SESSION 5 Accounting Procedures

INSTRUCTOR'S OVERVIEW

(50 MINUTES)

A. Institutional Financial Management Systems	(3 Minutes)
B. Bookkeeping and Recordkeeping Activities	(5 Minutes)
C. Accounting 1. Fund Accounting	(30 Minutes)
D. Internal Control: Checks and Balances 1. Trial Balance 2. Reconciliation of Cash 3. Reconciliation of Federal Funds 4. Other Checks and Balances	(12 Minutes)

MAIN OBJECTIVES

◊ Participants will be able to understand effective control over and accountability for all funds received from the Department of Education Payment Management System (ED/PMS).

◊ Participants will have a clear understanding of how a school's business office and financial aid office work together.

◊ Participants will be able to identify how an accounting system should be designed to accommodate Title IV program funds.

◊ Participants will understand how to set up journal entries.

◊ Participants will be able to maintain adequate checks and balances within a system of internal controls.

REFERENCES

Detailed information on this topic can be found in:

◊ *The Blue Book*, Chapter 5 – Accounting Procedures for Title IV Programs

◊ *The Blue Book*, Appendix F – Basic Accounting for Non-Title-IV Specialists

Instructor's Notes

Please take a moment to look at the overview and objectives.

This session of the workshop covers basic Title IV accounting procedures.

We will discuss:

- ◊ what accounting procedures are acceptable to the U.S. Department of Education;
- ◊ what records must be maintained by both the business office and financial aid office;
- ◊ what accounts are necessary for institutions to account properly for Title IV program funds;
- ◊ what accounts are included in a Summary Chart of Accounts; and
- ◊ what procedures are used in account journal entries.

Please turn in *The Blue Book* to Chapter 5.

A. INSTITUTIONAL FINANCIAL MANAGEMENT SYSTEMS

The accounting system that schools use must provide effective control over and accountability for all funds received from the Department of Education Payment Management System (ED/PMS).

The Blue Book, Chapter 5, provides a recommended accounting system that lends itself both to federal reporting and monitoring programs.

Please turn to page 142, Section 5.2, in *The Blue Book*.

Instructor's Notes

[3 minutes so far]

B. BOOKKEEPING AND RECORDKEEPING ACTIVITIES

Your school's bookkeeping and recordkeeping activities should be designed to enable:

◊ timely internal reporting,

◊ proper filing of applications,

◊ submitting accurate final reports, and

◊ meeting required documentation requirements for various financial aid programs.

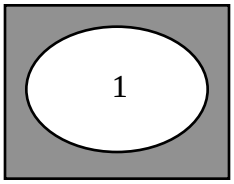
When designing your institution's accounting system, you should include:

◊ a chart of accounts,

◊ a book of original entry,

◊ billing, and

◊ reporting requirements.



Please turn to page 143. (OH 1)

The flowchart gives an overview of recordkeeping activities within an institution's financial aid office.

Records that must be maintained include items such as:

- ◊ applications for aid (Free Applications for Federal Student Financial Aid [FAFSAs]),
- ◊ applications for Federal Family Education Loans or Federal Direct Loans,
- ◊ student award letters,
- ◊ the institution's Fiscal Operations Report and Application to Participate (FISAP), and
- ◊ the institution's Direct Loan reconciliations.

A complete list of records to be maintained is on pages 143 and 144, Section 5.2.

Now, please turn to page 145. (OH 2)

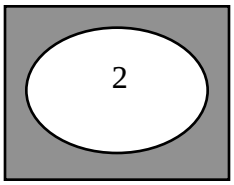
The flowchart here gives us an overview of the accounting activities within an institution's business office.

A school's financial accounting system must meet both internal and external information needs. So the organizational structure must be designed to satisfy all those needs.

Next we will review basic accounting structures and how they meet those needs.

Instructor's Notes

Note to Instructor:
We will discuss the FISAP in detail in Session 6.



[8 minutes so far]

Instructor's Notes

C. ACCOUNTING

1. Fund Accounting

Fund accounting is a method that involves segregating assets into categories according to restrictions placed on their use by the funding source. Appendix F, page F-4 of *The Blue Book*, provides more details on higher education fund accounting.

Please turn to Section 5.3.1.1, page 147. (OH 3)

3

Now we will review the chart of accounts.

Chart of Accounts

A chart of accounts has two components for each account:

- ◊ an account number (usually using the standard accounting code structure) and
- ◊ a definition, by name, of the account code.

In all cases, the first digit identifies an element of the balance sheet. For example:

- ◊ 1 - Asset Account,
- ◊ 2 - Asset Reduction Account,
- ◊ 3 - Liability Account, and so forth.

Instructor's Notes

The Summary Chart of Accounts beginning on page 149, Section 5.3.1.1, in *The Blue Book*, provides a detailed list of each account, including: (OH 4)

4

- ◊ the general ledger indicator (such as "1 - Asset Accounts"),
- ◊ the debit accounts (such as "1 - 2 Due from School"), and
- ◊ the credit accounts (such as "3 - 1 Accounts Payable, NFC").

We will individually review each account included in the summary of accounts. (OH 5)

5

Are there any questions?

On page 149, you will find the ED/PMS accounts listed.

ED/PMS Accounts (Title IV Funds Only, Not Including Federal Direct Loans)

1 - Asset Accounts
  1 - 1 Cash Control, ED/PMS
  1 - 2 Accounts Receivable, ED/PMS

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Income Accounts - None*

7 - Expense Accounts - None*

*ED/PMS is the only case in which income and expense ledgers are not maintained.

Instructor's Notes

6

Please turn to Appendix F, pages F-6 and F-7. Here you will find some sample journal entries for ED/PMS Accounts. Let's review them for a moment. (OH 6)

» Please review the sample journal entries with the participants. Review each line, pointing out whether an entry is a debit or a credit. The following text will help with this review.

ED/PMS Title IV Account Journal Entries

1 - 1 Cash Control, ED/PMS may be a debit or credit balance account depending on the timing of the drawdowns and disbursements. It is established to identify the balance of Title IV (except Direct Loan) federal cash disbursed through ED/PMS. The system described here segregates federal cash by using separate accounts for ED/PMS-Title-IV-funded programs. These separate ED/PMS accounts reflect only ED/PMS-funded programs and allow reconciliation by combining the accounts with the non-Title-IV ED/PMS accounts to the "cash on hand" section of the ED/PMS 272 Report. Separate checking accounts need not be maintained for each program as long as school records indicate precisely where cash was used.

◊ Debit this account for:

- All cash received from ED/PMS for all Title IV programs, but not including Federal Direct Loans, Payment for Origination Services, Pell Grants, ACA reimbursements, or Perkins Loan cancellation reimbursements (contra account # 1 - 2).

- All unexpended cash on programs when accountability has been transferred to NFC (contra account # 1 - 2).

◊ Credit this account with:

- All cash transferred to programs.
- Excess cash billings paid to the National Finance Center (NFC) (contra account # 1 - 2).

1 - 2 Accounts Receivable, ED/PMS can be a debit or credit balance account depending on the timing of disbursements and drawdowns. It represents all amounts due from all open-status ED/PMS-funded programs.* The debit balance may exist between the time funds requested from ED/PMS and the time they are received.

◊ Debit this account for:

- Amount of awards disbursed to students and recorded as income transferred from ED/PMS in each respective Title IV program account.

◊ Credit this account for:

- Cash received from ED/PMS (contra account # 1 - 1).
- Any unexpended program balances after accountability has been transferred to NFC (contra account # 1 - 1).

Please return in *The Blue Book* to Chapter 5, page 149.

Please take the next ten minutes to review the Summary Chart of Accounts found on pages 149-156.

» Please give the participants approximately 10 minutes to review the summary chart of accounts. After they have reviewed it, ask if there are any questions, and allow for class participation. Ask the more experienced individuals to help answer questions.

Instructor's Notes

Note to Instructor: Accountability remains with ED/PMS even though the PMG has requested the ARMG to bill schools for excess cash. Most cases are schools now closed, terminated, or no longer drawing down funds from ED/PMS. Debts are resolved or revised through corrections or adjustments to ED/PMS rather than by returning cash.

*A different accounting treatment would be necessary if an institution uses the reimbursement payment method for drawing down Title IV funds (34 CFR 668.163 [a][3]. Requesting Funds, *Federal Register*, Vol. 59, No. 230, Thursday, December 1, 1994).

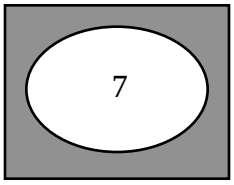
Instructor's Notes

Please keep in mind for future reference that Appendix F gives you sample journal entries for each of these accounts.

[38 minutes so far]

D. INTERNAL CONTROL: CHECKS AND BALANCES

To participate in federally funded student financial aid programs, an institution must be able to demonstrate that adequate checks and balances are in place in its internal control system. A system of internal control should, at a minimum, include: (OH 7)



- ◊ separating the functions of authorizing and disbursing Title IV program funds;
- ◊ taking a trial balance at least monthly (to determine whether the accounts are in balance);
- ◊ reconciling cash (a reconciliation between in-house books and bank balances for cash); and
- ◊ reconciling federal funds (a reconciliation between bank accounts and federally reported balances for cash).

1. Trial Balance

A trial balance must confirm the equality of debit and credit balances and the sum of all account balances.

There is an illustration of a trial balance worksheet for federal student financial aid programs in *The Blue Book*, beginning on page 198. (OH 8)

Instructor's Notes

8

2. Reconciliation of Cash

Reconciliation of cash must show that the amount of cash in the accounting records agrees with the amount reflected in the bank statements.

Differences between the school's accounting records and its bank statement balances can be caused by timing variances, errors, or unrecorded entries.

These can lead to entries for:

- ◊ bank service charges;
- ◊ non-sufficient funds (NSF) checks;
- ◊ debit and/or credit memoranda; and
- ◊ institutional error corrections.

Instructor's Notes

The reconciliation process also provides a means for identifying and correcting bank errors.

The person performing the reconciliation should be trained to recognize and report:

- ◊ delays in deposits;
- ◊ checks outstanding for long periods of time;
- ◊ irregularities in transfers and adjustments; and
- ◊ deviations in cancelled checks (payee signature or endorsement).

3. Reconciliation of Federal Funds

Reconciliation of federal funds is a balancing of funds received from the beginning of the school's participation in Title IV programs with totals currently recorded in the institution's accounts. In addition, an annual reconciliation of reported expenditures should be performed to ensure agreement among the trial balance report, ED/PMS, the Institutional Payment Summary, the FISAP, and the school's audit. Any differences among these records must be resolved.

One of the purposes of an audit is to check that all reconciliations have been performed and any discrepancies resolved. Institutions should not view the audit as a time to perform reconciliations.

The form on page 201 of *The Blue Book* can be used for reconciling federal funds. (OH 9)

9

Instructor's Notes

Monthly Direct Loan Reconciliation

William D. Ford Federal Direct Loan Program (Direct Loan Program) expenditures and transactions must be reconciled monthly with the Direct Loan Servicing Center (Servicing Center).

There are two types of reconciliations:

◊ cash and

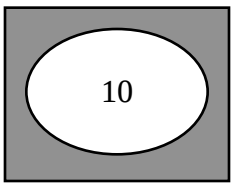
◊ loan records.

- Reconciliation of cash means the school must reconcile the cash within all of the institution's systems with the Servicing Center.

- Reconciliation of loan records means the school's Direct Loan Program records that affected cash disbursement (for documents such as promissory notes) are compared with the Servicing Center's records for the same documents.

4. Other Checks and Balances

There are a large number of other types of checks and balances that can be built into an accounting system for student financial aid. Some important types are: (OH 10)



◊ input controls,

◊ subsidiary records reconciliation, and

◊ a clear audit trail.

Instructor's Notes

Now let's discuss input controls.

Input Controls

◊ As input transactions are entered into the aid system, a record of the number of entries and the dollar amounts of the entries also needs to be recorded.

◊ After all updates for a processing cycle are completed, the updated totals need to be checked to ensure that all electronic batch entries or groups of manual entries have been made or accepted by the system.

- This ensures that batches are not lost and provides a control against unauthorized transactions being entered into the system.

Subsidiary Records Reconciliation

◊ Subsidiary records reconciliation means that all accounts should be backed up by subsidiary ledger detail. While taking a trial balance can be used to ensure that all accounts balance in the aggregate, it does not guarantee that subsidiary records exist to support the totals in each account.

- Reconciliation between accounts and subsidiary records needs to be performed at least monthly. During periods of high transaction volume it should be conducted more frequently.

Clear Audit Trail

A key element in any system of checks and balances is maintaining a clear audit trail.

- ◊ Records of all transactions entered into the system must be maintained.
- ◊ Adequate documentation requires:
  - proper approval of all transactions,
  - a record of who was responsible for entering the transaction,
  - when the transaction was prepared and posted, and
  - a complete record of the transaction itself.

Are there any questions concerning these checks and balances before we end this session and continue with a lab exercise?

Instructor's Notes