

STUDENT FINANCIAL AID GUIDELINES

FISCAL MANAGEMENT

Accounting Procedures

U.S. DEPARTMENT
OF HEALTH AND HUMAN SERVICES
Public Health Service
Health Resources and Services Administration
Bureau of Health Professions
Division of Student Assistance

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ACCOUNTING PROCEDURES

Accounting is one of the major responsibilities assumed by an institution as part of the participation in the health professions and nursing student assistance programs. Each participating school has an important responsibility to itself and to its students to develop procedures which will allow it to maintain good records and control over the student financial aid programs. While *Accounting Procedures* has been prepared with the intention of assisting institutions in meeting their responsibilities, it is not intended to be considered an accounting manual for instructional purposes.

CHAPTER 1 ACCOUNTING REQUIREMENTS - GENERAL

Accounting for scholarship and loan funds should be in accordance with generally accepted accounting principles consistently applied. Any generally accepted accounting method is satisfactory if it:

- provides for such fiscal control as is necessary for prudent management and proper disbursement of Federal funds;
- provides the information necessary for completion of the Department of Health and Human Services' required reports; and
- provides a clear audit trail of the transactions.

Section 1 DESIGNATION OF INSTITUTIONAL OFFICIALS

The program contact person is the individual who will be responsible for distributing DSA program mailings to the appropriate offices and individuals within the institution and will be responsible for ensuring the return of material. Any changes to the contact person, refer to [Health Professions Student Loan, Appendix I](#).

Section 2 PERSONNEL

A professional, experienced staff is vital to the successful administration of the health professions and nursing student assistance programs. An institution cannot overburden the staff charged with the programmatic and fiscal functions of its student assistance activities, nor should it give these functions to a part-time or temporary employee. This job is permanent, important, full time, and requires experienced, trained, and responsible people with the attitude and ability to relate well to the student and to the administration of an institution. Staff members must have sufficient authority to carry out the requirements of the programs they administer.

The fiscal office should be adequately staffed to keep accurate fiscal records leading to proper management of the funds. The duties of the Fiscal Officer should be clearly separated from the functions of the Financial Aid Administrator to avoid confusion of authority and promote management of the program funds. The functions of the Fiscal Officer must include maintenance of records which reflect all transactions, provide accurate ledger and related subsidiary accounts, and are reconciled on a regular (i.e., monthly) basis. It is also recommended that the responsibility for the collection process (including the exercise of due diligence) be placed under the supervision of the Fiscal Officer.

It is important that the Financial Aid Administrator and the Fiscal Officer become totally familiar with the authority, functions and procedures of each other to ensure that all related activities are conducted so as to comply with Federal, State, and institutional standards. This is best accomplished with written job descriptions and through a continuing, open dialogue between the individuals responsible for program and fiscal operations at the school.

Section 3 RECORDS - MAINTENANCE

One of the most important and time-consuming responsibilities of an institution is the maintenance of records. Sound record keeping techniques will result in greater ease of locating applications, completing reports, collecting loans, and meeting Federal audit and monitoring requirements. Accurate records enable the school to document all activities occurring within the programs.

A. FINANCIAL AID OFFICE

In the financial aid office there are three types of records to be maintained:

- Student Records - For types of documents to be maintained see:

Health Professions Programs:

- [Health Professions Student Loan - Chapter 3](#)
- [Health Education Assistance Loan - Chapter 2](#)
- [Exceptional Financial Need Scholarship - Chapter 3](#)
- [Scholarships for Disadvantaged Students - Chapter 3](#)

Nursing Programs:

- [Nursing Student Loan Program - Chapter 3](#)
- [Scholarships for Disadvantaged Students - Chapter 3](#)
- Program or Source Records - These records consist of separate file folders on each Federal or other student assistance program in which the school participates or which is made available to the students through the school. These files should contain all relevant laws, regulations, guidelines, and other documents which relate to the programs, as well as copies of the Applications to Participate, Notices of Awards, etc.
- Transaction Records - Unofficial records which show the Financial Aid Administrator the approximate status of loans, deposits, awards, etc. These records should be reconciled with the records of the fiscal office in order to more accurately reflect the status of program funds.

B. FISCAL OFFICE

The fiscal office must maintain separate and distinct accounts for the various programs and keep records and supporting documentation of all transactions. These records could include copies of the Application to Participate, Notices of Awards, Annual Operating Reports, Financial Status Reports, records of collection, receipts of expenditures, and balances of accounts. These records constitute an accounting entity which, although kept separately from the general books of the school, need to be controlled by the ledger system of the school, maintained by the Fiscal Officer, and be auditable within the school's total ledger system.

Section 4 RECORDS - RETENTION AND DISPOSITION

Student records, collection records, and fiscal records have different retention and disposition schedules and requirements. The school must comply with the requirements of *45 CFR Part 74* concerning record keeping, audit, and inspection.

A. STUDENT RECORDS

Student records which must be retained by the school for five years after the individual student ceases to be a student are:

- approved student applications for financial aid;
- documentation of the financial need of applicants;
- financial aid transcript(s); and
- any other records the Secretary may require.

These records may be destroyed at the end of the five-year period except when questions have been raised as a result of a Federal audit. In such cases, records should be retained until the questions have been resolved and the audit closed.

[42 CFR Part 57.215 and 42 CFR Part 57.315]

Student records for scholarship awards must be retained by the school for five years after the funds were awarded. If an audit by or on behalf of the Department of Health and Human Services has not occurred within this five-year period, the records must be retained until an audit has been conducted and all audit questions resolved.

B. COLLECTION RECORDS

Those records which have been produced as evidence of collection, billing and repayment activity must be kept for at least five years from the date of retirement of a loan. Records included in this requirement are listed in Section 5 below.

C. PROGRAM RECORDS AND FISCAL LEDGER SYSTEM

As in any fiscal accounting system, fiscal records kept as evidence of Federal funds being utilized must be kept indefinitely or until the Department of Health and Human Services indicates the school may dispose of these records. Records included in this requirement include all supporting documentation, such as bank statements and receipts of expenditures.

Section 5 RECORDS - COLLECTIONS

After the borrower leaves the school, a student file must be maintained as part of the school's collection responsibilities. The file can take on any format as long as it includes evidence of all activities taken in the collection of a loan. It is especially important to keep all evidence of correspondence and other contacts in the billing process. At a minimum, the school must retain the following records for five years from the date of retirement of a loan:

- the amount and date of each loan;
- the amount and date of each payment or cancellation;
- records of periods of deferment;
- date, nature, and result of each contact with the borrower or proper endorser in the collection of an over-due loan;
- copies of all correspondence to or from the borrower and endorser;
- copies of all correspondence with a collection agency related to the individual borrower;
- copies of all correspondence with a credit bureau related to an individual borrower;
- copies of all correspondence relating to uncollectible loans which have been written off by the Federal Government or repaid by the school; and

- any other records the Secretary may require.

[42 CFR Part 57.215 and 42 CFR Part 57.315]

The school should also retain those records listed in [Fiscal Management, Collections, Chapter 2, Due Diligence Procedures](#). It is suggested that the original student financial aid file be combined with the collection file to provide additional references to be used in contacting borrowers.

Section 6 ADAPTING REQUIREMENTS TO INSTITUTION'S ACCOUNTING SYSTEM

The accounting records and procedures described in the following chapters may be adapted to the school's own accounting system as long as the records of the funds are maintained in accordance with generally accepted accounting principles and provide the necessary information for preparation of financial reports and for management of the funds. If the adaptation to the school's accounting system does not protect the integrity of the funds or readily provide the necessary information, then the accounting procedures in the following chapters must be followed.

It should be noted that the accounting system described in [Fiscal Management, Accounting Procedures, Chapter 3, Maintenance of Accounts](#) will facilitate the preparation of the required reports. In addition, as report preparation is automated a school may want to interface the accounting system to the report to facilitate its preparation.

CHAPTER 2 TERMINOLOGY

The following sections define common terminology used in Chapter 3 for those who may not be familiar with such terms. This chapter is not intended to be an all-inclusive text. Some of the terms are explained in further detail as they apply to the loan and scholarship programs.

Section 1 ACCOUNTING FOR RESTRICTED FUNDS

A restricted fund is represented on the ledgers as a self-balancing group of accounts: assets, liabilities, revenues, expenses, and a fund balance; such funds are separated in the books of an institution and are limited to specific uses. Each loan and scholarship program is to be treated as a Restricted Fund.

It is important to note that the individual funds are separated completely from one another and from the general fund of the school and are self-balancing. That is, the debit balances of the debit accounts within the fund equal the credit balances of the credit accounts within the fund. This ensures integrity of the individual funds and provides control over the expenditure of the funds.

Section 2 AGING OF ACCOUNTS

Aging of accounts is the process of identifying and classifying by time frames those payments of loan receivable accounts which have not been paid by the due date. For the loan programs, accounts must be aged by the following time increments:

- past due 1 - 30 days
- past due 31 - 60 days
- past due 61 - 90 days
- past due 91 - 119 days
- past due 120 - 180 days
- past due 181 - 270 days
- past due 271 days but less than 1 year
- past due 1 year but less than 2 years
- past due 2 years but less than 3 years
- past due 3 years and over

Usually the loan receivable accounts are maintained as a subsidiary account. ([See also Section 8 below, Subsidiary Accounts.](#)) For purposes of the reporting requirements, this subsidiary account should also classify student loans as follows:

- fully retired through cash repayments and/or cancellation for eligible employment/professional practice

- fully retired due to death
- fully retired due to disability
- fully retired through discharge in bankruptcy and have not received write-off approval
- fully retired due to DHHS approved write-off
- fully retired in accordance with P.L. 100-607

- student status
- grace period
- deferment status
- current status who are in employment which qualifies for cancellation and have filed a request for postponement
- repayment not past due
- payment past due

- bankruptcy, pending discharge
- bankruptcy, making payments under a wage-earner's agreement

- payment in default

- forbearance

Section 3 CONTRA ACCOUNT

A contra account is an account which partially or wholly offsets another account. For example, a student loan (receivable) account may be offset by any amounts repaid by the borrower.

Section 4 CONTROL ACCOUNT

A control account is an account which primarily contains totals of one or more types of transactions, the detail of which appears in subsidiary accounts. Its balance equals the sum of the balances of the detail accounts. For example, the Loans to Students, In School account is a control account for all the individual student borrower subsidiary accounts. See also [Section 8 below, Subsidiary Accounts](#).

Section 5 DEBIT AND CREDIT

In accounting, debit (DR) means left and credit (CR) means right. The left side of an account is called the debit side; the right side of an account is called the credit side. The general rules for debit and credit for accounts may be summarized as follows:

- *Debits*: Increase asset and expense accounts; Decrease liability, revenue, and fund accounts; and
- *Credits*: Increase liability, revenue and fund accounts; Decrease asset and expense accounts.

Section 6 JOURNAL

A journal is a book of original entry which provides a chronological record of the debit and credit elements of each transaction. As transactions occur, they are entered initially into the journal. At convenient intervals, such as weekly or monthly, the debits and credits recorded in the journal are transferred to the individual accounts in the ledger.

Section 7 LEDGER

A ledger is a book of accounts. Each item of a monetary nature to be included in the reports issued by an organization is assigned an account in the ledger. Posting from the journal to the ledger results in each account having either a debit or a credit balance. This debit or credit balance is then shown on the particular report listing this item. Separate ledgers should be maintained for each loan or scholarship fund.

Section 8 SUBSIDIARY ACCOUNTS

Subsidiary accounts are a group of similar accounts relating to the same activity or object, maintained in a separate record and controlled by an account in the general ledger. For example, each individual student borrower account is a subsidiary account. The total of all individual student subsidiary accounts can be summarized in the Loans to Students, In School account, a control account. See also [Section 4 above, Control Account](#).

CHAPTER 3 MAINTENANCE OF ACCOUNTS

Monies paid to an institution in the form of loan and scholarship awards and/or other income to the funds must be deposited and maintained in separate and distinct accounts, apart from other accounts of the institution and apart from each other. The school should maintain a ledger system of accounts which contain at least a journal of original entry, a set of control accounts, and a subsidiary account which contains a record on each and every borrower and/or scholarship recipient. All transactions should be recorded promptly and subsidiary accounts reconciled to the control accounts on a regular basis.

Section 1 LOANS - CHART OF ACCOUNTS

The following is a basic Chart of Accounts that satisfies the record keeping requirements for the Department of Health and Human Services' loan programs and facilitates the preparation of the Annual Operating Report. Although any uniform numbering system is acceptable, the one used here identifies the part of the financial statements on which the accounts are located. For example,

- 1 - Asset Accounts
- 2 - Asset Reduction Accounts
- 3 - Liability Accounts
- 4 - Fund Accounts
- 5 - Fund Reduction Accounts
- 6 - Revenue Accounts
- 7 - Expense Accounts.

1 - Assets Accounts

- 1-1 Cash
- 1-2 Funds Receivable, Federal Awards
- 1-3 Funds Receivable, Institutional Contribution
- 1-4 Loans to Students, In School
- 1-5 Loans to Students, No Longer Enrolled

2 - Asset Reduction Accounts

- 2-1 Loan Principal Collected
- 2-2 Loan Principal Cancelled
- 2-3 Loan Principal Adjustments, Bankruptcy
- 2-4 Loan Principal Adjustments, Write-off
- 2-5 Institutional Repayments of Bad Debts, Principal

3 - Liability Accounts - None

4 - Fund Accounts

- 4-1 Federal Capital Contributions Authorized
- 4-2 Institutional Capital Contribution Deposited
- 4-3 Transferred from Scholarship Fund

5 - Fund Reduction Accounts

- 5-1 Repayments to the Federal Government, Principal
- 5-2 Repayments to the Federal Government, Interest
- 5-3 Repayments to the Federal Government, Other Income
- 5-4 Repayments to the Institution, Principal
- 5-5 Repayments to the Institution, Interest
- 5-6 Repayments to the Institution, Other Income
- 5-7 Transferred to Scholarship Fund

6 - Revenue Accounts

- 6-1 Interest Income Collected on Loans
- 6-2 Interest Income Cancelled on Loans
- 6-3 Institutional Repayment of Bad Debts, Interest
- 6-4 Penalty Charges Collected on Loans
- 6-5 Penalty Charges Cancelled on Loans
- 6-6 Institutional Repayment of Bad Debts, Penalty Charges
- 6-7 Investment Income

7 - Expense Accounts

- 7-1 Collection Agent Costs, Principal
- 7-2 Collection Agent Costs, Interest
- 7-3 Litigation Costs, Principal
- 7-4 Litigation Costs, Interest
- 7-5 Credit Bureau Fees
- 7-6 Other Costs
- 7-7 Loan Principal, Interest and Penalty Charges Canceled - Employment
- 7-8 Loan Principal, Interest and Penalty Charges Canceled - Death
- 7-9 Loan Principal, Interest and Penalty Charges Canceled - Disability

7-10	Loan Principal, Interest and Penalty Charges Cancelled - Bankruptcy
7-11	Other Expenses or Losses

A. ACCOUNT DESCRIPTIONS

The following is intended to be used as a guide for the entries that would be made to each of the accounts listed in the Chart of Accounts in [Section 1](#) above.

1-1 CASH: This is an asset account which shows the total cash available.

Debit this account for:

- Capital contributions of the Federal Government (contra account #1-2)
- Capital contributions of the institution (contra account #1-3)
- Refunds of amounts advanced to students (contra account #1-4 and #1-5)
- Collections of principal from borrowers (contra account #2-1)
- Collections of interest from borrowers (contra account #6-1)
- Collections of penalty charges from borrowers (contra account #6-4)
- Investment income (contra account #6-7)
- Repayments from borrowers for collection costs (contra account #7-1 and #7-2)
- Repayments from borrowers for litigation costs (contra account #7-3 and #7-4)
- Repayments from borrowers for credit bureau costs (contra account #7-5)
- Repayments from borrowers for other costs (contra account #7-6)
- Repayments from institution for bad debts, principal (contra account #2-5)
- Repayments from institution for bad debts, interest (contra account #6-3)
- Repayments from institution for bad debts, penalty charges (contra account #6-6)
- Transfers of funds from the scholarship account (contra account #4-3)

Credit this account for:

- Advances to students (contra account #1-4)
- Repayments to the Federal Government (contra account #5-1, #5-2, and #5-3)
- Repayments to the institution (contra account #5-4, #5-5, and #5-6)
- Withdrawals for payments of reasonable and customary charges incurred in investing the Fund monies (contra account #6-7)
- Withdrawals for payments of collection costs (contra account #7-1 and #7-2)
- Withdrawals for payments of litigation costs (contra account #7-3 and #7-4)
- Withdrawals for payment of credit bureau costs (contra account #7-5)
- Withdrawals for payment of other costs (contra account #7-6)
- Transfers of funds to the scholarship account (contra account #5-7)
- Returned checks from borrowers (contra account #2-1, #6-1, and #6-4)

1-2 FUNDS RECEIVABLE, FEDERAL AWARDS: This is an asset account which shows the total of the funds due from the Federal Government for the Federal Capital Contribution.

Debit this account for:

- The amount of the award as specified in the award letter (contra account #4-1)

Credit this account for:

- Federal contribution monies drawn down and deposited into the fund account (contra account #1-1)
- Deobligation of awards not drawn down (contra account #4-1)

1-3 FUNDS RECEIVABLE, INSTITUTIONAL CONTRIBUTION: This is an asset account which shows the total of the funds due from the institution for the Federal Capital Contribution. It should be noted that loans cannot be made to students from the Federal Capital Contribution fund without the institutional one-ninth share being deposited first.

Debit this account for:

- One-ninth (1/9) of the award specified in the award letter. This is the institution's matching share (contra account #4-2)

Credit this account for:

- Cash paid by the institution to the fund for the institution's proportionate share of Federal Capital Contribution funds advanced (contra account #1-1)
- Deobligation of the institution's 1/9 matching share of awards not drawn down (contra account #4-2)

1-4 LOANS TO STUDENTS, IN SCHOOL: This asset account is a control account for loans to borrowers during their enrollment in school. The total of the amounts shown as advances to each in-school student (subsidiary account) should be reconciled to the balance in this account at the end of each month.

Debit this account for:

- The amount loaned to borrowers (contra account #1-1)

Credit this account for:

- Refunds of amounts advanced (contra account #1-1)
- Total previously advanced to students who are terminating their enrollment at the institution (contra account #1-5)

1-5 LOANS TO STUDENTS, NO LONGER ENROLLED: This asset account is a control account for the total amount loaned to borrowers who are no longer enrolled at the institution. The total of the amounts shown as advances to borrowers who are no longer enrolled (subsidiary account) should be reconciled to the balance in this account at the end of each month.

Debit this account for:

- The total loaned to students who are no longer enrolled at the institution (contra account #1-4)

Credit this account for:

- Refunds of amounts advanced (contra account #1-1)

2-1 LOAN PRINCIPAL COLLECTED: This asset reduction account is maintained to show the total amount of loan principal collected since the beginning of the program.

Debit this account for:

- Returned checks from borrowers (contra account #1-1)

Credit this account for:

- The amount of cash collections to loan principal (contra account #1-1)

Note: Credit entries of cash collections entered in #1-4 and #1-5 would not be entered in this account.

2-2 LOAN PRINCIPAL CANCELLED: This asset reduction account is maintained to show the cumulative amount of loan principal cancelled under the provisions of the law, including employment, death, and disability.

Debit this account for:

- Nothing, except for correction of errors

Credit this account for:

- The appropriate one of these accounts for the amount of loan principal cancelled under the provisions of the law (contra accounts #7-7, #7-8, and #7-9)

2-3 LOAN PRINCIPAL ADJUSTMENTS, BANKRUPTCY: This asset reduction account is maintained to show the cumulative total amount of loan principal uncollectible because of bankruptcy.

Debit this account for:

- Nothing, except for correction of errors

Credit this account for:

- The amount of loan principal uncollectible because of bankruptcy (contra account #7-10)

2-4 LOAN PRINCIPAL ADJUSTMENTS, WRITE-OFF: This asset reduction account is maintained to show the cumulative total amount of loan principal uncollectible because of other reasons (write-offs) as specified by the Division of Student Assistance, including write-offs under Public Law 100-607. Each entry to this account should be adequately labeled to identify the reason for the adjustment.

Debit this account for:

- Subsequent collections (contra account #7-11)
- Adjustment of a loan receivable balance of \$10.00 or less (overpayment) (contra account #7-11)

Credit this account for:

- The amount of loan principal uncollectible because of other approved reasons (write-offs) (contra account #7-11)
- Adjustment of a loan receivable balance of \$10.00 or less (underpayment) (contra account #7-11)

2-5 INSTITUTIONAL REPAYMENTS OF BAD DEBTS, PRINCIPAL: This asset reduction account is maintained to show the total amount of loan principal repaid by the institution for bad debts.

Debit this account for:

- Nothing, except for correction of errors

Credit this account for:

- The amount of cash repayments to loan principal (contra account #1-1)

4-1 FEDERAL CAPITAL CONTRIBUTIONS AUTHORIZED: This is a fund account maintained to show the net Federal Capital Contributions since the beginning of the program.

Debit this account for:

- The amount of deobligation of Federal Funds (contra account #1-2)

Credit this account for:

- The amount of the award as specified in the award letter (contra account #1-2)

4-2 INSTITUTIONAL CAPITAL CONTRIBUTIONS: This is a fund account maintained to show the net institutional capital contributed since the beginning of the program.

Debit this account for:

- The institution's share of deobligation of awards not drawn down (contra account #1-3)

Credit this account for:

- The institution's matching share of the award. This is 1/9 of the amount shown in the award letter (contra account #1-3)

4-3 TRANSFERRED FROM SCHOLARSHIP FUND: This is a fund account maintained to show the total amount transferred from the scholarship account since the beginning of the program.

Debit this account for:

- Nothing, except for correction of errors

Credit this account for:

- Amounts transferred from the scholarship fund (contra account #1-1)

5-1 REPAYMENTS TO THE FEDERAL GOVERNMENT, PRINCIPAL: This is a fund reduction account maintained to show the total principal repayments to the Public Health Service, Health Resources and Services Administration (PHS,HRSA), as distribution of Fund capital.

Debit this account for:

- The amount of capital distribution (principal) paid to PHS,HRSA (contra account #1-1)

Credit this account for:

- Nothing, except for correction of errors

5-2 REPAYMENTS TO THE FEDERAL GOVERNMENT, INTEREST: This is a fund reduction account maintained to show the total interest repayments to the Public Health Service, Health Resources and Services Administration (PHS,HRSA), as distribution of Fund capital.

Debit this account for:

- The amount of capital distribution (interest) paid to PHS,HRSA (contra account #1-1)

Credit this account for:

- Nothing, except for correction of errors

5-3 REPAYMENTS TO THE FEDERAL GOVERNMENT, OTHER INCOME: This is a fund reduction account maintained to show the total other income (penalty charges and investment income) repayments to the Public Health Service, Health Resources and Services Administration (PHS,HRSA), as distribution of Fund capital.

Debit this account for:

- The amount of capital distribution (other income) paid to PHS,HRSA (contra account #1-1)

Credit this account for:

- Nothing, except for correction of errors

5-4 REPAYMENTS TO THE INSTITUTION, PRINCIPAL: This is a fund reduction account maintained to show the total principal repayments to the institution as distribution of Fund capital.

Debit this account for:

- The amount of capital distribution (principal) paid to the institution (contra account #1-1)

Credit this account for:

- Nothing, except for correction of errors

5-5 REPAYMENTS TO THE INSTITUTION, INTEREST: This a fund reduction account maintained to show the total interest repayments to the institution as distribution of Fund capital.

Debit this account for:

- The amount of capital distribution (interest) paid to the institution (contra account #1-1)

Credit this account for:

- Nothing, except for correction of errors

5-6 REPAYMENTS TO THE INSTITUTION, OTHER INCOME: This is a fund reduction account maintained to show the total other income (penalty charges and investment income) repayments to the institution as distribution of Fund capital.

Debit this account for:

- The amount of capital distribution (other income) paid to the institution (contra account #1-1)

Credit this account for:

- Nothing, except for correction of errors

5-7 TRANSFERRED TO SCHOLARSHIP: This is a fund reduction account maintained to show the total amount transferred from the scholarship account since the beginning of the program.

Debit this account for:

- Amounts transferred to the scholarship fund (contra account #1-1)

Credit this account for:

- Nothing, except for correction of errors

6-1 INTEREST INCOME COLLECTED ON LOANS: This is a revenue account maintained to show the total interest which has been collected on loans to borrowers.

Debit this account for:

- Returned checks from borrowers (contra account #1-1)

Credit this account for:

- The amount of loan interest collected (contra account #1-1)

6-2 INTEREST INCOME CANCELLED ON LOANS: This is an account maintained to show the total interest which has been cancelled on loans to borrowers, including employment, death, disability, and bankruptcy.

Debit this account for:

- Nothing, except for correction of errors

Credit this account for:

- The appropriate one of these accounts for the amount of loan interest cancelled (contra accounts #7-7, #7-8, #7-9, #7-10, and #7-11)

6-3 INSTITUTIONAL REPAYMENT OF BAD DEBTS, INTEREST: This is a revenue account maintained to show the total amount of loan interest repaid by the institution for bad debts.

Debit this account for:

- Nothing, except for correction of errors

Credit this account for:

- The amount of cash repayments to loan interest (contra account #1-1)

6-4 PENALTY CHARGES COLLECTED ON LOANS: This is a revenue account maintained to show the total penalty charges which have been collected on loans to borrowers.

Debit this account for:

- Returned checks from borrowers (contra account #1-1)

Credit this account for:

- The amount of penalty charges collected (contra account #1-1)

6-5 PENALTY CHARGES CANCELLED ON LOANS: This is an account maintained to show the total penalty charges which have been cancelled on loans to borrowers, including employment, death, disability, and bankruptcy.

Debit this account for:

- Nothing, except for correction of errors

Credit this account for:

- The appropriate one of these accounts for the amount of penalty charges cancelled (contra accounts #7-7, #7-8, #7-9, #7-10, and #7-11)

6-6 INSTITUTIONAL REPAYMENT OF BAD DEBTS, PENALTY CHARGES: This is a revenue account maintained to show the total amount of loan penalty charges repaid by the institution for bad debts.

Debit this account for:

- Nothing, except for correction of errors

Credit this account for:

- The amount of cash repayments to loan penalty charges (contra account #1-1)

6-7 INVESTMENT INCOME: This is a revenue account maintained to show the net amount of investment income earned on Fund monies.

Debit this account for:

- Any reasonable and customary charges incurred in investing the Fund monies (contra account #1-1)

Credit this account for:

- Earnings on program funds deposited in any type of interest-bearing account (contract account #1-1)

7-1 COLLECTION AGENT COSTS, PRINCIPAL: This is an expense account maintained to show the net allowable amount (internal and external) charged to the Fund for the principal portion of collection costs incurred in the collection of loans.

Debit this account for:

- The principal portion of the collection costs charged to the Fund as an expense (contra account #1-1)

Credit this account for:

- Amounts collected from borrowers in repayment of collection expenses (contra account #1-1)

7-2 COLLECTION AGENT COSTS, INTEREST: This is an expense account maintained to show the net allowable amount (internal and external) charged to the Fund for the interest portion of collection costs incurred in the collection of loans.

Debit this account for:

- The interest portion of the collection costs charged to the Fund as an expense (contra account #1-1)

Credit this account for:

- Amounts collected from borrowers in repayment of collection expenses (contra account #1-1)

7-3 LITIGATION COSTS, PRINCIPAL: This is an expense account maintained to show the net amount charged to the Fund for the principal portion of litigation costs incurred in the collection of loans.

Debit this account for:

- The principal portion of litigation costs charged to the Fund as an expense (contra account #1-1)

Credit this account for:

- Amounts collected from borrowers in repayment of litigation expenses (contra account #1-1)

7-4 LITIGATION COSTS, INTEREST: This is an expense account maintained to show the net amount charged to the Fund for the interest portion of litigation costs incurred in the collection of loans.

Debit this account for:

- The interest portion of litigation costs charged to the Fund as an expense (contra account #1-1)

Credit this account for:

- Amounts collected from borrowers in repayment of litigation expenses (contra account #1-1)

7-5 CREDIT BUREAU FEES: This is an expense account maintained to show the net amount charged to the Fund for credit bureau costs.

Debit this account for:

- Credit bureau costs charged to the Fund as an expense (contra account #1-1)

Credit this account for:

- Amounts collected from borrowers in repayment of credit bureau expenses (contra account #1-1)

7-6 OTHER COSTS: This is an expense account maintained to show the net amount charged to the Fund for other allowable costs.

Debit this account for:

- Other allowable costs charged to the Fund as an expense (contra account #1-1)

Credit this account for:

- Amounts collected from borrowers in repayment of other allowable expenses (contra account #1-1)

7-7 LOAN PRINCIPAL, INTEREST AND PENALTY CHARGES CANCELLED - EMPLOYMENT: This is an expense account maintained to show the cumulative total cost of cancellations for employment.

Debit this account for:

- The total principal, interest, and penalty charges cancelled for employment (contra accounts #2-2, #6-2, and #6-5)

Credit this account for:

- Nothing, except for correction of errors

7-8 LOAN PRINCIPAL, INTEREST AND PENALTY CHARGES CANCELLED - DEATH: This is an expense account maintained to show the cumulative total cost of cancellations for death.

Debit this account for:

- The total principal, interest, and penalty charges cancelled for death (contra accounts #2-2, #6-2, and #6-5)

Credit this account for:

- Nothing, except for correction of errors

7-9 LOAN PRINCIPAL, INTEREST AND PENALTY CHARGES CANCELLED -

DISABILITY: This is an expense account maintained to show the cumulative total cost of cancellations for disability.

Debit this account for:

- The total principal, interest, and penalty charges cancelled for disability (contra accounts #2-2, #6-2, and #6-5)

Credit this account for:

- Nothing, except for correction of errors

7-10 LOAN PRINCIPAL, INTEREST AND PENALTY CHARGES CANCELLED -

BANKRUPTCY: This is an expense account maintained to show the cumulative total cost of cancellations for bankruptcy.

Debit this account for:

- The total principal, interest, and penalty charges cancelled for bankruptcy (contra accounts #2-3, #6-2, and #6-5)

Credit this account for:

- Nothing, except for correction of errors

7-11 OTHER EXPENSES OR LOSSES: This is an expense account maintained to show other net allowable expenses or losses (write-offs) incurred in the collection of loans.

Debit this account for:

- Any loan principal, interest, and penalty charges approved for write-off because of uncollectibility, including write-offs under Public Law 100-607. (contra accounts #2-4, #6-2, and #6-5)
- Adjustment of a loan receivable balance of \$10.00 or less (underpayment) (Contra account #2-4)

Credit this account for:

- Subsequent collections (contra account #2-4)
- Adjustment of a loan receivable balance of \$10.00 or less (overpayment) (contra account #2-4)

Section 2 SCHOLARSHIPS - CHART OF ACCOUNTS

The following is a basic Chart of Accounts that satisfies the record keeping requirements for the scholarship programs and facilitates the preparation of the Financial Status Reports.

1 - Asset Accounts

- | | |
|-----|--------------------------|
| 1-1 | Cash |
| 1-2 | Federal Funds Receivable |

2 - Asset Reduction Account

- | | |
|-----|--------------------------|
| 2-1 | Scholarships to Students |
|-----|--------------------------|

4 - Fund Account

- | | |
|-----|------------------------------|
| 4-1 | Scholarship Funds Authorized |
|-----|------------------------------|

A. ACCOUNT DESCRIPTIONS

The following is intended to be used as a guide for the entries that would be made to each of the accounts listed in the Chart of Accounts in [Section 2](#) above.

1-1 CASH: This is an asset account which shows the total cash available.

Debit this account for:

- Funds drawn down against Scholarship award (contra account #1-2)
- Refunds of amounts advanced to students (contra account #2-1)

Credit this account for:

- Scholarships advanced to students (contra account #2-1)

- Repayments of unused funds (contra account #4-1)

1-2 FEDERAL FUNDS RECEIVABLE: This is an asset accounts which shows the total of the funds due from the Federal Government for the Scholarship Fund.

Debit this account for:

- Amount of the award (contra account #4-1)

Credit this account for:

- Scholarship monies drawn down and deposited into Scholarship account (contra account #1-1)
- Deobligation of Scholarship monies not drawn down within the project period (contra account #4-1)

2-1 SCHOLARSHIPS TO STUDENTS: This is an asset reduction account which shows the aggregate of Scholarships awarded to students within the project period.

Debit this account for:

- Scholarships awarded to students (contra account #1-1)

Credit this account for:

- Refunds of advances to students (contra account #1-1)

4-1 SCHOLARSHIP FUNDS AUTHORIZED: This is a fund account maintained to show the net Scholarship authorization for each project period.

Debit this account for:

- The amount of deobligation of Scholarship Funds not drawn down within the project period (contra account #1-2)
- Repayments to the Federal Government of Scholarships drawn down but not awarded to students (contra account #1-1)

Credit this account for:

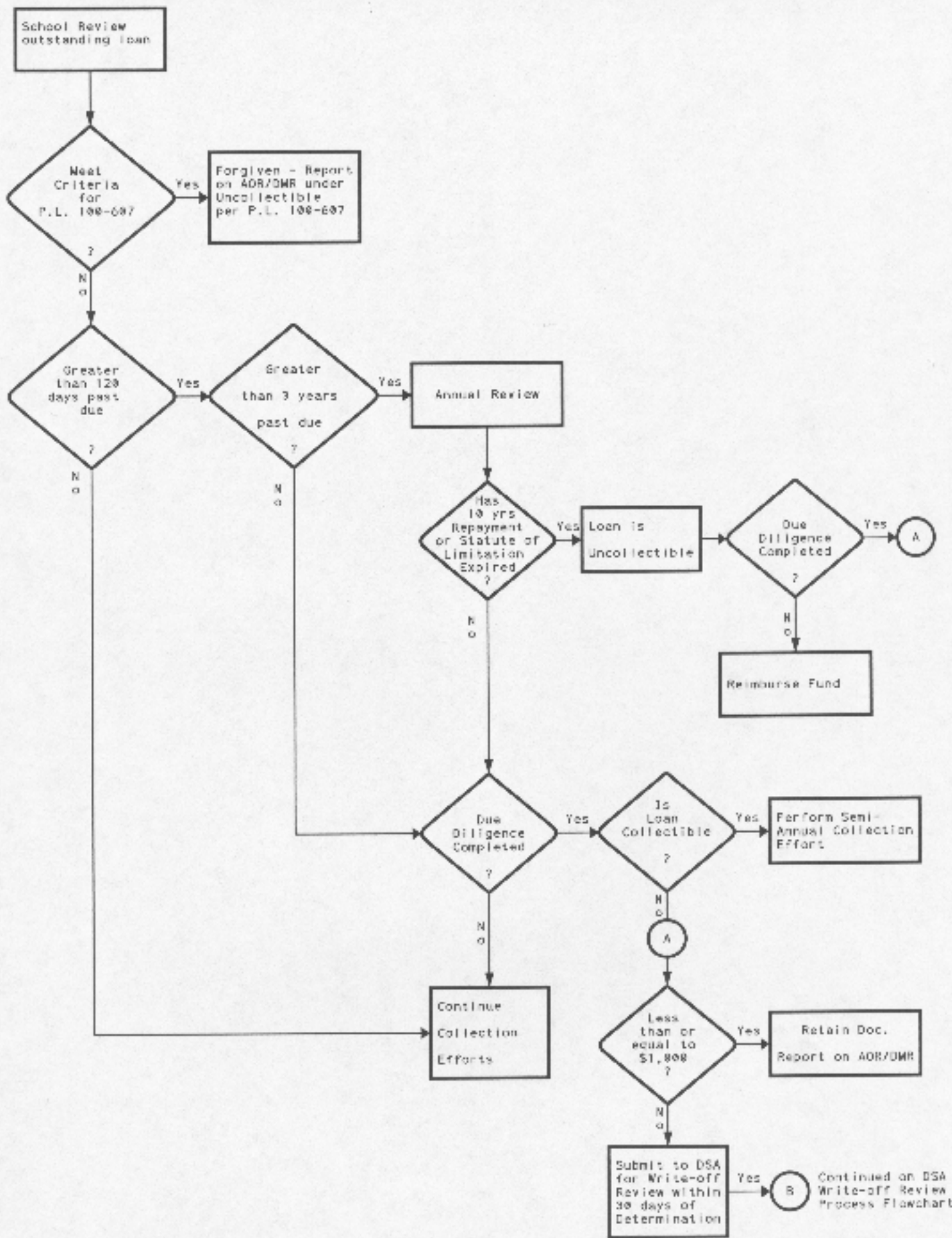
- Amount of the award (contra account #1-2)

Exhibits

Exhibit A External Loan Review Process

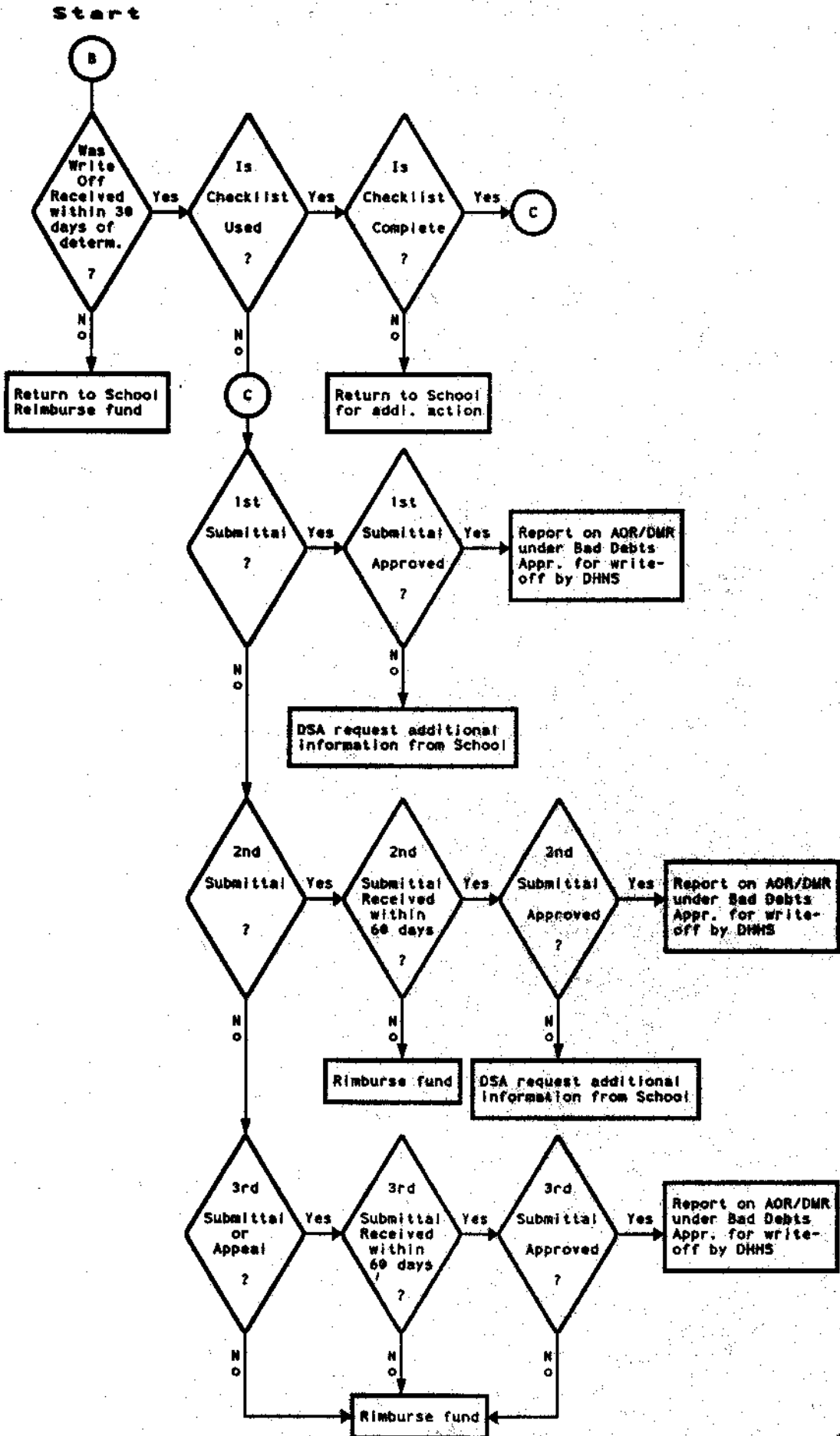
External Loan Review Process

Exhibit A



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DSA Write-off Review Process



**Federal Capital Contribution (FCC) Loans
Due Diligence Check List**

Institution Name: _____

Discipline: _____ State: _____
(Examples: Medicine, Dentistry, Associate, Diploma)

FCC Loan Fund: HPSL PCL LDS NSL
(circle one)

Contact Person and Phone Number: _____

() _____

Borrower Name: _____ SSN#: _____

Separation Date: __/__/__ Grace Period Ended: __/__/__

First Payment Due Date: __/__/__ Date Borrower Defaulted on Loan: __/__/__

Date School Determined Loan Uncollectible: __/__/__

(a) Principal Amount Loaned \$ _____	(b) Principal Amount Repaid \$ _____	(c) Principal Amt Cancelled \$ _____
(d) Principal Amount Outstanding (a-b-c=d) \$ _____	(e) Penalty/Late Charges Outstanding \$ _____	(f) Interest Repaid \$ _____
(g) Interest Cancelled \$ _____	(h) Interest Outstanding (d+e+h=i) \$ _____	(i) Total Outstanding Balance \$ _____

Refer to **Student Financial Aid Guidelines, Book Three - Fiscal Management**
for documentation requirements and guidance.

Below is a check list of items to show due diligence for an FCC loan determined uncollectible.

***** **SUBMIT PHOTOCOPIES ONLY** *****

1. Has loan been reviewed in accordance with the due diligence requirements and write-off procedures in the Student Financial Aid Guidelines, Book Three - Fiscal Management?
 Yes No (Do not submit)
2. Have you enclosed copy(ies) of the Promissory Note(s)?
 Yes No (Do not submit)
3. Have you enclosed a copy of the repayment schedule?
 Yes No
4. Have you enclosed entrance interview documentation (effective 9/23/85)?
 Yes No N/A
5. Have you enclosed exit interview documentation (effective 9/23/85)?
 Yes No N/A

6. Were deferments or cancellations granted on this Loan?

- Yes Enclosed is/are approved form(s).
 No

7. Have you enclosed documentation of required contacts, including grace period (effective 9/23/85), deferment (effective 9/23/85), billing and follow-up? (Refer to the due diligence requirements and write-off procedures in the Student Financial Aid Guidelines, Book Three - Fiscal Management)

- Yes Enclosed is a copy of the billing agent's service agreement or school's billing procedures and its effective dates and evidence of required contacts as listed above for this borrower.
 Yes A copy of the billing agent's service agreement or school's billing procedures applicable to this loan has already been submitted with previous write-off requests. Enclosed are evidence of required contacts as listed above for this borrower.
 No (Do not submit)

8. (a) Was the borrower a skip?

- Yes Date classified as a skip: ___/___/___ Evidence of the skip is enclosed (i.e., return to sender correspondence). A copy of the school's written procedures followed in attempting to locate a borrower and evidence to document that those procedures were followed must be enclosed.
 No

(b) Was a commercial firm or collection agency used to locate this borrower?

- Yes Enclosed is a copy of the contract which states they perform skip tracing.
 No

9. Has the loan been referred to a commercial or inhouse collection agency?

- Yes Enclosed is a copy of the commercial agency's collection procedures, (and if used, the in-house written procedures), evidence of dates of referral, results of placement, and the date the account was returned.
 No

10. Was this loan litigated?

- Yes Enclosed is a copy of the judgement and further efforts taken after litigation to collect the loan.
 No

If you answered no to question 10, you must check one of the following:

- (a) The borrower filed bankruptcy and the loan was discharged through the bankruptcy proceedings, the following additional documentation is submitted: Notice of Creditors, Proof of Claim and Final Discharge.
 (b) Enclosed is a current third party statement (e.g., an attorney or collection agency) why litigation was not pursued (i.e., not cost-effective).

11. Was the loan reported to a Credit Bureau?

- Yes Enclosed is the date and supporting documentation.
 No

12. Have you included documentation of your semi-annual collection effort(s)?

- Yes
 No

13. I certify that the documentation provided is true, complete, and correct to the best of my knowledge.

Any person who knowingly makes a false statement or misrepresentation in the documentation is subject to penalties which may include fines and imprisonment under Federal statute.

Authorized Official's Signature

Date

Exhibit D Calculation of NSL Default Rate

For your convenience, an abbreviated borrower account worksheet and the formula for calculating the default rate are posted on the **INTERNET**. The address is:

www.hrsa.gov/bhpr/dsa/ratecalc.htm

Exhibit E Calculation of [HPSL or PCL] and LDS Default Rate(s)

For your convenience, an abbreviated borrower account worksheet and the formula for calculating the default rate are posted on the **INTERNET**. The address is:

www.hrsa.dhhs.gov/bhpr/dsa/ratecalc.htm

Exhibit F Closing Programs - Return of Excess Cash - Version 1

CALCULATION OF PRINCIPAL, INTEREST AND OTHER INCOME
DUE FEDERAL GOVERNMENT FROM COLLECTIONS
(Initial Recovery)

For use by those institutions newly in closing status and repaying the Federal Government for the first few times.

BASE DATA NEEDED

A. (Cumulative from the beginning of the program):

1.	Federal Funds Received.....	\$ _____
2.	Institutional Contributions Deposited.....	_____
3.	Transfers from Scholarship Fund.....	_____
4.	Transfers to Scholarship Fund.....	_____
5.	Interest Income Collected on Loans.....	_____
6.	Penalty Charges Collected on Loans.....	_____
7.	Investment Income.....	_____
8.	Institutional Repayment of Bad Debts, Interest.....	_____
9.	Institutional Repayment of Bad Debts, Penalty Charges.....	_____
10.	Collection Costs, Interest.....	_____
11.	Litigation Costs, Interest.....	_____
12.	Credit Bureau Fees.....	_____
13.	Other Costs.....	_____
14.	Total Other Income Previously Repaid to the Fed. Govt. (if any)*.....	_____
15.	Total Interest Previously Repaid to the Fed. Govt. (if any)*.....	_____

B. (Current period data)

1.	Cash Balance End of Period Covered By This Report.....	_____
----	--	-------

* For example, if associated with return of excess cash while in active status.

Using the BASE DATA items above:

Step 1: Calculate the Federal Government's percentage contributed to the Fund:

$$\text{Federal percentage (F\%)} = \frac{A.1 + A.3 - A.4}{A.1 + A.2 + A.3 - A.4}$$

Step 2: Calculate the total amount due the Federal Government:

$$\text{Total Amount Due Federal Government} = \text{F\%} \times \text{B.1}$$

Step 3: Calculate the portion of the Total Amount Due Federal Government which is Other Income:

$$\text{Other Income} = [\text{F\%} \times (\text{A.6} + \text{A.7} + \text{A.9})] - \text{A.14}$$

Step 4: Calculate the portion of the Total Amount Due Federal Government which should be interest:

$$\text{Interest} = [\text{F\%} \times (\text{A.5} + \text{A.8} - \text{A.10} - \text{A.11} - \text{A.12} - \text{A.13})] - \text{A.15}$$

Step 5: Calculate the portion of the Total Amount Due Federal Government which should be principal:

$$\text{Principal} = \text{Total Amount due Federal Government} \text{ minus} \\ \text{Interest minus Other Income}$$

NOTE: The Federal Government will always recover its proportionate share of any interest and other income collected (less its proportionate share of expenses) before any repayments are applied to principal. Once the initial interest amounts have been recovered, the work sheet at Exhibit I may be used to determine principal interest and other income repayments for each current period.

Exhibit G Closing Programs - Return of Excess Cash - Version 2

CALCULATION OF PRINCIPAL, INTEREST AND OTHER INCOME
DUE FEDERAL GOVERNMENT FROM COLLECTIONS

For use by those institutions that have been in closing status for awhile and have repaid the initial bulk of interest to the Federal Government.

BASE DATA NEEDED

- A. (Cumulative from the beginning of the program):
1. Federal Funds Received.....\$ _____
 2. Institutional Contributions Deposited..... _____
 3. Transfers from Scholarship Fund..... _____
 4. Transfers to Scholarship Fund..... _____
- B. (Current period data)
1. Loan Principal Collected..... _____
 2. Interest Income Collected on Loans..... _____
 3. Penalty Charges Collected on Loans..... _____
 4. Investment Income..... _____
 5. Institutional Repayment of Bad Debts, Principal..... _____
 6. Institutional Repayment of Bad Debts, Interest..... _____
 7. Institutional Repayment of Bad Debts, Penalty Charges..... _____
 8. Collection Costs, Principal..... _____
 9. Collection Costs, Interest..... _____
 10. Litigation Costs, Principal..... _____
 11. Litigation Costs, Interest..... _____
 12. Credit Bureau Fees..... _____
 13. Other Costs..... _____
 14. Cash Balance End of Period Covered by this Report..... _____

Using the BASE DATA items above:

Step 1: Calculate the Federal Government's percentage contributed to the Fund:

$$\text{Federal percentage (F\%)} = \frac{A.1 + A.3 - A.4}{A.1 + A.2 + A.3 - A.4}$$

Step 2: Calculate the total amount due the Federal Government:

$$\text{Total Amount Due Federal Government} = F\% \times B.14$$

Step 3: Calculate the portion of the Total Amount Due Federal Government which is Other Income:

$$\text{Other Income} = F\% \times (B.3 + B.4 + B.7)$$

Step 4: Calculate the portion of the Total Amount Due Federal Government which should be Interest:

$$\text{Interest} = F\% \times (B.2 + B.6 - B.9 - B.11 - B.12 - B.13)$$

Step 5: Calculate the portion of the Total Amount Due Federal Government which should be principal:

$$\text{Principal} = F\% \times (B.1 + B.5 - B.8 - B.10)$$

NOTE: The results of Step 3, Step 4 and Step 5 when added together, should equal the result of Step 2.

Exhibit H Certification Statement

Certificate Statement

(Sample)

Date

Institutional Representative

Dear _____:

This letter is to confirm due diligence and collection procedures testwork in our OMB Circular A-133 audit of the (your university) for the year ended June 30, 199_ for the following uncollectible accounts.

<u>Program</u>	<u>Discipline</u>	<u>Borrower</u>	<u>Principal</u>	<u>Interest</u>	<u>Penalty Charges</u>
HPSL	Dentistry	John Doe	\$1,000	\$ 200	\$ 50
PCL	Osteopathic	Sue Jones	\$2,000	\$ 500	\$ 25
LDS	Pharmacy	Jane Doe	\$1,500	\$ 200	\$ 55
NSL	Graduate	Sandy Jones	\$ 800	\$ 300	\$ 20

As we have previously discussed, our A-133 audit program now includes completing the DHHS Federal Capital Contribution (FCC) Loans Due Diligence Check List for these students participating in the Health Professions Student Loan Programs. This is to confirm that the results of our testwork of these accounts revealed no findings which will be included in our A-133 audit reports when issued.

The following accounts are disallowed based on our review:

<u>Program</u>	<u>Discipline</u>	<u>Borrower</u>	<u>Principal</u>	<u>Interest</u>	<u>Penalty Charges</u>
NSL	Diploma	John Jones	\$1,800	\$ 300	\$ 20
HPSL	Dentistry	Anne Doe	\$1,000	\$ 200	\$ 50

If you have any questions or comments, please feel free to call me.

Very truly yours,

Independent Audit Firm

Auditor Name

Title