



Management Directive

Commonwealth of Pennsylvania

Governor's Office

Management Directive 310.38 Amended – Commonwealth Loan Accounting, Financial Management, and Reporting

Date: May 17, 2022
By Direction of: *Greg Thall*
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This directive establishes policy, responsibilities, and procedures for the accounting, financial management and reporting of loans made by the Commonwealth. This amendment updates definitions, policy and responsibilities, and adds references to new management directives and procedural documents.

1. PURPOSE.

To establish policy, responsibilities, and procedures for the accounting, financial management, and reporting of loans.

2. SCOPE.

- a. This directive applies to all departments, offices, boards, commissions, and councils administering loans under the Governor's jurisdiction (hereinafter referred to as "lending agencies"). Lending agencies not under the Governor's jurisdiction are encouraged to follow the policies and procedures in this directive.
- b. Policies and procedures for administrative and programmatic functions, such as the availability of funding, loan application process, evaluation of applications, and decisions to issue loans are not within the scope of this directive.

3. OBJECTIVES.

- a. To standardize procedures, improve internal controls, and minimize the risk of errors in the accounting, financial management, and reporting of loans.
- b. To assign responsibilities to lending agencies and Office of the Budget (OB), Office of Comptroller Operations (OCO) personnel in the accounting, financial management, and reporting of loans.

4. DEFINITIONS.

- a. **Amortization Schedule.** A schedule that contains the details of loan principal and interest payments, from the date of issuance to the date the loan is repaid in full.
- b. **Automated Clearing House (ACH).** An electronic funds transfer system that operates as a central clearing facility for all electronic funds transfers (EFT) on behalf of its member financial institutions, including the electronic transfer of direct deposit credit transactions from the Commonwealth's account at the originating financial institution to an account designated by an employee at a receiving financial institution.
- c. **Billing Statement.** A report sent to a Borrower that indicates an amount due.
- d. **Borrower.** A person or entity that is legally responsible for the Repayment of a loan.
- e. **Business Partner.** An individual or entity engaged in the conduct of business transactions with the Commonwealth, including vendors, customers, Borrowers, and grantees, which makes payments to or receives money from the Commonwealth and is assigned an identification number, referred to as a Business Partner number, in the SAP system.
- f. **Card.** A Card issued by a financial institution and used to authorize payment. For purposes of this directive, the Card could be a debit or credit Card.
- g. **Certified Economic Development Organization (CEDO).** A member of any nonprofit economic development organization that partners with the Department of Community and Economic Development (DCED) to administer certain loan programs.
- h. **Convenience Fee.** A fee assessed to each Repayment that is made when paying by Card on the OB Payment Center Site.
- i. **Delinquent Claim.** An amount of money owed to a lending agency for which payment is overdue.
- j. **Disbursement.** A payment made by a lending agency to a Borrower.
- k. **Dunning.** The act of notifying a Borrower of a Delinquent Claim.
- l. **Invoice.** An open actual or unopened planned accounts receivable document.
- m. **Loan Adjustment.** A change to the accounting records of a loan.

- n. Loan Key Dates Calendar.** A schedule published by OCO, Bureau of Accounting and Financial Management (BAFM) that contains important billing, Repayment, and Disbursement dates.
- o. Loan Contract.** A legally binding agreement between a Borrower and a lending agency relating to a loan offering, including, but not limited to, the Repayment schedule, penalties, and other Terms and Conditions applicable to the loan.
- p. Loan Settlement.** The act of agreeing upon and signing a Loan Contract.
- q. Modification.** A change to the Terms and Conditions of a Loan Contract.
- r. NACHA (formerly the National Automated Clearing House Association).** The self-regulated network of participants that administers, facilitates, and enforces operating rules for ACH payments and manages risk within the ACH Network.
- s. Non-Sufficient Funds (NSF).** A banking industry term that indicates the demand for a payment cannot be honored due to insufficient funding in the account on which the payment is drawn.
- t. OB Payment Center Site.** An online payment acceptance site to allow Borrowers to make secure payments via ACH or Card.
- u. Overpayment.** A Borrower payment in excess of the current amount due on a loan.
- v. Payoff Quote.** A statement of the amount that must be paid, including interest that accrues through the date the Borrower intends to pay off the loan and any fees that have been incurred but not paid, to satisfy the terms of a loan and pay off the debt.
- w. Repayment.** A payment made by a Borrower to the lending agency that made the loan.
- x. SAP Loans Management Module.** The module within the SAP enterprise resource planning system that the Commonwealth uses to manage its loan portfolio.
- y. Terms and Conditions.** The provisions, requirements, rules, specifications, and standards that comprise a Loan Contract.
- z. Third Party Entity.** An entity other than a Borrower or lending agency.
- aa. Trustee.** An entity, excluding the Treasury Department, that holds, manages, or invests assets on behalf of a lending agency.
- bb. Unscheduled Payment.** A payment received in addition to those required by the loan Terms and Conditions or Repayment schedule.
- cc. Workout Agreement.** An agreement between a Borrower and a lending agency to restructure a Loan Contract.
- dd. Write Off.** A process whereby a lending agency cancels a Delinquent Claim owed by a Borrower.

5. POLICY.

- a.** The SAP enterprise resource planning system (hereinafter referred to as "SAP") is the Commonwealth's designated book of record for the accounting, financial management, and reporting of loans.
- b.** Borrowers and CEDOs must obtain a Business Partner number.
- c.** Supporting documentation must be attached to loan documents in SAP prior to being submitted to OCO for review.
- d.** Disbursements must be made via ACH for Loan Contracts, except when funds are required at Loan Settlement. ACH Disbursements that coincide with a Loan Settlement must be scheduled for at least four (4) business days after the scheduled settlement date of the loan.
- e.** Repayments must be made via ACH for Loan Contracts, with the following exceptions: use of a Card via the OB Payment Center Site; exemptions made and approved in writing by OCO; Borrowers with frequent NSF issues; and loans in Workout Agreements. ACH Repayment agreements shall be entered into solely with Borrowers; such agreements are not permitted with Third Party Entities. The Repayment by check of a loan or loans administered by a Trustee shall not be combined with the Repayment of a loan or loans administered by the Commonwealth of Pennsylvania's Treasury Department or another Trustee. Checks that combine Repayment of such loans cannot be processed and will be returned to the Borrower.
- f.** Repayments shall be due the first business day of the month, at the frequency specified by the Terms and Conditions of the Loan Contract.
- g.** If a Borrower participates in the Commonwealth's ACH repayment program, funds will be drawn on the first business day of the month to satisfy all open items. If a Borrower pays via the OB Payment Center Site, funds will be drawn on the date the Borrower processes the online payment to satisfy all open items.
- h.** A Convenience Fee applies if a Borrower is paying by Card. The Convenience Fee is charged to the Borrower at the time of payment and collected at the time payment is processed on the OB Payment Center Site. The amount of the fee is calculated as 2% (two percent) of the overall balance being paid. For example, a \$100 payment results in an additional \$2 fee being charged to the Borrower's Card.
- i.** Repayments should include the loan number in the payment's reference or memo field. A payment that does not include the loan number in the reference or memo field may be returned to the Borrower following consultation between OCO and the lending agencies. Lending agencies shall have three (3) business days from the date they are contacted by OCO to provide information necessary to ensure proper account credit.
- j.** Retroactive Loan Adjustments shall be made in the current accounting period and, if necessary, require the execution of the proper contractual change documents. Such documents must be provided to OCO, before the Loan Adjustments can be made.

- k. Payoff Quotes shall be issued solely by OCO.
- l. Loan principal and interest may be written off in accordance with *Management Directive 310.10 Amended, Collection, Referral, and Compromise or Write-Off of Delinquent Claims*.
- m. Any Repayments received for a loan after the loan has been written off must be recorded as miscellaneous revenue.

6. RESPONSIBILITIES

a. Lending Agencies.

(1) Business Partner Number Creation or Change.

- (a) Obtain the information required to create or change Business Partner numbers in accordance with *Management Directive 310.39, Establishment, Collection, and Management of Master Data for Customers, Vendors, and Business Partners*.
- (b) Complete the Business Partner Master Data Form available on OCO's [Bureau of Payable Services' Customer Service Portal](#) and submit the form to the OCO, Bureau of Payable Services, Vendor Data Management Unit (VDMU).

(2) Business Partner ACH Banking Information.

- (a) In collaboration with lending agency Legal Counsel and VDMU, develop and obtain approval for an agency electronic payment form to capture ACH banking information from the Business Partner.
- (b) Obtain ACH banking information from the Business Partner utilizing a VDMU approved electronic payment form and in accordance with *Management Directive 310.40, Automated Clearing House (ACH) Payments*.
- (c) Provide the approved electronic payment form with the ACH banking information to BAFM.

(3) Loan Record Creation.

- (a) Complete required dates, amounts, and other Terms and Conditions within the SAP Loans Management Module.
- (b) Attach loan documents in SAP.
- (c) Perform Loan Settlement activities.
- (d) For loans with a scheduled ACH Disbursement at Loan Settlement, notify OCO within one (1) business day of making a determination that a loan will not settle as scheduled. Notification that the loan will not settle as scheduled must be sent to OCO at least four (4) business days in advance of the scheduled closing.

- (4) Disbursements.** Initiate Disbursements in SAP.
- (5) Repayments.**
 - (a)** Provide access to or distribute Billing Statements to Borrowers in compliance with NACHA requirements.
 - (b)** Work with Borrowers to identify how Overpayments or Unscheduled Payments should be applied to loans.
 - (c)** Notify Borrowers of NSF issues.
 - (d)** Contact Borrowers when required information is missing from a Repayment check.
- (6) Dunning.** Provide access to or distribute Dunning letters to Borrowers as needed.
- (7) Delinquency Fees.**
 - (a)** Identify when delinquency fees should be applied through the use of conditions in SAP.
 - (b)** Agency head or designee requests that delinquency fee be written off.
- (8) Loan Adjustments and Modifications.**
 - (a)** Enter Loan Adjustments and Modifications in SAP, as appropriate, to reflect changes to the Terms and Conditions of Loan Contracts.
 - (b)** Attach required documentation in SAP.
 - (c)** Notify BAFM of any approved Loan Adjustments and Modifications or possible Loan Adjustments and Modifications.
- (9) Payoff Quotes.** Forward Borrower requests for Payoff Quotes to BAFM, electronically.
- (10) Write-Offs.**
 - (a)** Initiate Write-Offs in SAP and attach supporting documentation, including all necessary approvals.
 - (b)** Forward Repayment or notifications thereof received for written off loans to BAFM.

b. VDMU.

- (1)** Process Business Partner Master Data Forms in accordance with *Management Directive 310.39, Establishment, Collection, and Management of Master Data for Customers, Vendors, and Business Partners.*

- (2) Process ACH bank data on a VDMU approved electronic payment form received from BAFM and update the Business Partner record in the master database in accordance with *Management Directives 310.39, Establishment, Collection, and Management of Master Data for Customers, Vendors, and Business Partners* and *310.40, Automated Clearing House (ACH) Payments*.
- (3) Notify BAFM and the appropriate lending agencies of new and updated Business Partner numbers pertaining to Borrowers.

c. BAFM.

(1) General Responsibility.

- (a) Prepare the Loan Key Dates Calendar annually.
- (b) Review ACH banking data on a VDMU-approved electronic payment form from a Business Partner and forward to VDMU.

(2) Loan Record Creation. Review loan amounts and Terms and Conditions in SAP and:

- (a) approve loan records that are established in accordance with Loan Contract documents; and
- (b) disapprove and notify the lending agency of loan amounts or Terms and Conditions that are inconsistent with Loan Contract documents.

(3) Disbursements.

- (a) Review and approve Disbursements in SAP.
- (b) Send Disbursement letters and Amortization Schedules to Borrowers.
- (c) Request stop payment on any Disbursement upon notification from a lending agency that a Loan Settlement has been cancelled.

(4) Repayments.

- (a) Notify the lending agency of NSF issue within one (1) business day of processing.
- (b) Receive and apply Repayments in the following order: fees, interest, and principal.
- (c) Identify and refer Overpayments and Unscheduled Payments to the appropriate lending agency for instruction.
- (d) Open Invoices in SAP in accordance with the Loan Key Dates Calendar.

(5) **Delinquency Fees.** Apply delinquency fees to loans, when applicable.

(6) **Loan Adjustments and Modifications.**

(a) Perform the accounting transactions necessary to adjust or modify (as necessary) loans in the current accounting period.

(b) Review and approve Loan Adjustments and Modifications in SAP that correct ministerial errors or properly reflect changes to Loan Contract Terms and Conditions; disapprove and notify the lending agency of Loan Adjustments and Modifications that are inconsistent with such changes.

(c) Provide Borrowers with updated Amortization Schedules when Loan Adjustments or Modifications affect Repayment terms.

(7) **Payoff Quotes.** Provide Payoff Quotes within one (1) business day of receiving a request from a Borrower or lending agency.

(8) **Write-Offs.**

(a) Review and process loan Write-Offs in SAP, in accordance with *Management Directive 310.10 Amended, Collection, Referral, and Compromise or Write-Off of Delinquent Claims*.

(b) Apply payments to written-off loans as miscellaneous revenue.

d. **Office of Administration, Information Technology, Integrated Enterprise Systems Office (IES).**

(1) **General Responsibility.** Provide ongoing technical support for the SAP Loans Management Module.

(2) **Repayment.** Run the SAP program that generates ACH withdrawals from Borrower's bank accounts.

(3) **Dunning.**

(a) Run the SAP Dunning program.

(b) Send the SAP Dunning report to lending agencies.

(4) **Billing.**

(a) Run the SAP Billing Statement program.

(b) Send the SAP billing report to lending agencies.

7. PROCEDURES.

The BAFM Loan Manual provides procedures for accounting, financial management and reporting of loans made by the Commonwealth and is incorporated by reference in this directive.

Additional Information can be found at the following sites:

a. [Office of the Budget Resources for Borrowers](#)

- b. [Bureau of Accounting and Financial Management Customer Service Portal](#)
- c. [Bureau of Payable Services' Customer Service Portal](#)

This directive replaces, in its entirety, Management Directive 310.38, dated October 14, 2016.