Instructor's Notes

Please take a moment to look at the topics and objectives for this session.

Detailed information for topics covered in this session is available in Chapter 4 of *The Blue Book*. At the end of that chapter is a copy of the *Federal Register* containing the cash management regulations issued December 1, 1994 that became effective July 1, 1995.*

*A Dear Colleague letter on the cash management regulations is pending.

These new regulations establish rules and procedures that a school **must** follow to request, maintain, disburse, and otherwise manage Title IV program funds.

Understanding and following these procedures is critical to proper cash management. Cash management is an important area of compliance for audits:

◊ Among the "12 Most Common Audit Findings" for student financial aid funds is excess federal cash on hand.

This session will help answer such questions as:

◊ How do we estimate how much cash will be needed for Title IV programs?

◊ When and how do we draw down federal cash?

◊ Once federal cash is received in our account, what are the rules and regulations involved in managing it?

◊ When might it be necessary to return funds to the federal government, and how is this done?

Instructor's Notes

A. PROJECTING CASH NEEDS FOR DRAWING DOWN FUNDS

Schools normally receive financing for Title IV financial aid awards through advance payments.

Schools request funds for all Title IV program expenditures directly from the federal government. They request funds through the Department of Education Payment Management System (ED/PMS). ED/PMS uses one of two electronic systems to transfer funds to a school:

- ◊ Automated Clearinghouse/Electronic Funds Transfer (ACH/EFT), which is also referred to as direct deposit, **or**

- ◊ Federal Electronic Funds Transfer (FEDWIRE), which is generally used to transfer funds to states and some large postsecondary institutions.

Please note that the procedures for obtaining Federal Family Education Loan (FFEL) Program funds are different. Schools receive FFEL Program funds from banks and other financial institutions that serve as FFEL Program lenders.

1. Planning When to Draw Down Cash

Before a school transmits a request to ED/PMS, it must determine the amount of funds it needs. The amount a school requests must be limited to the minimum amount it needs to make disbursements, which means that there should be no excess funds after the disbursements are made. Disbursements are considered to have occurred:

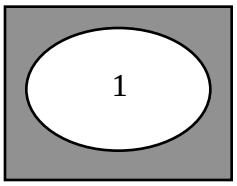
- ◊ if the school credited a student's account **or**
- ◊ if the school paid a student directly.

The amount requested must be enough to meet: (OH 1)

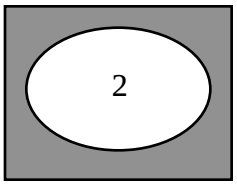
- ◊ Federal Pell Grant disbursements to students,
- ◊ the federal share of Federal Supplemental Educational Opportunity Grant (FSEOG) disbursements to students,
- ◊ the federal share of Federal Work-Study (FWS) payroll disbursements,
- ◊ the federal share of Federal Perkins Loan disbursements, and
- ◊ Federal Direct Loan disbursements.

This list is in *The Blue Book*, Section 4.3, "Projecting Cash Needs."

Instructor's Notes



Note to Instructor:
Direct Loan funding requests must be made separately. They may not be combined with cash requests for other Title IV program funds.



To calculate projected cash needs, schools use the following equation: (OH 2)

	Anticipated Disbursements
minus	Balance of Cash on Hand
minus	Anticipated Recoveries
minus	ACH/EFT Cash in Transit
equals	Projected Cash Need

In general, a school's request for funds should never exceed its immediate need.

2. Immediate Need

Immediate need is defined as the amount of Title IV program funds a school needs to make disbursements **within three business days** following the date that the school receives the funds. (OH 3)

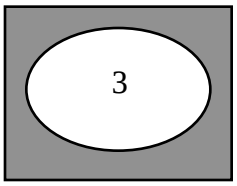
This applies to **all** Title IV funds, whether the school draws down funds through ACH/EFT or through FEDWIRE.*

Q: If a school receives Title IV funds and waits four business days to disburse a check, has the immediate need standard been met?

A: No. To satisfy the immediate need standard, checks must be disbursed within three business days.

Instructor's Notes

Note to Instructor: There are some tolerances for excess cash. See *The Blue Book*, Section 4.8.1.1.



*Before the new regulations immediate need for FEDWIRE drawdowns was defined as one business day.

Instructor's Notes

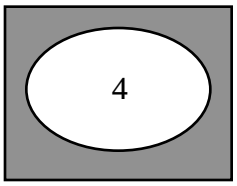
Q: If a school receives Title IV funds, disburses a check to a student within three business days, but the student delays a week before cashing the check, has the immediate need standard been met?

A: Yes. The date the student actually cashes the check has no relevance to the immediate need standard.

[10 minutes so far]

B. DRAWING DOWN CASH

1. Overview of ED/PMS



ED/PMS acts as the central repository for payment transactions of schools that receive funds from ED; it is a funds-management system. (OH 4)

Financial Services (FS) is the office within ED that administers ED/PMS.

All schools participating in Title IV programs (with the exception of the FFEL Program) must request funds and report expenditures through ED/PMS. A school uses ED/PMS to draw down funds for:

- ◊ the Federal Pell Grant Program,
- ◊ the Federal Supplemental Educational Opportunity Grant (FSEOG) Program,
- ◊ the Federal Work-Study (FWS) Program,
- ◊ the Federal Perkins Loan Program, and
- ◊ the Federal Direct Loan Program.

Instructor's Notes

Each school may have two accounts with ED/PMS, one for the Federal Direct Loan Program, and one for all other Title IV programs in which it participates.

Once a school receives an official award allocation or authorization, the allocation or authorization amount is obligated for the school and recorded in the school's ED/PMS account.

A school does not get an allocation or authorization for the Direct Loan Program. For the Direct Loan Program, a school draws down funds on the basis of the amount of funds needed to make loans to eligible borrowers.

ED notifies schools of their total Title IV allocations and authorizations.

Q: What does ED send to notify your school of its Federal Pell Grant authorization?

» Wait for answers.

A: A Federal Pell Grant Statement of Account (SOA).

Q: What does ED send to notify you of your Title IV campus-based program allocations?

» Wait for answers.

A: An Official Notice of Funding.

A school may receive funds through ED/PMS in advance or by reimbursement.

Instructor's Notes

◊ ED/PMS mainly uses the advance payment method.

◊ If a school is a new participant, it is placed on advance payment as soon as ED/PMS receives information about the school's financial institution.

◊ Advance payment schools use one of two electronic methods to request funds from ED/PMS:

- ACH/EFT **or**
- FEDWIRE.

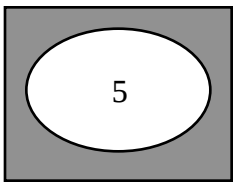
2. Automated Clearing House/Electronic Funds Transfer (ACH/EFT)

To enroll in ACH/EFT, a school must complete a Direct Deposit Sign-Up Form (SF 1199A) and send it to ED's Financial Payments Group (FPG) in FS.

◊ Once FPG receives the form, it takes at least two weeks to enroll the school in ACH/EFT.

Once enrolled, a school can request ACH/EFT direct-deposit payments by calling the ED/PMS service bureau's toll-free number: (OH 5)

1-800-654-8341.



◊ A school can call any business day from 9 a.m. to 7 p.m. (ET).

◊ Requests made after 2 p.m. (ET) will be forwarded to ED/PMS the **next** business day.

◊ Refer to *The ED/PMS Recipient's Guide*, Appendix C and Appendix D, for a detailed explanation of the correct procedures for placing requests.

If the request meets ED/PMS validation criteria, payment will be transmitted to the Federal Reserve Bank (FRB) the next business day, and the school will be able to withdraw funds from its account approximately two to three days later.

If the request fails to meet ED/PMS validation criteria, the request will be rejected and sent to the school's FPG account representative at ED; the account representative will send the school a written notice explaining why the payment request was rejected.

◊ Before you begin disbursing funds, always check your bank account to make sure that the ED payment has been deposited!

◊ For example, you call in a request Monday morning. If valid, it will be sent to the FRB on Tuesday, and you can start disbursing funds on Thursday at the earliest and Monday at the latest. But check to make sure your request actually went through and the funds arrived.

It is important to keep records of all payment requests. These records provide an audit trail of requested funds and help the school reconcile its accounts with the Federal Cash Transaction Report (ED/PMS 272A Report).

We will discuss the ED/PMS 272A Report in detail in Session 6.

Instructor's Notes

Note to Instructor:
The Direct Loan Access Code PIN (personal identification number) must be given when drawing down funds for the Direct Loan Program.

Instructor's Notes

3. Federal Electronic Funds Transfer (FEDWIRE)

The vast majority of school payment requests are made by ACH/EFT. FEDWIRE is limited to large postsecondary institutions and some state schools.

◊ In addition, schools new to Title IV no longer are placed on FEDWIRE.

Q: How many of you use FEDWIRE?

» If no one uses FEDWIRE, skip to the topic on the next page.

FEDWIRE is a little faster than ACH/EFT.

FEDWIRE requests are made by a specially designated individual, usually the school's chief fiscal officer or treasurer. A school using FEDWIRE must request funds using the automated FEDWIRE System.

◊ The automated FEDWIRE System is a fully integrated subsystem of ED/PMS that runs on a mainframe computer located at the National Institutes of Health (NIH).

◊ This system allows schools to transmit FEDWIRE payment requests directly to the NIH computer using a PC and modem.

· Through messages that appear on the school's computer screen, a school knows immediately if the request is accepted or rejected.

Instructor's Notes

With FEDWIRE, a school's funds are available the next business day through the Federal Reserve Bank (FRB) in Richmond, Virginia, if the transaction is completed by 6 p.m. (ET).

A school may request funds by calling FPG* directly if it is having difficulty with the automated system. This direct call is not considered an alternative method.

*1-202-401-2093, 1-202-401-1094, **or** 1-202-401-1092

- ◊ A school can call FPG any business day from 8:30 a.m. to 3:30 p.m. (ET) to request funds.
- ◊ A school should always check its bank account to make sure a FEDWIRE payment has been deposited before disbursing funds.

4. Reimbursement Payment Requests

A school may be placed on reimbursement if ED determines that there is a need to monitor the school's use of federal funds.

Before a school on the reimbursement payment method submits a request for cash, the school must:

- ◊ identify the students for whom the school is seeking reimbursement and who will be included in the request for cash;
- ◊ document that the students included in the request for cash satisfy all applicable Title IV program requirements and that these students' disbursements will be correct; and
- ◊ credit appropriately the accounts of the students included in the request for cash. (OH 6)

6

In addition, ED requires a school to submit for review any documentation that supports these requirements.

In most cases, a school that has been placed on reimbursement must complete a Request for Advance or Reimbursement Form (SF-270) and send it to the appropriate Title IV program office at ED.

- ◊ After the request has been approved, the program office sends the school's SF-270 to the FPG for processing.
- ◊ The Financial Payments Group (FPG) generally uses ACH/EFT to make reimbursement payments.
- ◊ Reimbursement payments may be offset to collect debts owed to ED. In this case, a school receives its approved payment request minus the amount of the offset.

C. MAINTAINING FUNDS

New cash management regulations for Title IV program funds became effective July 1, 1995. (OH 7)

These regulations establish:

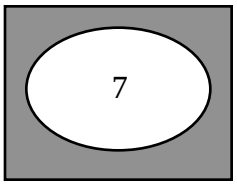
- ◊ requirements to limit the amount of time schools can hold federal funds before disbursing them to students,
- ◊ tolerances for cash on hand,
- ◊ time frames for disbursing and delivering funds to students, and

Instructor's Notes

Note to Instructor:
A school's request for cash may not exceed the amount of the disbursements the school will make to students included in that request. When funds are received, the school must disburse the funds immediately and only to the students identified in the request for cash.

Note to Instructor:
Administrative offsets may be voluntary or involuntary. FPG will pay reimbursements net of any excess cash on hand.

[25 minutes so far]



Instructor's Notes

◊ guidelines for bank accounts schools use to manage Title IV funds.

1. Bank Accounts

Schools that participate in Title IV programs must maintain federal funds in bank accounts that meet certain federal requirements.*

*FFEL Program funds are n subject to these requiremer

If your school participates in the Federal Perkins Loan Program, you must maintain Federal Perkins Loan funds in an interest-bearing account. This is important, as the interest will become part of the school's loan funds.

However, for other Title IV programs, the bank account does not have to be interest bearing if:

◊ the school drew down less than $3 million from Title IV programs in the prior award year;

◊ the school earned less than $250 in interest on the total amount of Title IV program funds that it drew down in the prior award year; **or**

◊ the school demonstrates that it would not earn more than $250 in interest by maintaining in an interest-bearing account the total amount of Title IV program funds that it will draw down during the current award year.

Instructor's Notes

8

Whether the account is interest bearing or not, Title IV funds must be kept in an account that is: (OH 8)

- ◊ federally insured **or**
- ◊ secured by sufficient collateral to cover the amount of Title IV program funds in the account.

Title IV funds that are required to be kept in an interest-bearing account may be kept in an investment account. That account:

- ◊ must consist of low-risk, income-producing securities, such as an obligation issued or guaranteed by the U.S. government, and
- ◊ must remain sufficiently liquid to make required disbursements to students.

Schools are not required to maintain a separate bank account for Title IV program funds unless ED determines that it is necessary.

Please turn to *The Blue Book*, Section 4.5.1, page 99, to review the factors that ED uses to determine if schools must maintain all Title IV program funds in a bank account that contains no other funds.

» Pause a few minutes and allow the participants to review page 99 in *The Blue Book*.

All bank accounts containing Title IV funds must be clearly identified as Title IV accounts by notifying the bank or by naming the accounts to indicate that they contain federal funds.

Instructor's Notes

In addition, schools must file a UCC-1 statement (which discloses that the account contains federal funds) with an appropriate state or local government entity.

The format and content of these forms vary from one state to another. Blank UCC-1 statements are available from local legal office supply stores. In addition, UCC-1 statements and information about filing them can be obtained from a state's State Corporation Council or the Secretary of State in the state in which your school is located.

A UCC-1 form is not required if the school is either backed by the full faith and credit of a state or if the institution inserts the words "Federal Fund" in the name of its bank accounts containing Title IV aid funds.

Keep copies of all notices and statements in your records for audit purposes.

2. Interest Earnings

If you maintain Title IV funds in an interest-bearing or investment account, federal regulations require that the interest and investment revenue be used in specific ways. (OH 9)

9

- ◊ All interest or revenue earned on Federal Perkins Loan Program funds may be used for authorized purposes of the program.

- ◊ Revenue earned on all other Title IV funds must be returned at least annually to ED, minus $250, which the school may retain for administrative expenses.

Are there any questions about Title IV bank accounts?

Instructor's Notes

[30 minutes so far]

D. SPECIAL PROGRAM CONSIDERATIONS

Determining how much cash you need to draw down and when you will need the cash to make disbursements depends on certain program-specific requirements for each Title IV program.

1. Federal Pell Grant Program

A school pays a Federal Pell Grant to a student on the basis of a valid Institutional Student Information Record (ISIR) or Student Aid Report (SAR). The school is responsible for tracking the status of these documents and determining when a student's Federal Pell Grant award is ready for payment. (OH 10)

10

Note to Instructor:
A school receives a $5 ACA per Pell Grant recipient. A Dear Colleague letter was anticipated at the time this edition was written that would provide new procedures for receiving Pell Grant ACA payments through ED/PMS.

The amount available to a school for Federal Pell Grants is reported in the school's Statement of Account (SOA). The first SOA a school receives for an award year is based on ED's estimate of funds the school will need for its first disbursements. As the award year progresses, the school receives adjusted authorizations on the basis of its actual student payment information as reported by the school in the Institutional Payment Summary (IPS) reports it submits regularly to ED.

At most schools, the financial aid office submits the IPS report. Since this report generates the school's SOA, it is extremely important that this process is coordinated with the business office.

Note to Instructor:
For more information, refer to *The Blue Book*, Section 6.1.1.3.

Instructor's Notes

2. Campus-Based Programs

A combination of both federal and nonfederal funds are awarded to students from the campus-based programs: (OH 11)

11

- ◊ Federal Supplemental Educational Opportunity Grant (FSEOG) Program,
- ◊ Federal Work-Study (FWS) Program, and
- ◊ Federal Perkins Loan Program.

A school may draw down cash **only for the federal share** of funds for these programs. The maximum amount of federal funds a school may draw down from each campus-based program is based on the school's allocation for that program.

For the FSEOG Program, a school must time its drawdowns to coincide with the dates it expects to disburse FSEOG funds to students. (OH 12)

12

Disbursement dates must be determined in accordance with 34 CFR 668.165(c) and are discussed in *The Blue Book*, Section 4.7.3.

13

For the FWS Program, a school must time its drawdowns to coincide with its payroll dates. (OH 13) The school estimates the amount it needs to meet student payroll for a given pay period and draws down **only the federal share** of wages to be paid. Students must be paid within three business days following the date funds were received.

For the Federal Perkins Loan Program, a school must determine whether the cash available in its Federal Perkins Loan fund is sufficient to make loan advances to students. (OH 14) If it is not, a school may request to draw down the federal capital contribution (FCC). Disbursement dates must be determined in accordance with 34 CFR 668.165(c) and are discussed in *The Blue Book*, Section 4.7.3.

3. William D. Ford Federal Direct Loan Program (Direct Loan Program)

The procedures used to draw down funds for the Direct Loan Program are different from other Title IV programs.

In addition, requests for Direct Loan funds may not be combined with requests for other Title IV funds. (OH 15)

Schools Participating under School Origination (Level 1)

Schools that participate in the Direct Loan Program under school origination (Level 1) initiate their own funding requests. Once a school has determined its immediate cash needs, it transmits either an ACH/EFT or FEDWIRE payment request to the ED/PMS service bureau.

Instructor's Notes

14

Note to Instructor:
A Dear Business Officer letter was distributed in March 1995 that provided new procedures that changed the method of payment for reimbursement of authorized service cancellations under the Federal Perkins Loan Program for the 1993-94 award period to electronic transfer. This change became effective the summer of 1995.

15

Instructor's Notes

An ACH/EFT request can be made to the ED/PMS service bureau through one of two methods:

- ◊ by telephone or,
- ◊ by using the Export File Option in the Direct Loan software.

A FEDWIRE request is one that is made electronically using the automated FEDWIRE system. (OH 16)*

16

*As we discussed earlier, the automated FEDWIRE system is a fully integrated subsystem of ED/PMS that runs on a mainframe computer and allows schools to transmit FEDWIRE payment requests directly to the computer using a PC and a modem.

ED/PMS creates an ACH/EFT payment file for transmittal to the Federal Reserve Bank (FRB). Any problems with requests are transferred to a holding file so ED can either approve the transaction or contact the school to resolve the problem.

The FRB receives the ACH/EFT file and transfers funds directly to the school's bank account.

The whole process takes between 48 to 72 hours* from the time the school transmits the drawdown request to the time it receives funds in its bank account.

*A two-to-three-day process.

If there is a problem with an ACH/EFT transmission or a school's transaction is rejected, the FRB notifies ED. ED in turn contacts the school to resolve the problem.

Instructor's Notes

Schools Participating Under Alternative Origination (Level 3) and School Origination (Level 2)

17

Schools that participate in the Direct Loan Program under these options don't initiate funding requests. The Direct Loan Servicing Center (Servicing Center) handles requests for funds. (OH 17)

Schools send their borrowers' loan origination records and promissory notes to the Servicing Center. To be included in a funding request, borrowers' records must be accepted by the Servicing Center.

About 30 to 45 days before the anticipated disbursement dates listed in the loan origination records, the Servicing Center sends an electronic list to the school showing anticipated disbursements by borrower and by loan type. The school must review the list and make any necessary updates or adjustments to the information. The school sends any changes to the Servicing Center electronically.

The Servicing Center requests a school's funds from ED three days prior to the anticipated disbursement dates. The same day the request is made, the Servicing Center creates and sends an electronic actual disbursement roster to the school that lists individual borrowers, their loan types, and their actual disbursement amounts minus loan fees. The roster also includes the total amount of funds included in the request. Level 2 and 3 schools should retain copies of their disbursement rosters as records of the funds they receive.

Funds are deposited directly to a school's bank account through the Automated Clearinghouse (ACH).

Instructor's Notes

4. Federal Family Education Loan (FFEL) Program

FFEL Program funds are subsidized and unsubsidized Federal Stafford Loans that are made to students and Federal PLUS Loans that are made to parents of dependent undergraduate students.

The way that schools get FFEL Program funds is quite different from the way schools obtain other Title IV funds.

◊ The reason is that FFEL Program loans are made to students and parents by banks, savings and loans, credit unions, and other financial institutions. (OH 18)

18

By federal regulation, the lending institution must send the borrower's funds directly to the school.*

*Formerly, lenders could send PLUS checks directly parent borrowers.

There are three ways a school can receive FFEL Program funds:

◊ electronic funds transfer (EFT),

◊ master check, **or**

◊ individual check.

To receive a borrower's FFEL funds by EFT, a school must enroll in EFT with the lender so that the funds are deposited directly into the school's designated bank account.

Instructor's Notes

If the school and lender enter into an agreement to use master checks, the lender can write a single master check that contains all the lender's FFEL Program funds for the school's borrowers.

- ◊ Both EFT and master check disbursements must be accompanied by a list of names, Social Security Numbers, and loan amounts for borrowers.
- ◊ The school must deliver the loan proceeds to the student or parent within 45 days.
- ◊ In no case may a school request loan proceeds by EFT or master check earlier than 13 days before the first day of a student's enrollment period.
- ◊ For a school to deliver FFEL funds by EFT or master check, the borrower must provide written authorization.
  - This is often done at the same time the borrower applies for the loan.
  - If the authorization is not given in the loan application, it must be obtained not more than 30 days before the beginning of the enrollment period.
- ◊ A school may also receive an individual check from a borrower's lending institution.
  - The check may be made co-payable to the borrower and the school.
  - The school must deliver the loan proceeds to the borrower within 45 days of the date the funds were received by the school.

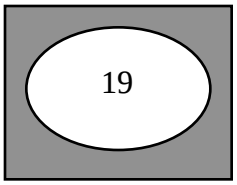
- For PLUS checks, the school is not required to endorse the check first.

- The school may require the parent borrower to endorse the PLUS check to the school; then the school endorses and deposits it into the student's account.

Instructor's Notes

Note to Instructor:
For more information, refer to *The Blue Book*, Section 4.6.

[50 minutes so far]



E. RETURNING FUNDS

A school must return funds to ED when: (OH 19)

◊ the school has excess cash in its account from federal funds drawn down and not disbursed within three business days;

◊ the school has excess cash as a result of a reduction to reported expenditures on a closed award;

◊ the school has unused funds and expects no more funding from ED;

◊ the school owes ED for a disallowed expenditure found during an audit or program review; **or**

◊ the school earned interest or investment income on federal funds in excess of the amount it is allowed to retain.

Instructor's Notes

1. Excess Cash

Excess cash is defined as any amount of Title IV program funds (other than FFEL Program or Federal Perkins Loan Program funds) that a school does not disburse to students by the end of the third business day following the date the school received the funds. (OH 20)

20

Excess cash must be promptly returned to ED. The only exception is if the excess cash is relatively small according to tolerances defined in regulations.

Tolerances

The tolerance for the amount of excess cash is:

- ◊ 3% of the school's total prior year drawdowns, for a period of peak enrollment during which the drawdown occurs, **or**
- ◊ 1% of its total prior year drawdowns for any other period.

Note to Instructor:
The calculation to determine a period of peak enrollment is in *The Blue Book*, Section 4.8.11, page 113.

Even if a school has excess cash within the tolerance, it may keep it only briefly—it must disburse all the excess cash to students within one week.*

*The seven (7) calendar days begin after the third (3rd) business day.

Liabilities

If a school maintains excess funds greater than the tolerances and for longer than permitted, ED may:

- ◊ require the school to reimburse the federal government for costs incurred in making those excess funds available to the school and

Instructor's Notes

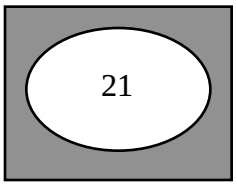
◊ initiate proceedings to fine, limit, suspend, or terminate the school's participation in one or more Title IV programs.

Methods for Returning Funds

Methods for returning Title IV funds vary. Notification that a school must return funds usually contains specific instructions.

Returning Excess Funds

ED's Financial Payments Group (FPG) reviews a school's ED/PMS 272 Report and Direct Loan reconciliation reports for excess funds. If FPG finds that a school is holding excess funds, FPG will send the school a letter asking the school to: (OH 21)



◊ return the excess funds;

◊ certify that current disbursements have reduced the excess funds; **or**

◊ contact an ED account representative if the school finds that the excess funds resulted from errors the school made when reporting disbursements.

If the school does not respond within ten calendar days of the date of the FPG letter:

◊ the school may be suspended from receiving further funds **or**

◊ the school may be placed on the reimbursement payment method.

Note to Instructor: FPG does not get involved with schools holding excess cash for the Direct Loan Program.

If it is determined that a school does, in fact, owe excess funds:

- ◊ an account receivable will be established by ED's Accounts Receivable Management Group (ARMG), and

- ◊ the National Finance Center (NFC) will send the school a bill.

  - Included in the bill will be accrued interest, penalties, administrative fees, and instructions for returning excess funds.

For more information on this subject, refer to:

- ◊ *The ED/PMS Recipient's Guide*, Appendix T and Appendix U and

- ◊ *The Blue Book*, Section 4.8.2.1 and Section 6.5.1.

A school can voluntarily return excess funds to ED without waiting for a letter from FPG using one of two methods.

If the amount of excess funds is less than $100,000, a school sends a check payable to the U.S. Department of Education to the ED billing agent at the following address:

USDA Administrative Collections
PO Box 70792
Chicago, Illinois 60673

Additional information on this procedure can be found in *The ED/PMS Recipient's Guide*, Appendix W-1.

Instructor's Notes

Note to Instructor:
For the Direct Loan Program, excess cash can be returned in any of three ways — Check, ACH, or FEDWIRE.

To return Direct Loan excess cash via check, use the following address:

Direct Loan Servicing Center.
Attn: Excess Cash
PO. Box 4639
Utica, NY 13504-4639

For more information about Direct Loans and how to handle excess cash, refer to the *Direct Loan Reconciliation Guide.* To receive a copy of this guide, contact school relations at 1-800-848-0978.

Instructor's Notes

If the amount of excess funds is $100,000 or more, a school makes a payment using FEDWIRE and instructs its bank to use the FEDWIRE Electronic Funds Transfer System. Refer to Appendix V in *The ED/PMS Recipient's Guide* for detailed procedures for this method.

With both methods, to ensure that a school receives credit for its payment of returned excess funds, a school must include its Entity Identification Number (EIN) and Payee Identification Number (PIN) along with a written statement that the payment is a "Return of ED/PMS Excess Cash."

Returning Funds on a Closed Award

Reducing expenditures on a closed award increases the school's cash on hand by the amount of the reduction. If this reduction results in excess cash on hand, the school must return the excess funds to ED's FPG. (OH 22)

22

We will discuss a closed award in more detail in Session 6. Additional information on closed awards can also be found in *The Blue Book*, Section 6.5.2.

Returning Unused Funds

FPG regularly identifies ED/PMS school accounts that have no recent activity (for example, no payment requests or no ED/PMS 272 Reports submitted within six months). FPG also receives information from schools, ED's Office of Inspector General, and program offices within ED indicating that a school has closed or will be closing. These accounts are classified as inactive and reconciled to determine if any unused funds are being held.

Instructor's Notes

23

If a school has unused funds that should be returned, FPG sends a letter to the school that lists: (OH 23)

- ◊ the total dollar amount initially advanced to the school,
- ◊ the school's total reported expenditures,
- ◊ the final amount due ED, and
- ◊ the ACH/EFT numbers to use on the return.

The school must return unused funds to FPG within 30 days from the date of the letter or contact an ED account representative within the 30 days if it needs assistance in resolving questions about the amount due. If a school does not respond within 30 days, the funds owed become a school debt. The debt is transferred to ED's Accounts Receivable Management Group (ARMG) for billing and collection by the National Finance Center (NFC). If a school does not respond to the NFC, the debt is forwarded to a commercial collection agency.

Note to Instructor: More information is contained in *The ED/PMS Recipient's Guide*, Chapter 6.

Returning Interest Earned

If a school receives funds through advance payment and retains those funds in an interest-bearing or investment account, the school is required to return to ED, at least annually, the amount of interest or investment earnings in excess of the $250 it may retain yearly for administrative costs. (OH 24)

24

Instructor's Notes

A school returns excess interest income to ED by check. The check must indicate that it represents interest earnings and should be sent to:

U.S. Department of Education
600 Independence Avenue, SW
Room 3321
Washington, DC 20202-4331

2. Deobligating Campus-Based Funds

Remember that allocated funds for Title IV programs are obligated for a school and placed in an ED/PMS account for that school. If a school doesn't use its total allocation, the school is required to return the unexpended amounts. This release of unexpended allocated funds is called "deobligation." (OH 25)

25

Note to Instructor:
If a school deobligates 10% or more of its final allocation, the allocation for that program for the next award year will be reduced by that same amount.

Each year in June, ED notifies schools in writing that they must deobligate funds not spent by June 30 of that year and asks schools to estimate the amount of funds they expect to use by June 30.

Later, schools must determine actual amounts spent as of the end of the award year. Schools report those amounts on the ED/PMS 272 Report.

3. Returning Federal Family Education Loan (FFEL) Program Funds

FFEL Program funds must be returned to the lender if: (OH 26)

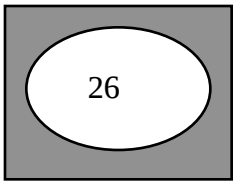
- ◊ a student fails to enroll for the period for which the loan is intended;
- ◊ a student fails to meet satisfactory academic progress or other eligibility requirements at the time the loan is to be disbursed;
- ◊ a student withdraws or drops out during an enrollment period for which the loan is intended;*
- ◊ a refund is due to a lender as a result of a refund calculation; **or**
- ◊ a student or parent requests a school to return FFEL Program funds to reduce the borrower's principal loan balance.

If a student fails to enroll or fails to meet other loan eligibility requirements, a school has 30 days to return loan proceeds to the lender.

If a student drops out and does not notify the school, the school must return loan proceeds to the lender within 30 days of the earliest of:

- ◊ the date the school becomes aware that the student dropped out;
- ◊ the expiration of the academic term in which the student dropped out; **or**
- ◊ the expiration of the enrollment period for which the student was charged.

Instructor's Notes



*A late disbursement can be made to a student if institutional charges are documented.

If a student is on an approved leave of absence (LOA) and does not return to school, a school must return loan proceeds to a lender within 30 days of the earlier of:

- ◊ the expiration date of the LOA; **or**
- ◊ the date the student notifies the school that he/she will not be returning.

A school must return loan proceeds to the lender within 30 days of determining that a student is not eligible for the loan (for example, if the student fails to enroll).

Before we end this session, are there any questions?

Instructor's Notes

Note to Instructor:
For more information, refer to *The Blue Book*, Section 4.8.4.