930 or emailing edcaps.user@ed.gov.

Schools that use third-party servicers to request and return Title IV funds are ultimately responsible for the process. *At a minimum, schools should request view-only access to G5 so they can review the work of their servicers.*

Definitions

A **grantee** is an entity (not a person) that applies for and receives a grant award from the Department. The grantee is responsible for ensuring the grant is administered according to program regulations.

A **payee** is an entity designated by the grantee to request and manage federal funds on its behalf. The grantee and payee can be the same entity.

The **TIN** is the unique, nine-digit, federal taxpayer identification number given to the grantee organization, which uses the TIN to report activity to the Internal Revenue Service.

Accessing G5

Schools request federal cash on the G5 website (<https://g5.gov>).

Before you can use G5, and as part of applying for Title IV participation, your school must register with the Department. This process includes:

1. obtaining a Data Universal Numbering System (DUNS) number*;
2. obtaining a grant award number,
3. setting up bank information,
4. registering the DUNS number and TIN with the [System for Award Management](#) (SAM), and
5. obtaining user ID(s) and password(s).

*Please note that the Department will be transitioning from the DUNS 9-digit number to the Unique Entity Identifier (UEI), a 12-character, alphanumeric identifier, by a future still to be determined date. The General Services Administration ([GSA](#)) is leading this effort to replace the DUNS with the UEI for the Federal Government using their SAM.gov system. Stay tuned to IFAP for more information.

What Is a DUNS number?

The Data Universal Numbering System (DUNS) number is a unique nine-digit identification code that is assigned to a school. G5 grantees and payees must register their DUNS number and TIN with the System for Award Management (SAM). Also, schools must annually confirm registration of their DUNS number(s) on the SAM website and will receive 60-day and 30-day reminder emails to do this. See the [electronic announcement of May 1, 2020](#).

The DUNS number represents your school as a unique financial entity. You must notify the Department via your regional School Participation Division if your school merges with or is sold to another organization or if it separates from an existing organization and becomes a freestanding one.

To contact Dun & Bradstreet and get a DUNS number, [go to their web page](#) for phone, email, and web chat options.

What Is a grant award number?

The grant award number is a unique, 11-character identifier for each grant award issued by a specific program office to a specific grantee. **All funds are requested (and returned) using the grant award number.**

Below is an example of a grant award number and an explanation of its parts:

P031B201234

P—Program office issuing the award

031—Catalog of Federal Domestic Assistance (CFDA) numeric suffix of the program

B—Alphabetic subprogram identifier

20—The trailing year in the academic year for DL and TEACH and the beginning year in the academic year for Pell and all other awards

1234—Unique identifier

Here are examples of grant award number prefixes:

P007A FSEOG

P033A FWS

P063P Pell

P268K DL

P408A IASG

P379T TEACH

Title IV funds are program and award year-specific.

P063P20#### is the award for 2020–2021 Pell funds.

P268K21#### is the award for 2020–2021 Direct Loan funds.

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

There is also a unique grant award number for the Pell administrative cost allowance funds for which your school might be entitled—P063Q##XXXX.

System for Award Management

The System for Award Management (SAM) is a free website that consolidates the capabilities of the Central Contractor Registration (CCR), Online Representations and Certifications Application (ORCA), Federal Agency Registration (FedReg), and Excluded Parties List System (EPLS).

If you had an active record in CCR, you have an active record in SAM. You can search for registered entities in SAM by typing the DUNS number or business name into the search box.

Setting up bank information

Funds requested from G5 will be transmitted to the payee’s bank account using either the Automated Clearing House (ACH) or the Fedwire transmission method. A payee designates its method of transmission when providing its bank account information.

ACH

For payees using ACH, G5 electronically transfers payments through the U.S. Department of the Treasury into the payee’s bank account. To use ACH you must complete a Direct Deposit Sign-Up Form (SF1199A) and mail it with a cover letter and a copy of your program participation agreement to the Department’s Office of the Chief Financial Officer at the address on the form.

The form is located on the G5 homepage in the frequently asked questions (FAQs). Look under the banking section for the subheading “Domestic.” The SF1199A is the first bullet point.

You must reenroll in ACH when any of the following occur:

1. you change banks,
2. the payee or its bank changes the account number,
3. the depositor account is closed, or
4. the bank closes—either voluntarily or involuntarily.

ACH processing times

ACH payment requests made before 3 p.m. Eastern Time (ET) are deposited the next business day. ACH payment requests made after 3 p.m. ET are deposited on the second business day. You can enter payment requests up to 30 days in advance.

You should always verify deposits before disbursing cash. When verifying ACH payments, you must tell the bank to check for deposits made through the Automated Clearing House. There are several kinds of electronic fund transfers. If other terms are used, the bank may search for the wrong payment(s).

Fedwire

The Fedwire transmission method is an electronic wire transfer of cash directly from G5 through the U.S. Department of Treasury into the payee's bank account. Large payees generally use this payment method. Most banks charge a fee for processing Fedwire payments.

Before a payee can receive Fedwire payments, the payee must enroll with the Office of the Chief Information Officer in the Department of Education. If the bank is online with the U.S. Department of Treasury, you must send the Department a letter containing the following:

- ◆ name and address of the payee's bank;
- ◆ bank's ABA number (routing number);
- ◆ contact (name and telephone number at the bank); and
- ◆ depositor's account number at that school, and the bank's telegraphic abbreviation.

If the bank is not online with the U.S. Department of Treasury, send the Department a letter containing the following:

- ◆ name of the payee's bank, and
- ◆ payee's account number at the bank.

You must reenroll in Fedwire (by sending the Department a letter) if any of the information listed above changes. Payees may obtain a Fedwire enrollment form letter by contacting the G5 Hotline at 1-888-336-8930.

Fedwire processing time

Payees may request Fedwire payments using the G5 Hotline. Payment requests completed by 2 p.m. ET will be deposited in the payee's bank account the same day. Fedwire payment requests made after 2 p.m. ET will be deposited the next business day.

You should always verify deposits before disbursing cash. When verifying Fedwire payments, you must tell the bank to check for deposits made through the Fedwire. There are several kinds of electronic fund transfers. If other terms are used, the bank may search for the wrong payment(s).

Obtaining a user ID and password

Individual authorized users must register for a G5 user ID and password. To obtain a user ID, an individual must complete a *G5 Production System External User Access Request Form*. The form is generated during the online registration process.

You can also download the form at <https://g5.gov>. You can register for a user ID and password by following these instructions:

1. The first step in registering after reaching <https://g5.gov> is to click on the “Not registered? Sign up” link.
2. Complete all necessary steps in the external user registration process.
3. Once you have completed registration, you will receive an email to activate the account. Follow the email instructions to finalize the user ID and password registration.

If you do not receive an activation email you must contact the G5 Help Desk at 1-888-336-8930.

Please note that your G5 user ID will be your email address. There are links if you forgot your email ID or need to reset your password.

Using the user ID and password

User IDs and passwords are required to access G5 or request cash through the G5 Hotline. (To enhance G5 security, payees are required to provide additional identifiers to access G5.) You will be asked periodically to validate every user ID assigned to your organization. You are responsible for ensuring that this information is correct.

Once a grantee receives a grant (or is authorized funding), the designated payees will request cash by Grant Award Number using G5. Alternatively, payees can also call the G5 Hotline between 8 a.m. and 6 p.m. Eastern Time (ET) to request cash. A school may also call the G5 Hotline for help resolving problems with payments.

Two-factor authentication

The U.S. Office of Management and Budget has mandated that all federal agencies implement increased cybersecurity capabilities to prevent unauthorized access to government systems. The U.S. Department of Education implemented a more secure means for users of the G5 Grants Administration System to gain access, referred to as two-factor authentication.

Two-factor authentication is a security process in which the user provides two means of identification from separate categories of credentials. One is typically something you know, such as a password, and the other is something you have, such as a security code you download from a mobile device. The combination of these two security

elements makes unauthorized access more difficult. Once both factors are validated, users are allowed into the G5 system.

Projecting cash needs

Immediate need

Immediate need is defined as the amount of FSA program funds a school needs to make disbursements within three business days following the date the school receives the funds. **This definition of immediate need applies to all FSA program funds, regardless of whether the school draws down funds by electronic funds transfer (EFT), through the ACH or through Fedwire.** Drawing down amounts beyond immediate need may result in excess cash, for which there are penalties. Schools should carefully review the excess cash tolerances regulations - 34 CFR 668.166. (See the discussion of excess cash later in this chapter.)

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

- ◆ Pell, TEACH, and Iraq and Afghanistan Service Grant disbursements to students;
- ◆ the federal share of Federal Supplemental Educational Opportunity Grant (FSEOG) disbursements to students and, if it applies, an administrative cost allowance (ACA);
- ◆ the federal share of Federal Work-Study (FWS) payroll disbursements and, if it applies, ACA;
- ◆ Direct Loan disbursements.

In general, the following equation may be used to calculate projected immediate need:

$$\begin{array}{r}
 \text{Anticipated disbursements} \\
 \textit{minus} \text{ Balance of cash on hand} \\
 \textit{minus} \text{ Anticipated recoveries} \\
 \textit{minus} \text{ ACH/EFT cash in transit} \\
 \hline
 \textit{equals} \text{ Projected immediate need}
 \end{array}$$

A school's request for funds should not exceed its immediate need.

Timing

When a school initiates a drawdown from G5, it should consider that processing requests within G5 typically take one to three business days, and consider whether the school is using ACH/EFT or Fedwire. Schools should also be aware of system downtime, federal holidays, and other delays in processing cash requests when determining immediate need.

Recording payments

Payees should keep records of submitted payment requests. The amount of each request and the corresponding control number(s) need to be carefully documented. These records will serve as an audit trail and help payees reconcile their books to the G5 Activity Report.

Delayed, denied, or reduced payment requests

Your payment requests may be delayed, denied, or reduced if any of the following occurs:

- ◆ An award included in your payment request is flagged for review and approval.
- ◆ The Department's accounts receivables unit has entered an offset against one or more of the awards.
- ◆ A program office has intervened as a result of a program review or audit finding.

AWARD PERIODS

Before you can request cash, you must understand the award periods for G5 program authorizations. The length of the award periods vary by program and authorizing statute. The award period dictates when the payee can request cash. There are four award periods:

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

The ***closeout process*** includes the liquidation, suspension, and closeout periods.

The discussion that follows explains the differences between the award periods and how they affect a school's ability to draw funds. Also see the discussion in *Chapter 4* under "Returning Funds Through G5 for Both Open and Closed Awards."

Performance period

The performance period is the period between the Title IV program award begin date and the Title IV program award end date. During this period, schools can draw down cash. Before drawing down cash, schools must obligate that cash to eligible recipients (such as by submitting to the Department anticipated disbursement records for students eligible for the Federal Pell Grant Program). Once the performance period ends, the closeout process begins.

During the performance period:

- ◆ payees may request payments,
- ◆ payees may modify payment requests (Note that if a change needs to be made after the payment is out of “Ready for Scheduling” status, the school would have to return funds, create an adjustment, or create another payment request),
- ◆ payees may adjust drawdowns (This should only happen when a school has accidentally drawn funds from the wrong award and needs to move the full amount to correct the error), and
- ◆ changes may be made to the Federal Student Aid program’s grant awards authorizations.

Liquidation period

The liquidation period is one month, follows the performance period, and is the first period within the closeout phase. During the liquidation period:

- ◆ no new expenditures may be processed against a grant award;
- ◆ payees can draw down funds for obligations incurred during the performance period; and
- ◆ payees may use the period to adjust drawdowns for expenditures incurred during the performance period. (This should only happen when a school has accidentally drawn funds from the wrong award and needs to correct the error.)

The last date a school can draw down cash from the Department without special permission from the program office is the end of the liquidation period.

Suspension period

The suspension period is also one month and follows the liquidation period. Once an FSA program has entered the suspension period, no payment actions can take place without the approval of the program office. The Department program offices use this period to prepare for final closeout.

Closeout period

The closeout period immediately follows the suspension period. During closeout, the grant award is closed and any remaining cash is deobligated.

DRAWING DOWN FSA FUNDS

A school’s *authorization* is the amount of FSA funds a school is

currently eligible for within a particular award year for a specific Title IV program. The authorization is called the Current Funding Level (CFL). Please note that in the Direct Loan and Teacher Education Assistance for College and Higher Education (TEACH) Grant Programs, you might also hear the authorization referred to as the Cash Control Amount (CCA).

A school's *available balance* is the amount of cash available for a school to draw down through G5. The available balance is the difference between the authorized amount and the school's net drawdowns to date. A separate authorization is maintained for each Title IV program by award year. Note that **FSA funds are school, award year, and Title IV program specific, and should not be used for another school, award year, or Title IV program.**

A school may *not* request more funds than it immediately needs to make disbursements to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible but no later than three business days following the date the school receives those funds (to avoid excess cash issues). If G5 accepts a school's request for funds, it will make an EFT of the amount requested to a bank account designated by the school.

The methods under which the Department provides Title IV funds to schools

The Department provides funds to participating schools through one of three payment methods: the advance, heightened cash monitoring, and reimbursement payment methods. Most schools receive funds under the advance payment method.

Advance payment method

Under the advance payment method, a school submits a request for funds to the Department that may not exceed the amount of funds the school needs to make immediate disbursements.

If the Department accepts that request, it initiates an electronic funds transfer (EFT) of that amount to the depository account designated by the school. The school must disburse the funds requested as soon as administratively feasible but no later than three business days following the date the school receives those funds (aka the three-day rule).

Drawing down funds in the Pell Grant, Iraq and Afghanistan Service Grant and TEACH Grant Programs

There are no initial authorizations in the Pell Grant, IASG, and TEACH Grant programs. A school's authorization for these programs will be based on the total actual accepted and posted disbursement records accepted by the Common Origination and Disbursement (COD) System (submitted using the Disbursement Release Indicator or DRI = true). A new electronic statement of account (ESOA) will be sent to a school's Student Aid Internet Gateway (SAIG) mailbox each time the school's authorization changes.

Three-day disbursement required

34 CFR 668.162(b)(3)

The methods under which the Department provides funds

34 CFR 668.162(a)

Advance payment method

34 CFR 668.162(b)

Drawing down funds in the Campus-Based Programs

The Department awards Campus-Based funds to a school for an upcoming award year on the basis of the application to participate portion of *The Fiscal Operations Report and Application to Participate* (FISAP). A school may not request funds in excess of the actual disbursements it has made or will make to students (plus any administrative cost allowance, if applicable).

Note: For the Campus-Based Programs, schools do not report individual disbursements in the COD System. Schools report expenditures on their FISAP expenditure reports (due on or before October 1). Therefore, a school’s allocation of Campus-Based funds is not revised during the year unless the school receives a supplemental allocation or, in some cases, a school makes a retroactive correction to its FISAP data.

Schools return unused prior-year Campus-Based funds and/or request additional funds for the upcoming year through the Reallocation-Supplemental award process, which requires completing the reallocation form (submitted in the COD System typically by mid-August). The Department will notify schools of supplemental funding in September.

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

Drawing down funds in the Direct Loan Program

Generally, schools on the advance payment method get initial Direct Loan authorizations in late spring or early summer (prior to July 1). Initial authorizations are based on a school’s net accepted and posted disbursements from the previous award year.

As a school submits actual disbursement records where the DRI = true, the COD System will compare the total net accepted and posted disbursements to the school’s current authorization. Each time the school’s total net accepted and posted disbursements exceed its authorization, the COD System will automatically increase the authorization to the total net accepted and posted disbursements.

Maintaining and accounting for funds

34 CFR 668.163

Bank account requirements

34 CFR 668.163(a)&(b)

Interest-bearing accounts

34 CFR 668.163(c)

MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, FSA funds. For a school located in a state, the depository account must be insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA). A school generally is not required to maintain a separate account for each FSA program unless the Department imposes this requirement as a result of a program review or other compliance actions.

The Heightened Cash Monitoring (HCM) and Reimbursement Payment Methods

The Department places a school on an HCM (there are two types) or Reimbursement payment method to closely monitor its cash management. Reasons for this include but are not limited to: lack of financial responsibility; program review or audit findings; student complaints; repeated failures to meet COD reporting requirements; an adverse action against the school by its accreditor or state authorizing agency; an enforcement action against the school (especially if it relates to Title IV) by a consumer protection agency; significant non-compliance with Title IV requirements such as not performing verification, not properly returning funds, or awarding aid to ineligible programs or locations; initiation of a termination action; providing incorrect data to ED officials to cover up violations; suspicion of fraud; and other activity that is or appears to be criminal.

Schools operating under these payment methods do not receive an initial authorization. Instead, they receive an authorization and increases to the authorization after the COD System has accepted and posted actual disbursement records. The school must credit a student's ledger account for the amount of Title IV funds the student or parent is eligible to receive **and pay the amount of any credit balance due under §668.164(h), before it submits a request for funds. A school on HCM or reimbursement cannot receive student/parent authorization to hold Title IV credit balances.** A school's request may not exceed the amount of the disbursements it has made to the students and parents included in that request.

Schools' administration of an HCM or Reimbursement payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report about the school's compliance with the HCM or Reimbursement requirements.

The payment methods differ as follows:

Heightened Cash Monitoring 1 (HCM1)—After a school makes disbursements to eligible students from institutional funds and submits disbursement records to the COD System, it draws down FSA funds to cover those disbursements in the same way as a school on the advance payment method. (34 CFR 668.162(d))

Heightened Cash Monitoring 2 (HCM2)—A school placed on HCM2 cannot simply draw down funds as an HCM1 school can. After it makes disbursements to students and parents from institutional funds, it must submit a payment request to the Department through the COD System. The COD System will generate an electronic payment request Form 270, a completed student data spreadsheet outlining students and disbursements and a student sample for the Department to review. The school will upload all required documentation into the COD System including information that each student and parent included in the request was eligible to receive and did receive the funds for which reimbursement is sought and all student files for those students selected in the student file sample.

When the Department receives the request, it will review the disbursements and the school's documentation for errors from the sample of students and parents. Depending on the school's error rate, the Department may approve all, some, or none of the student disbursements in the request.

After the payment request is approved, and after recovering any negative or unsubstantiated cash balance that may be owed the Department, the Department electronically transfers the appropriate amount to the bank account in which the school maintains its federal funds. A school may submit only one payment request during any 30-day period. See 34 CFR 668.162(d).

Reimbursement—The Department places a school on Reimbursement if it determines that the school needs the highest level of monitoring. This generally occurs for the most severe reasons listed at the top of the page. The procedure is the same as for HCM2 except the Department reviews the documentation for all the students and parents included in the payment request, not just a sample. If all were paid correctly, the Department approves the request. If there were any errors, the request will be denied for those disbursements which had mistakes, and it will be approved for those disbursements which had no mistakes. See 34 CFR 668.162(c).

Questions about HCM or reimbursement should be directed to your regional School Participation Division.

Schools on the Heightened Cash Monitoring (HCM1 and HCM2) and Reimbursement payment methods, foreign schools, and those that request to be “records first” do not receive an initial authorization. They receive funding increases based on actual disbursement records that are submitted to and accepted by the COD System.

For foreign schools not located in a state, the depository account may be insured by the FDIC or NCUA or by an equivalent agency of the government of the country in which the institution is located. If there is no equivalent agency, ED may approve an account designated by the foreign school.

When a school does not maintain a separate account

A school has a fiduciary responsibility to segregate federal funds from all other funds and to ensure that federal funds are used only for the benefit of eligible students. Absent a separate bank account, the school must ensure that its accounting records clearly reflect that it segregates FSA funds. Under no circumstances may the school use federal funds for any other purpose, such as paying operating expenses, collateralizing or otherwise securing a loan, or earning interest or generating revenue in a manner that risks the loss of FSA funds or subjects FSA funds to liens or other attachments (such as overnight investment arrangements or sweeps). Clearly, carrying out these fiduciary duties limits the ways the school can otherwise manage cash in an operating account when that account contains FSA funds.

If a school does not maintain a separate account for FSA program funds, its accounting and internal control systems must:

- identify the balance for each FSA program that is included in the school’s bank account as readily as if those funds were in a separate account; and
- identify earnings on FSA program funds in the school’s bank account.

A school must maintain its financial records in accordance with the record keeping requirements described in *Volume 2*.

Recordkeeping requirements

34 CFR 668.24

SEPARATE DEPOSITORY ACCOUNT

The Department may require a school to maintain Title IV funds in a separate depository account that contains no other funds if the Department determines that the school failed to comply with: (1) the cash management regulations, (2) the recordkeeping and reporting requirements, or (3) applicable program regulations.

Bank account notification requirements

For each account that contains FSA program funds, a school located in a state must identify that FSA funds are maintained in the account by:

- ◆ including the phrase *federal funds* in the name of the account; or
- ◆ notifying the depository institution that the depository account contains Title IV program funds that are held in trust, keeping a copy of this notice in its records AND, (except for public institutions) filing a Uniform Commercial Code Form (UCC-1) statement with the appropriate state or municipal government entity that discloses that an account contains federal funds. The school must keep a copy of the UCC-1 statement in its records.

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase federal funds was established to reduce the possibility that a school could misrepresent federal funds as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they are exempt from this requirement.

Interest-bearing account

To the extent possible, FSA funds must be maintained in an interest-bearing account unless:

- the school receives less than \$120,000 in federal awards per year; or
- the best reasonably available interest-bearing account would not be expected to earn interest in excess of \$500 per year on the school's federal cash balances; or
- the financial institution holding the funds would require an average or minimum balance so high that maintaining the balance would not be feasible within the expected federal and non-federal cash resources.

The school *may keep up to \$500 per year of the interest* or investment revenue earned on funds other than Perkins to pay for the administrative expense of maintaining the account.

Remitting interest

No later than 30 days after the end of that award year, the school must remit any interest earned in excess of \$500 to the Department of Health and Human Services and include with it:

- an explanation stating that the refund is for excess interest,

Standards for holding federal funds in depository accounts

2 CFR 200.305(b)(8)

Retaining interest

34 CFR 668.163(c)(3)

- “U.S. Department of Education—Federal Student Aid” as the name of the awarding agency, and
- the school’s DUNS number in the addendum record or other correspondence.

[See HHS’s instructions](#) (the section on returning interest is at the bottom of the page), but note that they vary somewhat with what is above. For example, the HHS webpage refers to payee account and grant numbers that do not apply here and may be ignored.

Schools may remit excess interest electronically by ACH direct deposit or by FedWire; they may also mail a paper check, though the electronic methods are preferred. Note too that the mailing address for paper checks is no longer the Rockville, Maryland address that was included in the regulations but instead is currently:

HHS Program Support Center, PO Box 979132, St. Louis, MO 63197

[See the electronic announcement](#) of May 19, 2017 for more information.

Perkins bank account requirements

34 CFR 674.19(a) & (b)

Additional Perkins Loan requirements

Schools that continue to service their Perkins loan portfolios must maintain the funds in an interest-bearing account. If a school is also required to maintain an interest-bearing account for other federal funds, it may choose to use the same account for the Perkins funds. However, the school must be able to determine the amount of interest earned on the Perkins funds, and it must retain that interest in the Perkins account. *Schools cannot use interest earned on Perkins funds to pay for the administrative expenses of maintaining the account, and the interest earned is not included in the \$500 maximum that schools are permitted to keep each award year.*

A school may deduct from the interest earned any bank or service charges incurred as a result of maintaining the fund assets in an interest-bearing account and deposit only the net earnings.

If a collection agency or third-party servicer receives funds directly from Perkins borrowers, it must immediately deposit those funds in a school trust account. The agency or servicer may open and maintain the account, but the funds in it belong to the school. If the funds will be held for more than 45 days, the account must also be interest bearing.

Excess cash

34 CFR 668.166

EXCESS CASH

As mentioned earlier, under the advance payment method, a school must disburse funds no later than *three business days* following the date the school receives them. The Department considers excess cash to be any amount of FSA funds, other than Perkins Loan funds, that a school does

not disburse to students or parents by the end of the third business day following the date the school:

- ◆ received those funds from the Department; or
- ◆ deposited or transferred to its depository account previously disbursed FSA funds received from the Department, such as those resulting from award adjustments, recoveries, or cancellations.

Allowable excess cash tolerances

Sometimes a school cannot disburse funds in the required three business days because of circumstances outside the school's control. For example, a school may not have been able to disburse funds because of a change in a student's enrollment status, a student's failure to attend classes as scheduled, or a change in a student's award as a result of verification.

If unusual circumstances such as these exist, a school may retain for up to an additional seven calendar days an additional amount of excess cash that does not exceed 1% of the total amount of funds the school drew down in the prior award year. The school must return immediately to the Department any amount of excess cash over the 1% tolerance and any amount remaining in its account after the additional seven-day tolerance period.

Consequences for maintaining excess cash

The Department reviews schools to determine if they have improperly maintained excess cash balances. Upon finding a school maintained excess cash beyond any allowed time frames, the actions the Department may take include, but are not limited to:

- ◆ requiring the school to reimburse the Department for the costs the federal government incurred in providing that excess cash to the institution; and
- ◆ providing funds to the school under the heightened cash monitoring or reimbursement payment method.

Where excess cash balances are disproportionately large or where they represent a continuing problem with the school's ability to responsibly administer the FSA programs, the Department may initiate a proceeding to fine, limit, suspend, or terminate the school's participation in one or more of the FSA programs. For more information on fines and other actions against schools, please see *Volume 2*.

When a check is considered to have been issued

Generally, the Department considers a check to be issued when the school mails the check to the student or parent or notifies the student or parent that a check is available for immediate pickup. However, upon

finding that *a school has maintained excess cash balances*, the Department considers the school to have issued a check on the date that check cleared the school's bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Deadlines by which funds must be returned to avoid excess cash penalties

For funds electronically transmitted by the Department, the three business day period begins on the next business day following the day the school receives the funds in the account designated by the school for that purpose.

The three business day period also begins on the next business day following the date the school deposits funds in its federal account:

- ◆ as part of the school's compliance with the requirement to return funds if a student withdraws before completing a period for which she was paid;
- ◆ that are Pell Grant funds deposited because of adjustments to the student's award and Direct Loan funds deposited because of adjustments or cancellations; and
- ◆ because a student failed to begin attendance.

Note: A school must return aid for a student who withdraws before completing a period for which the student was paid within 45 days of determining the student withdrew. (See *Volume 5*.)

A school must return or deposit funds for a student who failed to begin attendance no later than 30 days after the date the school becomes aware that he or she did not begin and will not begin attendance. See the discussion under *When a Student Fails to Begin Attendance* in *Chapter 3*.

Administrative cost allowance
34 CFR 690.10(b) and 34 CFR 673.7

ADMINISTRATIVE COST ALLOWANCE (ACA)

The ACA is an annual payment calculated by the Department and made available for drawdown in G5 to help offset the cost of administering the FSA programs.

The Department reimburses schools participating in the Pell Grant Program \$5 for each unduplicated Pell Grant recipient at the school per award year.

Pell Grant administrative cost allowance funds to which your school is entitled are identified by a unique grant award number: P063Q##XXXX, where ## is the last two digits of the first year of the award year. If you receive funds identified by the award number P063Q##XXXX, please note that those are your school's funds and

should not be returned to the Department or disbursed to students. See the [March 2, 2020 electronic announcement](#), for more information about Pell Grant administrative cost allowance payments, particularly for the 2019–2020 award year.

For the Campus-Based Programs, the ACA is taken from the school’s federal allocation, and the maximum amount permissible per award year for expenditures to students in the FWS and FSEOG programs is as follows:

- 5% of the first \$2,750,000 of its total expenditures to students, plus
- 4% of its expenditures to students that are greater than \$2,750,000 but less than \$5,500,000, plus
- 3% of its expenditures to students that are \$5,500,000 or more.

For the Campus-Based Programs, the ACA is not a separate allowance sent to the school. Rather, the school has the option of taking its Campus-Based ACA out of the annual authorizations it receives for the FSEOG and FWS Programs. A school may draw its allowance from both programs, or it may take the total allowance from only one program provided there are sufficient funds in that program and the school has disbursed funds to students from that program during the award year.

A school must use its ACA to offset its cost of administering the Pell Grant, FWS, and FSEOG programs. Administrative costs may include the expenses incurred in carrying out a school’s student consumer information requirements. For more information about the Campus-Based Programs’ ACA, please see *Volume 6, Chapter 1*.

A SCHOOL’S FIDUCIARY RESPONSIBILITY

Except for funds received by a school for administrative expenses and for funds used for the Job Location and Development Program, funds received by a school under the FSA programs are held in trust for the intended student beneficiaries. As a trustee of those funds, a school may not use FSA funds for any other purpose, including as collateral.

FSA funds are awarded to a student to pay current-year charges. Notwithstanding any authorization obtained by a school from a student or parent to hold any Title IV credit balance funds, the school must pay:

- ♦ any remaining balance from loan funds by the end of the loan period; and
- ♦ other remaining FSA funds by the end of the last payment period in the award year for which they were awarded.

Cash management

34 CFR Subpart K

Scope and Institutional responsibility

34 CFR 668.161

Paying remaining balances

34 CFR 165(b)(5)(iii)

A school that fails to disburse funds by those dates is in violation of the Department’s cash management regulations.

In addition, a school has a fiduciary responsibility to:

- safeguard FSA funds;
- ensure FSA funds are used only for the purposes intended;
- act on the student’s behalf to repay a student’s FSA education loan debt when the school is unable to pay a credit balance directly to the student; and
- return to the Department any FSA funds that cannot be used as intended.

Accounting and fiscal records

34 CFR 668.163(d)

Accounting and fiscal records

As part of meeting its fiduciary responsibilities, a school must

- ◆ maintain accounting and internal control systems that identify the cash balance of the funds of each Title IV, HEA program that are included in the school’s depository account(s) as readily as if those funds were kept in a separate depository account;
- ◆ identify the earnings on Title IV, HEA program funds in the school’s depository account(s); and
- ◆ maintain its fiscal records according to 34 CFR 668.24.

Garnishment/attachment prohibited

HEA 488A(d)

GARNISHMENT OF FSA FUNDS IS PROHIBITED

No FSA grant, loan, or work assistance (or property traceable to that assistance) is subject to garnishment or attachment except to satisfy a debt owed to the Department. Schools must oppose any garnishment order they receive.

FSA funds may only be used for educational purposes. A school must have an effective procedure to notify any off-campus employer (that is not the school) that garnishment of FWS wages for any debt other than a cost of attendance is not permitted.

FWS WAGES

With the permission of the student, a student’s FWS wages may be used by the school to pay current year charges and prior-year charges of not more than \$200. (See *Volume 6* for additional information.)

If a school cannot locate a student whom it owes earned FWS wages, it must return the federal portion to its FWS account. If the student returns or the school later locates the student, it can recover the FWS funds if the account for that year is still open. If the account is closed, the school must pay the student (under the wage laws) with its own funds.

ESCHEATING OF FSA FUNDS IS PROHIBITED

A school must return to the Department any FSA program funds, except FWS Program funds, that it attempts to disburse directly to a student or parent if the student or parent does not receive the funds or cash the check. (For FWS funds, a school is required to return only the federal portion of the payroll disbursement to its FWS account.)

A school must have a process that ensures FSA funds never escheat to a state or revert to the school or any other third party. A failure to have such a process in place would call into question a school's administrative capability, its fiscal responsibility, and its system of internal controls required under the FSA regulations.

Example of a policy to prevent escheating

Typically, each state establishes the useful life of a check or bank draft used to disburse FSA funds. After the expiration date, the uncashed check cannot be negotiated and the proceeds cannot be allowed to escheat to an unintended third party (the state or the institution).

In State A, a bank check has a useful life of 180 days. To prevent FSA funds from escheating, the business office at School B identifies at the end of each month all outstanding uncashed checks containing FSA funds and voids them prior to the 180th day. It returns the funds to the applicable FSA program and notifies the financial aid office so it can report the corresponding student-level disbursement decrease to the COD System.

In order to prevent the escheating of Title IV funds, the Department encourages schools that disburse Title IV credit balances by EFT to remind students before the end of the award year (or at the time of withdrawal for students who cease attendance before completing the period for which the funds were paid) to examine the balances remaining in any accounts to which Title IV funds were transferred.

