

Requirements for Mandatory Direct Loan Reconciliations

By Lisa R. Saul, Partner and Uniform Guidance Director

On December 29, 2022, the U.S. Department of Education (ED) Federal Student Aid office issued [an announcement \(DL-22-07\)](#) with information to assist higher education institutions with the mandatory reconciliation requirements for the Federal Direct Loan Program. This information applies to your institution's financial aid and business offices.

DL-22-07 updates the information ED released in DL-21-06 in December 2021 by adding answers to common questions such as what items should be verified during the reconciliation process and what tools are available to assist with Direct Loan program reconciliation.

As noted in DL-22-07, Direct Loan reconciliation is a mandatory monthly* process, as required under [34 CFR 685.300 \(b\)\(5\)](#). The process involves reconciling ED's records and the institution's records and identifying and resolving the differences. The reconciliation process should also identify and document the reason for any remaining cash balances after disbursement.

This chart summarizes the types of reconciliations and their frequency and resolution:

Reconciliation	Frequency	Resolution
Internal Reconciliation:		
Compare the financial aid office's roster of scheduled and actual disbursements to a cash detail report from the business office that shows monthly draws from G5 and disbursements.	Monthly, at a minimum.*	Document and resolve any discrepancies in a timely manner.
External Reconciliation:		
Compare the institution's reconciled records to ED's records of funds received and returned and loans originated and disbursed at the institution. (Note: Institutions that complete the internal reconciliation before the external reconciliation will have fewer differences in the external reconciliation.)	Monthly, at a minimum.*	<p>Ensure that data is correct in all systems and cash management and that disbursement reporting timelines are being met.</p> <p>ED has various tools to assist with this reconciliation. They are linked in the answer to Question 10 in the Direct Loan Program Reconciliation Questions and Answers document. This document also addresses other questions related to Direct Loan reconciliations.</p>

Final Reconciliation:		
Perform a final reconciliation at the end of the processing year.	Within a month or two of the school's final disbursements but no later than the program year closeout deadline (the last processing day in July of the year following the end of the award year).	<p>The institution must reconcile to a \$0 ending cash balance at the end of the processing year.</p> <p>Note that information about the final reconciliation and program year closeout deadline is published in the FSA Knowledge Center in February, May, and July before the deadline.</p> <p>Also see DL-23-01 for Direct Loan closeout information for the 2021–22 program year, including answers to common questions.</p>

Failure to complete these mandatory reconciliations within the prescribed timelines could result in the inability to finalize the award year on a timely basis. In addition, unreconciled Direct Loan activity could negatively impact a student's aggregate loan limits (i.e., being over the limits), resulting in the student becoming ineligible for further aid. It could also result in a reportable condition in the institution's annual Uniform Guidance audit.

It is critical for individuals in your financial aid and business offices to understand these requirements and the procedures that address them to maintain your institution's Direct Loan funding.

Please [contact us](#) with any questions.

*If the institution has monthly Federal Direct Loan activity. If not, it is only required in the months that the institution has Direct Loan activity.

This article has been updated.

Additional Resource:

[Requirements for Pell Grant Reconciliations](#)

About the Author

Lisa R. Saul, Partner and Uniform Guidance Director

lsaul@capincrouse.com

o 505.50.CAPIN ext. 2050

Lisa joined CapinCrouse in 1999. She has over 20 years of experience in performing and supervising Uniform Guidance audits of Department of Education student financial aid programs and a variety of federal funding, as well as program audits and agreed-upon procedure engagements of various state-funded programs. Lisa oversees the firm's more than 80 Uniform Guidance audits.

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