Requesting and Managing FSA Funds

CHAPTER 2

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

OVERVIEW OF G5 SYSTEM

Schools use the G5 payment system to request payments, adjust drawdowns, and return funds. 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's ***authorization*** is the amount of FSA funds a school is currently eligible for in the year and program in question. The authorization is called the Current Funding Level (CFL). Please note that in Direct Loan and TEACH Grant programs, you might also hear the authorization referred to as the Cash Control Amount (CCA).

A school's ***available balance*** is the amount of cash available for a school to draw down through G5. The available balance is the difference between the authorized amount and the school's net drawdowns to date. A separate authorization is maintained for each program by award year.

A school may not request more funds than it needs to make disbursements to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible but no later than three business days following the date the school receives those funds.

If G5 accepts a school's request for funds, it will make an electronic funds transfer (EFT) of the amount requested to a bank account designated by the school.

Chapter 2 Highlights

- → Drawing down funds
- → Maintaining & accounting for funds
- → Excess cash
- → Administrative Cost Allowance
- → Fiduciary responsibility; escheating & garnishing prohibited
- → Returning funds

Adjusting drawdowns in the Campus-Based Programs

For instructions on transferring funds between Campus-Based programs, transferring funds between award years (carry forward and carry back), and the corresponding G5 entries, see *Volume 6*.

Self-assessment tool for fiscal management

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

Cash Management

34668.161

Funding methods

Cite: 34 CFR 668.162, except as noted.

The Advance Payment method

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

Receiving Funds Under Heightened Monitoring

After the 2012-2013 award year, schools that receive funds under the Reimbursement, Heightened Cash Monitoring 1 (HCM1), or Heightened Cash Monitoring 2 (HCM2) funding method will not receive an initial authorization of Direct Loan funds. After the 2012-2013 award year, those schools will receive an authorization for Direct Loan funds after the COD System has accepted and posted actual disbursement records.

Iraq & Afghanistan Service Grant disbursements

For the Iraq & Afghanistan Service Grant Program, schools will not submit actual disbursements in the 2012-2013 award year. In the Iraq & Afghanistan Service Grant Program, ED will provide schools with an "Exception-Based Process" through which schools will be funded when they submit anticipated disbursements (DRI = False).

Supplemental Campus-Based allocations

Schools can return unused prior year Campus Based funds and request funds for the upcoming year through the **Reallocation - Supplemental award process.** Schools deobligate or request additional funds by completing the Reallocation form (ED Form E40-4P), due the third Friday in August.

ED will notify schools of any supplemental funding during the month of September.

DRAWING DOWN FSA FUNDS

Drawing down funds in the Direct Loan Program

Generally, schools under the Advanced Funding method receive an Initial Direct Loan authorizations in late spring or early summer prior to July 1. Initial authorizations are based on a schools net accepted and posted disbursements from the previous award year. A School Account Statement (SAS) is delivered to schools immediately following the first full weekend of the month, with data through the end of the previous month. The SAS is transmitted to each school's Student Aid Internet Gateway (SAIG) mailbox.

As a school submits actual Direct Loan disbursement records, the COD System will track the total accepted and posted amount against the school's authorized amount. Each time the school's total net accepted and disbursements exceed the school's authorization, the COD system will give the school an automatic authorization increase up yo level of the school's net accepted and posted disbursements.

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

There are no Initial Authorizations in the Pell, TEACH, and Iraq and Afghanistan Service Grant programs. A school's authorization for these programs will be based on the net accepted and posted actual disbursement records accepted by the COD System. A new ESOA will be sent to a school's SAIG mailbox each time an authorization changes for the Pell and Iraq and Afghanistan Service Grant programs.

Drawing down funds in the Campus-Based programs

The Department awards Campus-Based funds to a school for an upcoming award year on the basis of *The Application to Participate* portion of the *The Fiscal Operations Report and Application to Participate* (FISAP). The way in which schools request Campus-Based funds from G5 will vary depending on the funding method under which schools operate. In all cases, a school may not request funds in excess of the actual disbursements it has made or will make to students (plus any Administrative Cost Allowance, if applicable).

Note: For the Campus-Based programs, schools do not report individual disbursements in COD. Schools report expenditures on their FISAP expenditure reports. Therefore, a school's allocation of Campus-Based funds is not revised during the year unless the school receives a supplemental allocation (see sidebar).

See *Volume 6, Chapter 1* for more information on applying for and receiving Campus-Based funding.

Heightened Cash Management

The Department places a school on Reimbursement or Cash Monitoring if it determines there is a need to monitor strictly the school's participation in the FSA programs. Under Remimbursement and HCM2, the Department releases funds to a school after the school has made the disbursement to the student (or parent borrower).

A school on the Reimbursement or Heightened Cash Monitoring 2 (HCM2) funding method must complete and submit Standard Form 270 with each request for reimbursement. (Note that a school may only submit one such request for reimbursement during any 30-day period.)

If a school is placed on reimbursement or HCM 2 its administration of the reimbursement or cash monitoring payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report regarding the school's compliance with the reimbursement or cash monitoring requirements, as applicable.

Reimbursement payment method

A school on Reimbursement must first disburse FSA program funds to eligible students and parents before it can request those funds from the Department. As part of its request, a school that has been placed on Reimbursement must:

- identify the students and parents for whom it is seeking reimbursement; and
- submit documentation demonstrating that each student and parent included in the request was eligible to receive, and received, FSA funds.

After the reimbursement request is approved, the Department transfers electronically the appropriate amount of FSA funds to the bank account in which the school maintains its federal funds.

Cash Monitoring Payment Methods

Unlike the reimbursement payment method where a school must provide detailed documentation for each student to whom it made a disbursement, the Department may relax the documentation requirements under cash monitoring payment method and provide funds to a school in one of two ways:

1. ***Heightened Cash Monitoring 1*** (HCM1). After a school makes disbursements to eligible students, it draws down FSA funds to cover those disbursements in the same way as a school on the advance payment method.
2. ***Heightened Cash Monitoring 2*** (HCM2). The Department may tailor the documentation requirements for schools on a case-by-case basis. After a school makes disbursements to eligible students, it submits only the documentation specified by the Department.

Maintaining & accounting for funds
34 CFR 668.163

Bank account requirements
34 CFR 668.163(a)&(b)

Interest bearing accounts
34 CFR 668.163(c)

Recordkeeping requirements
34 CFR 668.24

Not applicable to some programs

The cash management requirements are not applicable to the state grant and scholarship programs. The Special Leveraging Educational Assistance Partnership (SLEAP), the Robert C. Byrd Honors Scholarship (Byrd) Program, and if a state is the grantee, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) are administered under rules established by the state.

Timely return of funds

Schools are required to make a timely return of any unearned funds after a student withdraws, as discussed in *Volume 5*.

Bank notification via UCC-1 form

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

MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, FSA funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of FSA funds in the account. A school generally is not required to maintain a separate account for each FSA program unless the Department imposes this requirement as a result of a program review or other action.

When a school does not maintain a separate account

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

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

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

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

Bank account notification requirements

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

- including the phrase *federal funds* in the name of the account, or
- notifying the bank or investment company of the accounts that contain FSA funds and keeping a copy of this notice in its records and, except for public institutions, filing a Uniform Commercial Code Form (UCC-1) statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

Interest-bearing or investment account

FSA funds must be maintained in an interest-bearing account or an investment account unless:

- the school drew down less than $3 million of these funds in the prior award year and anticipates that it will not draw down more than $3 million in the current award year, or
- the school can demonstrate that it would not earn over $250 in interest on the funds it will draw down during the award year.

An investment account must consist predominantly of low-risk income-producing securities. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Any interest earned on FSA funds maintained in an interest-bearing account or an investment account that exceeds $250 per award year must be remitted to the Department by June 30 of that award year (see sidebar). A school may keep up to $250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining the account.

Remitting Interest

The fastest, most efficient way to remit interest is through the G5 website at

http://www.g5.gov

A school with a user ID and password can go to the main menu and select **"Refunds"** then **"Interest."** They will be taken to the screens through which they can send ED interest.

Schools can also return excess interest income to ED by check. Send the check to:

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

On the front of the check, the school should note its DUNS number and Document Award Number, and it should also indicate that the remittance is for interest earned.

Additional Perkins Loan requirements

A school that participates in the Perkins Loan Program must always maintain an interest-bearing account or an investment account for Perkins Loan funds. The school must maintain sufficient liquidity in its Perkins fund to make all required distributions.

If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. However, if the school chooses to maintain one account, it must determine the amount of any interest earned on the Perkins Loan funds and retain those funds for use in the Perkins program. The interest earned on the school's Perkins funds is not included in the $250 maximum award year interest the school is permitted to retain.

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

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

Perkins bank account requirements

34 CFR 674.19(b)

EXCESS CASH

As mentioned earlier, under the advanced payment method a school must disburse funds no later than three business days following the date the school receives them. The Department considers excess cash to be any amount of FSA funds, other than Perkins Loan funds, that a school does not disburse to students or parents by the end of the third business day following the date the school –

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

Sometimes a school cannot disburse funds in the required three days because of circumstances outside the school's control. For example, a school may not have been able to disburse funds because of a change in a student's enrollment status, a student's failure to attend classes as scheduled, or a change in a student's award as a result of verification. In view of these circumstances, a school may maintain some excess cash for up to seven additional days.

Three-day rule for funds received under the advanced payment method

A school must disburse FSA funds as soon as administratively feasible but no later than three business days following the date the school received those funds.

Cite: 34 CFR 668.162(b)(3)

Excess cash
34 CFR 668.166

Allowable excess cash tolerances

A school may retain for up to seven days an additional amount of excess cash that does not exceed one percent 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 one percent tolerance and any amount remaining in its account after the seven-day tolerance period.

The Department reviews schools to determine where excess cash balances have been improperly maintained. Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school.

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

When ED considers a check is issued if there's a finding

Generally, ED 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.

ADMINISTRATIVE COST ALLOWANCE (ACA)

The ACA is an annual payment calculated by ED and automatically deposited in the school's account to help offset the costs of administering the FSA programs. The Department reimburses schools participating in the Pell Grant Program $5 per award year for unduplicated recipients at the school who receive a Pell Grant. For the Campus-Based Program, the ACA is taken from the school's federal allocation and the maximum amount permissible is up to five percent of the sum of the loans advanced in Perkins, the total earned compensation in FWS, and the total awards to recipients in FSEOG.

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

A school must use its administrative costs allowance to offset its cost of administering the Pell Grant, FWS, FSEOG, and Federal Perkins Loan programs. Administrative costs may include the expenses incurred in carrying out a school's student consumer information requirements. In addition, a school may use up to 10 percent of its ACA that is attributable to the school's expenditures under the FWS Program to pay the administrative costs of conducting community service programs.

Administrative Cost Allowance
34 CFR 690.10(b) and 34 CFR 673.7

Charging Perkins cost against ACA

If a school charges any ACA against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.

A SCHOOL'S FIDUCIARY RESPONSIBILITY

Schools' fiduciary responsibilities
34 CFR 668.14(b)(1)&(2)

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

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

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

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

In addition, a school has a fiduciary responsibility to –

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

Reconciliation

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

Schools are required to reconcile their Title IV funds. In the Direct Loan Program, reconciliation is a formal process that is required monthly.

GARNISHMENT OF FSA FUNDS IS PROHIBITED

No FSA grant, loan, or work assistance (or property traceable to that assistance) is subject to garnishment or attachment except to satisfy a debt owed to the Department.

A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt.

By law, FSA funds may only be used for educational purposes. If your school is not the employer in an off-campus employment arrangement, it must have an effective procedure to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

ESCHEATING OF FSA FUNDS IS PROHIBITED

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

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

TIME FRAME FOR RETURNING UNCLAIMED FSA CREDIT BALANCES

If a school attempts to disburse the credit balance by check or EFT and the check is not cashed or the EFT is rejected, the school must return the funds no later than 240 days after the date it issued that check or made the EFT. (For additional information on returning funds, see *Chapter 4*.)

However, if a check is returned to a school, or an EFT is rejected, the school may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the funds were returned or rejected.

In cases where the school does not make another attempt, the funds must be returned before the end of the initial 45-day period.

The school must cease all attempts to disburse the funds and return them no later than 240 days after the date it issued the first check.

Garnishment/Attachment prohibited
HEA 488A(d)

Example of a policy to prevent escheating

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

In state A, a bank check has a useful life of 180 days. In order to prevent FSA funds from escheating to a third party, the Business Office at School A, at the end of each month, identifies all outstanding uncashed checks containing FSA funds. Prior to the 180th day, the Business Office voids the uncashed checks and restores the funds back to the applicable FSA program.

Time frame for returning unclaimed funds
34 CFR 668.164(h)

Undelivered Perkins funds

If a portion of the undelivered credit balance consists of Perkins funds, the school must reimburse its Perkins Loan fund for that amount and report those funds as other income in Part III, Section A of the FISAP.

Unpaid FWS wages

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school's FWS account.

If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.