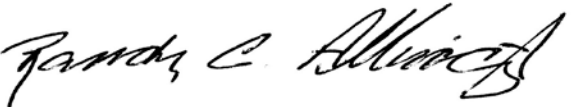


MANAGEMENT DIRECTIVE

Commonwealth of Pennsylvania Governor's Office

Subject: Commonwealth Loan Accounting, Financial Management, and Reporting	Number: 310.38
Date: October 14, 2016	By Direction of:  Randy C. Albright, Secretary of the Budget
Contact Agency: Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, Telephone 717.425.6708	

This directive establishes policy, responsibilities, and procedures for the accounting, financial management and reporting of loans made by the Commonwealth of Pennsylvania (hereinafter referred to as "loans").

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, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction. Agencies not under the Governor's jurisdiction that administer loans 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.
 - c. Provisions of this directive regarding disbursements and repayments apply to loan contracts executed after the effective date of this directive.
3. **OBJECTIVES.**
 - a. To standardize procedures, improve 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, Office of Comptroller Operations 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 governed by the operating rules of NACHA (formerly the National Automated Clearing House Association), including all appendices and formal rules interpretations.
- 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.** A person or entity engaged in the conduct of business transactions with the commonwealth, including vendors, customers, borrowers, and grantees. In the SAP system, a business partner number is an identification number assigned to any of these persons or entities that makes payments to **and** receives money from the commonwealth.
- f. **Certified Economic Development Organization (CEDO).** A member of any nonprofit economic development organization that partners with the Department of Community and Economic Development to administer certain loan programs.
- g. **Delinquent Claim.** An amount of money owed to a lending agency for which payment is overdue.
- h. **Disbursement.** A payment made by a lending agency to a borrower.
- i. **Dunning.** The act of notifying a borrower of a delinquent claim.
- j. **Invoice.** For the purpose of this directive, an invoice is an open/actual or unopened/planned accounts receivable document.
- k. **Loan Adjustment.** A change to the accounting records of a loan.
- l. **Loan Key Dates Calendar.** A schedule published by the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management that contains important billing, repayment, and disbursement dates.
- m. **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.
- n. **Loan Settlement.** The act of agreeing upon and signing a loan contract.
- o. **Modification.** A change to the terms and conditions of a loan contract.

- p. **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.
- q. **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.
- r. **Overpayment.** A borrower payment in excess of the current amount due on a loan.
- s. **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.
- t. **Repayment.** A payment made by a borrower to the lending agency that made the loan.
- u. **SAP Loans Management Module.** The module within the SAP enterprise resource planning system that the commonwealth uses to manage its loan portfolio.
- v. **Terms and Conditions.** For the purpose of this directive, “terms and conditions” refers to the provisions, requirements, rules, specifications, and standards that comprise a loan contract.
- w. **Third Party Entity.** An entity other than a borrower or lending agency.
- x. **Trustee.** An entity, excluding the Pennsylvania Treasury Department, that holds, manages, or invests assets on behalf of a lending agency.
- y. **Unscheduled Payment.** A payment received in addition to those required by the loan terms and conditions or repayment schedule.
- z. **Workout Agreement.** An agreement between a borrower and a lending agency to restructure a loan contract.
- aa. **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 the Office of the Budget, Office of Comptroller Operations 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 business days after the scheduled settlement date of the loan.

- e. Repayments must be made via ACH for loan contracts, with the following exceptions: exemptions made and approved in writing by the Office of the Budget, Office of Comptroller Operations; 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 parties.
- 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. ACH repayments will draw funds to satisfy all open items as of the first business day of the month.
- h. 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 Pennsylvania Treasury Department or another trustee. Checks that combine repayment of such loans cannot be processed and will be returned to the borrower.
- i. Repayments by check should include the loan number in the check's memo field. A check that does not include the loan number in the memo field may be returned to the borrower following consultation between the Office of the Budget, Office of Comptroller Operations and the lending agencies. Lending agencies shall have three business days from the date they are contacted by the Office of the Budget, Office of Comptroller Operations 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 the Office of the Budget, Office of Comptroller Operations, before the loan adjustments can be made.
- k. Payoff quotes shall be issued solely by Office of the Budget, Office of Comptroller Operations personnel.
- l. Loan principal and interest may be written off in accordance with *Management Directive 310.10, 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 310.26, Vendor, Customer, and Other Commonwealth Business Partner Accounts and Identification Numbers*.

- (b) Complete the business partner create/change template and submit the template to the Office of the Budget, Office of Comptroller Operations, Bureau of Payable Services, Vendor Data Management Unit (VDMU).

(2) 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 the Office of the Budget, Comptroller Operations within one business day of a determination that a loan will not settle as scheduled.

(3) Disbursements. Initiate disbursements in SAP.

(4) Repayments.

- (a) Mail 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.

(5) Dunning. Mail dunning letters to borrowers as needed.

(6) 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.

(7) Loan Adjustments.

- (a) Enter loan adjustments in SAP, as appropriate, to reflect changes to the terms and conditions of loan contracts.
- (b) Attach required documentation in SAP.
- (c) Notify the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management of any approved loan adjustments or possible loan adjustments.

(8) Payoff Quotes. Forward borrower requests for payoff quotes to the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management.

(9) Write Offs.

(a) Initiate write offs in SAP and attach supporting documentation, including all necessary approvals.

(b) Forward repayment checks received for written off loans to the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management.

b. Office of the Budget, Office of Comptroller Operations, Bureau of Payable Services, Vendor Data Management Unit (VDMU).

(1) Business Partner Number Creation or Change. Process business partner create/change templates in accordance with *Management Directive 310.26, Vendor, Customer, and Other Commonwealth Business Partner Accounts and Identification Numbers*.

(2) Notify the Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management and the appropriate lending agencies of new and updated business partner numbers pertaining to borrowers.

(3) Create and make available to agencies the current versions of PA Electronic Payment Program (PEPP) loan forms.

c. Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management.

(1) General Responsibility. Prepare the Loan Key Dates Calendar annually.

(2) Loan Record Creation. Review loan amounts and terms and conditions in SAP and approve loan records that are established in accordance with loan contract documents; 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 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.**
 - (a) Perform the accounting transactions necessary to adjust loans in the current accounting period.
 - (b) Review and approve loan adjustments 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 that are inconsistent with such changes.
 - (c) Provide borrowers with updated amortization schedules when loan adjustments affect repayment terms.
- (7) **Payoff Quotes.** Provide payoff quotes within one 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, Collection, Referral, and Compromise or Write-Off of Delinquent Claims.*
 - (b) Apply payments to written off loans as miscellaneous revenue.
- d. **Office of Administration, Office for Information Technology, Bureau of Integrated Enterprise Systems (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. RELATED GUIDANCE/REFERENCES.

- a. [Office of the Budget Resources for Borrowers](#)
- b. [Commonwealth of Pennsylvania Vendor Registration Website](#)