OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

Audit Report

Bond and Financial Credit Risk Requirements for Non-governmental Fee-for-Service Representative Payees

A-05-12-11225 | March 2014

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: March 28, 2014 **Refer To:**

To: The Commissioner

From: Inspector General

Subject: Bond and Financial Credit Risk Requirements for Non-governmental Fee-for-Service Representative Payees (A-05-12-11225)

The attached final report presents the results of our audit. Our objectives were to assess the Agency's procedures to ensure non-governmental, fee-for-service representative payees (1) maintained sufficient bond or insurance coverage and (2) underwent a financial credit risk review. We also assessed the training and support provided to regional and field office employees responsible for this oversight.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

Patrick P. O'Carroll, Jr.

Attachment

Bond and Financial Credit Risk Requirements for Non-governmental Fee-for-Service Representative Payees A-05-12-11225

March 2014 **Office of Audit Report Summary**

Objectives

To assess the Agency's procedures to ensure non-governmental, fee-for-service (FFS) representative payees (1) maintained sufficient bond or insurance coverage and (2) underwent a financial credit risk review. We also assessed the training and support provided to regional and field office (FO) employees responsible for this oversight.

Background

The Social Security Administration (SSA) requires that non-governmental representative payees who apply to collect a fee to serve five or more individuals obtain sufficient bond or insurance coverage and maintain appropriate State licensing. The amount of the bond must be sufficient to compensate the organization or SSA for any loss of SSA client benefits and conserved funds.

Additionally, SSA performs a financial credit risk review before authorizing a non-governmental organization to serve as an FFS payee to assess potential business risks involved in the organization's current or future performance as a representative payee.

Once SSA allows an organization to collect fees, the Agency performs periodic reviews of the organization, including educational visits, annual re-certifications, and triennial reviews.

Our Findings

SSA had established sufficient procedures to ensure non-governmental FFS representative payees maintained bond or insurance coverage and had financial credit risk reviews. However, Agency staff did not always follow, or appropriately document, procedures to mitigate potential risks. In addition, we found that greater collaboration between the FOs, regions, and Regional Chief Counsels could enhance the oversight process.

We sampled bond and insurance documents and related SSA controls associated with 25 FFS representative payees and found issues related to (1) insufficient policy coverage, (2) problems with policy titling, (3) undocumented annual policy re-certifications, and (4) incomplete triennial site review questionnaires. For instance, we found that 10 representative payees did not name SSA on the bond, though they had sufficient coverage amounts.

In our review of 22 Headquarters-prepared credit report summaries, we found FO staff certified a representative payee to collect fees before reviewing the payee's credit report summary. We also found the summaries provided limited guidance for handling organizations rated as high risk. In addition, some of the contractor-prepared credit reports provided insufficient financial information. The Agency's nationwide implementation of a more stringent selection process for individual representative payees offers an opportunity to explore additional approaches to alleviate business risks associated with FFS representative payees.

Recommendations

We made a number of recommendations related to improving bond collection efforts and increasing the value of the financial credit risk review process.

SSA agreed with our recommendations.

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ABBREVIATIONS

Fed. Reg.	Federal Register
FFS	Fee-for-Service
FO	Field Office
FY	Fiscal Year
NAS	National Academy of Sciences
OASDI	Old-Age, Survivors and Disability Insurance
OIG	Office of the Inspector General
POMS	Program Operations Manual System
RCC	Regional Chief Counsel
RO	Regional Office
RPMA	Representative Payee Monitoring Application
RPS	Representative Payee System
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code

OBJECTIVES

Our objectives were to assess the Agency's procedures to ensure non-governmental, fee-for-service (FFS) representative payees (1) maintained sufficient bond or insurance coverage and (2) underwent a financial credit risk review. We also assessed the training and support provided to regional (RO) and field office (FO) employees responsible for this oversight.

BACKGROUND

Some individuals cannot manage or direct the management of their finances because of their youth or mental and/or physical impairment. Congress granted the Social Security Administration (SSA) the authority to appoint representative payees to receive and manage these beneficiaries' payments.[1] A representative payee may be an individual or an organization. SSA selects representative payees for Old-Age, Survivors and Disability Insurance (OASDI)[2] and Supplemental Security Income (SSI)[3] beneficiaries[4] when representative payments would serve the individual's best interests.

In Fiscal Year (FY) 2012, SSA reported approximately 5.9 million representative payees managing $72 billion in annual benefits for about 8.4 million beneficiaries. Of the 5.9 million payees, SSA noted that about 38,500 were organizational payees, with approximately 1,400 of these serving as FFS organizational representative payees.[5] Generally, SSA appoints and authorizes an FFS representative payee to collect a fee from beneficiary funds[6] only when a family member is unable, unavailable, unwilling, or unqualified to serve.[7]

To protect the interests of its most vulnerable beneficiaries, SSA requires that non-governmental representative payees who apply to collect a fee to serve five or more individuals obtain

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[1] *Social Security Act* §§ 205(j)(1)(A) and 1631(a)(2)(A)(ii)(I); 42 U.S.C. §§ 405(j)(1)(A) and 1383(a)(2)(A)(ii)(I).

[2] The OASDI program provides benefits to qualified retired and disabled workers and their dependents as well as to survivors of insured workers. *Social Security Act* § 201 *et seq*.; 42 U.S.C. § 401 *et seq.*

[3] The SSI program provides payments to individuals who have limited income and resources and who are age 65 or older, blind, or disabled. *Social Security Act* §1601 *et seq*.; 42 U.S.C. § 1381 *et seq*.

[4] We use the term "beneficiary" in this report to refer to both OASDI beneficiaries and SSI recipients.

[5] SSA reported approximately 156 more FFS payees than the 1,244 we identified in our review. The difference in total payees appears to relate to SSA's inclusion of former FFS payees as well as incorrect payee classifications.

[6] Organizations can collect the lesser of 10 percent of the combined Title II and XVI monthly payment, or, beginning December 2012, $76 (if the beneficiary was entitled to disability benefits and had a medically determinable substance abuse disorder that was listed as a secondary diagnosis) and $39 for all others. The abuse disorder cannot be material to the disability determination.

[7] SSA, Program Operations Manual System (POMS), GN 00502.105C—*Payee Preferences Lists* (effective August 2, 2011), states an organization that charges a fee for its service is the least preferred applicant. See also, *SSA Annual Report on the Results of Periodic Representative Payee Site Reviews and Other Reviews,* FY 2012.

sufficient bond or insurance coverage[8] and maintain appropriate State licensing.[9] The amount of the bond must be sufficient to compensate the organization or SSA for any loss of SSA client benefits and conserved funds.[10] Additionally, SSA performs a financial credit risk review before it authorizes a non-governmental organization to serve as an FFS payee. SSA performs this review to assess potential business risks involved in the organization's current or future performance as a representative payee. Once an organization is allowed to collect fees, SSA performs periodic reviews of the organization, including educational visits, annual re-certifications, and triennial reviews.

To meet our objectives, we reviewed Agency policies and procedures related to bond and insurance coverage as well as credit risk reviews. In addition, we reviewed a sample of FFS representative payee bond and insurance policies, SSA triennial site review questionnaires, and credit risk reviews to determine whether they complied with SSA policies. We also interviewed and surveyed Agency managers and staff at Headquarters, ROs, Regional Chief Counsels' (RCC) offices, and FOs. See Appendix B for more information regarding our scope and methodology.

RESULTS OF REVIEW

SSA had established sufficient procedures to ensure non-governmental FFS representative payees maintained bond or insurance coverage and had financial credit risk reviews. However, Agency staff did not always follow, or appropriately document, procedures to mitigate potential risks. In addition, we found that greater collaboration between the FOs, ROs, and RCCs could enhance the oversight process.

We sampled bond and insurance policy documents associated with 25 FFS representative payees, 24 of which were non-governmental organizations and subject to the bond criteria,[11] and found 1 payee had insufficient bond coverage and did not name SSA in the policy. This representative payee obtained sufficient coverage during the period of our review. We also found 10 payees did not name SSA on the bond but had sufficient coverage.

Additionally, we noted several documentation issues associated with the same 24 non-governmental FFS representative payees. We found 11 triennial review questionnaires had incomplete information regarding Agency staff review of the bonds, and FO staff did not

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[8] Throughout the report, the term "bond" can represent either a bond or an insurance policy.

[9] SSA, POMS, GN 00506.001—*Fee for Service – Overview* (effective October 26, 2005). We did not review State licensing as part of this audit. We provide a flow chart of the FFS approval and monitoring process in Appendix A.

[10] Governmental representative payees, such as State and local organizations, are not subject to bond or insurance coverage requirements, though some organizations may maintain bonds or insurance associated with their own business practices.

[11] The remaining bond related to an FFS representative payee labeled by SSA as a "state/local government."

document annual re-certifications of bond coverage for 8 FFS representative payees. As a result, we could not determine whether SSA had complied with policy.

Our review of 22 credit report summaries identified 1 instance where an FO approved the payee to collect a fee before it received the credit report summary. In addition, we found that although the credit risk review process was designed to assess the organization's credit risk, the contractor-prepared credit reports did not always contain sufficient information to help the Agency identify organizations whose operations may have needed to be monitored more closely. Moreover, SSA had no specific monitoring requirement when the contractor-provided report assessed a representative payees' credit or financial information as "high risk." At the time of our review, SSA was piloting a more stringent payee selection policy for individual representative payees, which was subsequently implemented nationwide. The Agency should consider whether additional enhancements could also improve the process for determining the suitability of FFS payees.

Sufficiency of Bond and Insurance Coverage

Our review of 25 FFS bond documents, 24 of which were non-governmental organizations and subject to the bond criteria,[12] identified a number of issues related to the sufficiency of the bond policies in terms of the amount of coverage and the language protecting SSA's interests.

Sufficiency of Bond and Insurance Amounts

The bond policy did not cover half of the SSA monthly benefits.

In our review of bond coverage, we found that 1 of the 24 non-governmental FFS representatives had insufficient coverage in FY 2011. SSA policy requires that non-governmental FFS representative payees obtain bond coverage sufficient to compensate the organization or SSA for any loss of SSA client benefits and conserved funds. While the FFS representative payee in our sample had $100,000 in dishonesty bond coverage in FY 2011, we estimated the representative payee received approximately $205,567 in monthly benefit payments.[13] As a result, the policy did not cover half of the monthly benefits SSA paid before factoring in conserved funds.[14]

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[12] These cases were taken from an earlier Office of the Inspector General (OIG) audit, *Representative Payees' Ability to Monitor the Individual Needs of a Large Volume of Beneficiaries* (A-04-11-11146), June 2012. The focus of this review did not relate to whether an entity was a governmental or non-governmental representative payee.

[13] See Appendix C for more information regarding the sample of 25 FFS representative payees and our analyses of the sufficiency of the bond and insurance coverage.

[14] We were unable to determine the amount of conserved funds from the available documentation.

The payee corrected the inadequate bond coverage during our review period. According to SSA's Representative Payee System (RPS), the payee's policy coverage increased to $1 million on March 1, 2013, close to the date SSA conducted its March 4, 2013 triennial site review. Data in the Representative Payee Monitoring Application's (RPMA) *Certification Visit History* indicated SSA certified the $1 million policy on March 4, 2013, and the policy was scheduled to expire on March 1, 2014.[15] The RPMA certification also indicated that, before March 2013, the follow-up date for the policy was March 1, 2010, which was when SSA last conducted a triennial site review. Had SSA FO staff reviewed the bond coverage and the number of beneficiaries served annually, as required by Agency policy, it is likely they would have noted the policy amount was insufficient to cover any potential losses.[16]

Sufficiency of Bond and Insurance Language

We also found that 11 of the bond policy documents[17] from the 24 non-governmental FFS representative payees did not name SSA as the "loss" party.[18] These 24 representative payees had more than 5 different types of bond policies covering their programs.[19] SSA guidance states that the bond policy must reflect SSA as an insured party in the event of financial loss.[20] This guidance also states that the payee must obtain a separate clause/rider to cover losses to the Agency if the contract does not name SSA.[21] Two prior OIG reviews of FFS representative payees found that the payees did not maintain adequate policy language to protect beneficiaries or SSA from financial loss caused by its officers or employees.[22] In one case, the bond requirement was approximately $1.9 million. However, the payee maintained only $900,000 in bond coverage and improperly named itself as the insurance contract beneficiary rather than SSA. Although the SSA contractor who reviewed the payee's operations during a triennial site review reported the policy deficiency to SSA, the Agency did not require that the payee correct the policy language. Because the payee failed to carry out all of its obligations, SSA was unable to recover losses from the insurer in part because of the inadequate bond policy language.[23]

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[15] Agency staff uses the RPS and the RPMA to store and monitor FFS representative payees' information from SSA's oversight activities.

[16] We discuss the sufficiency of bond monitoring later in this report.

[17] These 11 cases included 1 FFS representative payee with insufficient bond coverage.

[18] A loss payee clause (or loss payable clause) provides that if a payment is made under the policy in relation to the insured risk, it will be made to a third party rather than to the insured beneficiary of the policy.

[19] See Appendix C for more on the types of bonds maintained by the FFS representative payees in our sample.

[20] SSA, POMS, GN 00506.105—*Bonding and Licensing Guidelines for Non-Governmental Fee-for-Service (FFS) Organizations* (effective October 24, 2011).

[21] Id.

[22] See Appendix D for details regarding the two prior FFS reviews.

[23] The Agency was still pursuing collection at the time of our review.

Sufficiency of Bond and Insurance Monitoring

Our review of SSA's monitoring of the 24 non-governmental FFS representative payees identified documentation issues related to annual and triennial monitoring. As a result of the missing and incomplete documentation, we could not determine whether SSA had complied with policy.

Annual Re-certifications

Our review of data in the RPMA *Certification Visit History* for the 24 non-governmental FFS representative payees found that FO staff did not document annual re-certifications of bond policy coverage for 8 FFS representative payees for some of the years between 2009 and 2012.[24] SSA policy states that the servicing FO is responsible for annually re-certifying each FFS payee's continuing eligibility. Among other things, this entails verifying the wording in the bond document complies with SSA policy guidance,[25] including the amount of coverage, active status, and naming SSA as the loss party.[26] The annual review of the bond document is necessary to ensure adequate policy coverage, considering the complexity of the language used in bond policies and the types of coverage available.

Triennial Site Reviews

We found that SSA staff did not fully document the bond-related results in 11 of the 24 triennial site review questionnaires related to the 24 non-governmental FFS representative payees. SSA performs triennial site reviews of FFS representative payees' performance to ensure their continued eligibility to collect fees. As part of this process, SSA staff completes an *Expanded Monitoring Program Site Review Questionnaire for Volume and Fee for Service Payees* (Form SSA-637) for each payee and writes a summary report of the findings. We reviewed the bond coverage information on the completed SSA-637 questionnaires for 23 of the 24 non-governmental FFS organizational representative payees.[27] The questionnaires for 11 of the 23 non-governmental FFS representative payees did not contain enough information for an independent reviewer to determine whether bond coverage was sufficient to protect SSA from losses in case of misuse. Specifically, the bond-related section in the SSA triennial site review

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[24] We did not include years when SSA performed the triennial site visit since this equates to an annual certification.

[25] The annual certification process also determines whether the FFS representatives (1) continue serving five or more beneficiaries, (2) maintain required State licenses, and (3) had independent audits since the prior certification.

[26] SSA, POMS, GN 00506.420—*Certification Process* (effective November 23, 2011). POMS requires that the FO staff request a copy of the entire bond contract if not already available. If available, the staff only needs to request the latest declaration page. POMS also instructs FO staff to contact the bonding agent to resolve discrepancies and concerns, as appropriate.

[27] We reviewed 1 of the 20 Parts in Form SSA-637, Part 6 – *Bonding*, Questions 28-31. For the one representative payee for which we did not receive an SSA-637, we reviewed its triennial site review summary report and determined the FO did not report any issues pertaining to bonds.

questionnaires contained multiple unanswered questions for the 11 representative payees (see Table 1).[28]

Table 1: Questions Not Answered on the 23 Triennial Site Review Questionnaires[1]

Triennial Site Review Questions	Number of Forms with Question Unanswered[2]	Percent of Forms with Question Unanswered
Amount of conserved funds for Social Security and SSI benefits	11	48
Average amount of the Social Security and SSI benefits paid in 1 month	10	43
Minimum required bond amount	8	35
Whether the representative payee continued meeting bonding requirements	4	17
Whether the bond amount was sufficient	3	13
Whether the representative payees were bonded	1	4

Note 1: We did not receive a questionnaire for 1 of the 24 non-governmental FFS representative payees in our sample.

Note 2: Some of the questionnaires related to the 11 FFS representative payees had more than one unanswered question.

Since triennial site reviews are an important part of the monitoring process for FFS representative payees, we believe ROs should ensure FOs and cadres completing the questionnaires provide complete and accurate responses reflecting the findings of the reviews.

Complexity of Bond and Insurance Coverage

SSA procedures acknowledge that the bonding and insurance industry offers many types of coverage, and some policies could have clauses that would limit recovery efforts.[29] For example, SSA guidance cites surety bonds, fidelity and dishonesty bonds, fiduciary bonds, insurance contracts, and simplified crime insurance contracts, which may have further subsets.[30] SSA

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[28] Staff in the Seattle RO noted that the triennial site review questionnaire may have been missing this information because the bond verification steps are performed at the regional level rather than by the team performing the review. We did not see any annotations to this effect in the documents we reviewed. Moreover, to the extent the regions are documenting the triennial review outside of the questionnaires, the site review questionnaires will not provide a full accounting of the review findings.

[29] SSA, POMS, GN 00506.105—*Bonding and Licensing Guidelines for Non-Governmental FFS Organizations* (effective October 24, 2011). See Appendix C for the variety of policies used by the FFS representative payees in our sample.

[30] Id. For instance, simplified crime insurance policies include (1) employee theft/dishonesty; (2) depositor's forgery or alteration; (3) theft, disappearance, and destruction of money, securities, and other property (inside and outside the premises); (4) computer fraud and funds-transfer fraud; and (5) money orders and counterfeit currency.

procedures also indicate that most bonding and insurance contracts are acceptable, provided the policy contains certain guarantees, such as coverage of theft by employees and officers, and names SSA as the loss party. Some of these policies may require specific riders to ensure certain parties are covered or internal controls are established.[31] Considering the complexity of the language in bond policies and the various types of coverage available, having such specialists as RCCs and Office of General Counsel attorneys review the FFS representative payees' bond documents could help promote adequacy and consistency while protecting the Agency's interests.

Bond coverage per beneficiary ranged from a low of $144 to a high of $22,936.

Among the 24 non-governmental FFS bond and insurance policies we reviewed, we found a wide variance in the levels and types of coverage, even for the organizations that managed similar numbers of beneficiaries. For example, the dollar amounts of bond coverage per beneficiary varied from a low of $144 to a high of $22,936. The bond policies noted that they covered the insured for various types of losses and risks, such as (1) employee theft, (2) crime, (3) professional liability, (4) fidelity, and (5) surety.[32] Given the complexity, we believe SSA should reassess whether the current policies and procedures have been standardized and streamlined to ensure bond coverage for its non-governmental FFS representative payees is appropriate to address the risk of having those payees manage the benefits of its most vulnerable clients.

In discussions with the Seattle RO, we learned that its staff annually reviewed each bond policy before it expired and determined whether the wording included employee and officer theft. In addition, staff determined whether the policy properly included SSA as an insured party. If staff found bond policies contained vague, inadequate, or improper wording, they asked the payee to revise the policy to ensure appropriate coverage. Regional staff also coordinated with the RCC, as appropriate, when reviewing bond coverage or pursuing collections. Sharing these and similar practices with other ROs could enhance the Agency's protections against misuse of beneficiary funds by FFS payees.[33]

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[31] Id. For instance, an employee dishonesty bond may also require the bondholder to have certain loss prevention procedures in place, such as annual audits by a certified public accountant or employee discharge notifications from the employer as well as the reason for the discharge.

[32] See Appendix C for more information, including definitions, on the 24 bond documents we reviewed.

[33] We discuss additional observations from FO and RO managers and staff in Appendix E.

Credit Risk Review Process

To assess the controls over FFS representative payee credit risk review process, we sampled 22 credit report summaries provided to FOs, a different sample from the 25 FFS representative payees we discussed earlier in this report. We reviewed the timing of fee approvals, the sufficiency of information in the credit reports, and guidance for Agency staff to resolve identified problems.

Timing of Fee Approvals

In all but one case, we found FO staff was reviewing the credit report summaries before authorizing a representative payee to collect a fee. In the one case, the FO approved the organizational representative payee's request to collect fees before obtaining the Headquarters-prepared credit report summary. SSA Headquarters staff obtains credit reports from a contractor to evaluate any potential financial credit risks involved in the organization's current and future performance as a representative payee. The credit reports provided to SSA include a variety of business indicators, such as *Financial Stress Class* ratings, *Credit Score Class* ratings, and *Credit Limit Recommendations*. The reports also provide background on the organization, such as business history, business registrations, and financial statement data. SSA Headquarters uses information in the contractor-prepared credit report to create its own credit report summary document. Per SSA policy, the FO cannot approve an FFS application until a credit report summary has been prepared and provided to the FO.

The FO authorized a fee before requesting a credit report summary.

We reviewed 22 credit report summaries related to the same number of organizational representative payee applicants requesting to collect a fee from August through October 2012.[34] As of July 2013, SSA authorized 18 of the 22 organizational representative payees to charge a fee,[35] including 1 FFS representative payee serving 500 beneficiaries approved in September 2012, though the credit report summary was not prepared until October 18, 2012. As a result, SSA missed an opportunity to address potential risks involved in the organization's current or future performance as a representative payee before allowing it to collect fees for these services.

We spoke to SSA staff about the case and learned that, while SSA confirmed the FO authorized the organization to charge a fee before requesting a credit report summary, it did not direct the FO to terminate or revoke the authorization pending the required receipt and review of the credit

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[34] In November 2012, SSA provided recently prepared credit report summaries and contractor-produced credit reports for organizations requesting authorization to charge a fee.

[35] For more information, see Appendix A for a flowchart of the SSA's FFS approval and monitoring process.

report summary. We reviewed a copy of the credit report summary for this representative payee, which reported the organization was in good standing and had a comprehensive credit report with a good rating. Nonetheless, SSA should remind employees to complete the credit risk review process before approving the organizational representative payee's FFS application to ensure all potential risks are known before the fee is approved.

Sufficiency of Credit Report Information and Related Guidance

We found the credit reports SSA received from the contractor did not always contain enough information to help the Agency identify organizations whose operations needed to be more closely monitored. Additionally, Headquarters-prepared credit report summaries did not explain what steps may be necessary should a business risk exist. We reviewed the credit report summaries and contractor-prepared credit reports for 22 organizational representative payees that requested to collect a fee from August through October 2012 and found that the contractor supplied credit score class ratings for 17 of the 22 organizations. The contractor did not score the remaining five organizations because the availability of financial credit histories was limited. Instead, it provided a more limited "business information report." Of the 17 organizations rated, 16 were labeled low to moderate risk, and 1 was labeled as moderate to high risk. As noted earlier, at the time of our review, 18 of the 22 organizations were eventually approved to collect a fee.

In an email sent to its FOs, SSA stated, "We are aware that [the contractor] may have limited information on some organizations." In such cases, Headquarters' staff instructs the FO staff to rely on the other required procedures in POMS. However, even in cases where the credit reports contained business risk information, the Agency stated, "Credit reports are not a determining factor in the actual authorization or denial, rather a means of determining whether their credit or financial assessment information projects them as a high risk business and if so, whether we should keep a closer eye on their operations."

We asked Headquarters staff whether SSA had procedures for keeping a "closer eye" on high-risk FFS representative payees identified in the credit risk review process. Headquarters staff indicated there was no specific monitoring requirement based on feedback about a representative payee's credit or financial assessment information. Instead, it appears each FO was expected to independently determine any steps that should be taken.[36] We believe SSA would benefit from additional guidance on the steps staff should take for new FFS representative payees rated as high risk or where the credit reports provided limited financial information. For instance, in those cases where the FFS representative payee organizations were not already vetted by State or local authorities, the FO could request additional financial information directly

[36] In Appendix E, we provide feedback from FO and RO managers and staff regarding the credit risk review process and the need for greater guidance when limited financial information is available.

from the organization, expedite triennial site reviews or cursory financial reviews,[37] and/or request subsequent credit report summaries. At the time of our review, SSA was piloting a more stringent payee selection policy for individual representative payees, which was subsequently implemented nationwide.[38] Such initiatives demonstrate continuing opportunities to explore additional approaches to alleviate business risks associated with FFS representative payees.

CONCLUSIONS

SSA had procedures to ensure non-governmental FFS representative payees maintained sufficient bond coverage and had financial credit risk reviews. Although SSA provided guidance and support to staff responsible for assessing bond coverage, it will benefit from reminding employees of the importance of performing annual reviews of the adequacy of bond coverage. For instance, we identified issues related to (1) insufficient policy coverage, (2) problems with policy titling, (3) undocumented annual policy re-certifications, and (4) incomplete triennial site review questionnaires. In addition, given the complexity of bond language, the Agency could benefit from additional legal support and greater sharing of best practices, including having RO staff annually review each bond policy before the expiration date and assess adequacy. SSA also needs to ensure staff completes the credit risk review process before approving an FFS representative payee. Moreover, SSA could provide greater guidance to FOs encountering higher risk issues with FFS applicants, or reports with limited financial information. Finally, while SSA is not required to prepare financial credit report summaries or perform background checks for the officers of organizations requesting authorization to collect a fee, it could explore ways to enhance its credit risk review process to add a greater level of fraud risk protection.

RECOMMENDATIONS

To improve bond and insurance collection efforts and increase the value of credit report summaries for organizations with limited financial history, we recommend SSA:

1. Issue a reminder to employees to follow policy related to bond and insurance oversight, including reviewing bond and insurance coverage annually, completing all sections of the triennial site review questionnaires, and reviewing credit report summaries before authorizing fees.

2. Continue sharing regional best practices related to bond and insurance coverage and the credit risk review process, including those mentioned in this report, such as greater coordination with RCC staff.

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[37] SSA already provides field offices with the flexibility to conduct unscheduled site reviews. However, the circumstances we have cited in our report – "high risk" credit risk summaries and credit reports with limited information – was not listed among the "Trigger Events."

[38] In Appendix F, we discuss additional enhancements to the Agency's current credit risk review process for FFS representative payee organizations.

3. Determine whether the Agency needs to standardize and streamline its bond and insurance coverage methodology to ensure the type and amount of bond or insurance coverage is appropriate for the underlying risk.

4. Provide additional guidance on the steps staff should take for new FFS representative payees projected either high risk or where contractor-prepared credit reports provide limited financial information.

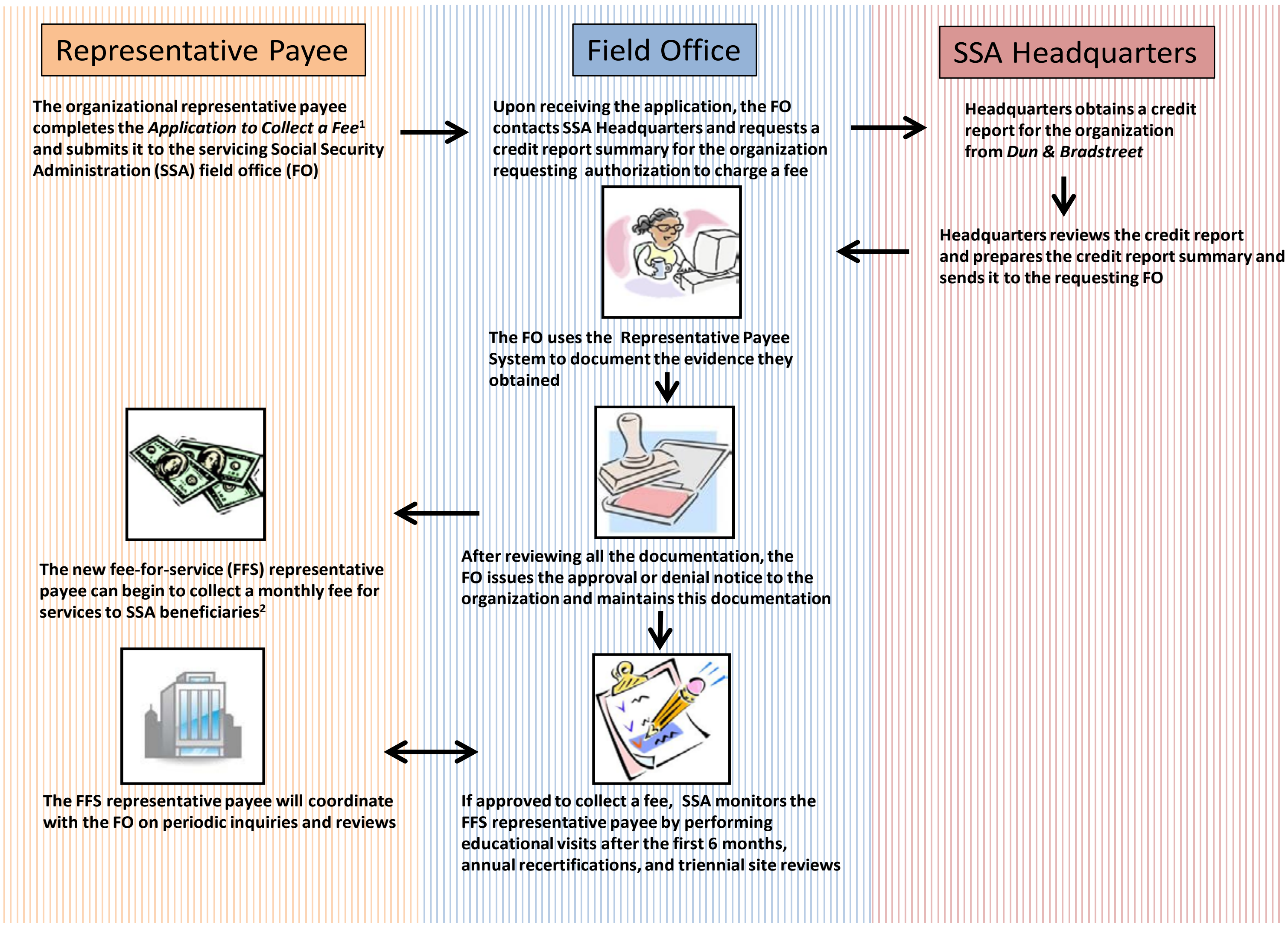
5. Consider enhancements to its current credit risk review process for FFS representative payee organizations not already vetted by State or local authorities to add a greater level of fraud risk protection.

AGENCY COMMENTS

SSA agreed with our recommendations. The Agency's comments are included in Appendix G.

APPENDICES

Appendix A – SSA's Fee for Service Approval and Monitoring Process



Notes to our Flow Chart:

1. SSA may authorize certain organizations to collect a fee for providing representative payee services to Social Security (Title II) and Supplemental Security Income (Title XVI) beneficiaries. See SSA's Internet site for more information http://www.ssa.gov/payee/fee_fact_sheet.htm.

2. Organizations can collect the lesser of 10 percent of the combined Title II and XVI monthly payment, or, beginning December 2012, $76 (if the beneficiary was entitled to disability benefits and had a medically determinable substance abuse disorder that was listed as a secondary diagnosis) and $39 for all others. The abuse disorder cannot be material to the disability determination.

Appendix B – SCOPE AND METHODOLOGY

To accomplish our objectives, we:

- Reviewed applicable Federal laws and regulations as well as Social Security Administration (SSA) policies and procedures pertaining to fee-for-service (FFS) representative payees.
- Interviewed staff in the Agency's Office of Retirement and Disability Policy, Seattle Regional Office (RO) Center for Programs Support, and the Seattle Regional Chief Counsel (RCC) office to gain a better understanding of bond certification and the financial credit risk review process.
- Reviewed training and guidance materials available on regional Intranet sites related to bond policies and financial credit risk reviews.
- Obtained and reviewed a sample of 25 FFS large-volume representative payees from an earlier SSA Office of the Inspector General audit, *Representative Payees' Ability to Monitor the Individual Needs of a Large Volume of Beneficiaries* (A-04-11-11146), June 2012, to assess the sufficiency of their bond and insurance coverage.
- Obtained and reviewed 22 Headquarters-prepared credit report summaries associated with representative payee applicants requesting to collect a fee from August through October 2012. Reviewed the Dun & Bradstreet credit reports used to create the credit report summaries.
- Obtained a data extract in October 2012 from SSA's Master Representative Payee file, which listed 589 field offices (FO) responsible for approximately 1,244 FFS organizations. We then identified the FOs serving these FFS representative payees, randomly selected 10 FOs per region, if available, and sent each FO a questionnaire to assess the guidance and support provided by Headquarters and the ROs related to bond and insurance coverage and the credit risk review process.
- Sent questionnaires to SSA's 10 regional management teams and RCC offices to assess the guidance and support provided to FOs responsible for monitoring the sufficiency of bond and insurance coverage and credit risk review process.

We conducted the audit from June 2012 through July 2013 in Chicago, Illinois, and Baltimore, Maryland. We relied on the representations of Agency personnel indicating the Representative Payee System data were complete and accurate. The entity audited was the Office of the Deputy Commissioner for Operations. We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and conduct the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix C – SUFFICIENCY OF BOND AND INSURANCE COVERAGE FOR 25 FEE-FOR-SERVICE REPRESENTATIVE PAYEES

We reviewed available bond and insurance policies for 25 fee-for-service (FFS) representative payees.[1] Of the 24 non-governmental FFS representative payees subject to the bond or insurance requirement, we estimated that all but 1 of the 24 FFS representative payees purchased sufficient policy coverage.[2] The 24 non-governmental FFS representative payees selected had about 15,500 beneficiaries in their care and managed approximately $5.5 million in benefit payments each month during Fiscal Year (FY) 2011 (see Table C–1:).

Table C–1: Sufficiency of Bond or Insurance Coverage for 24 Non-Governmental FFS Representative Payees

FFS Representative Payees	Total Number of Beneficiaries Managed During FY 2011[1]	Bond or Insurance Coverage	Total Monthly Benefit Payments Managed	Type of Policy Listed on Bond or Insurance Document
1	3,252	$3,000,000	$1,261,689	Crime
2	1,047	$500,000	$484,622	Crime Employee Dishonesty
3	848	$1,000,000	$458,830	Liability Coverage (Various)
4	1,137	$1,000,000	$338,394	Fidelity Bond
5	997	$2,000,000	$293,676	Fiduciary Liability
6	897	$1,000,000	$254,673	Surety Bond
7	575	$622,000	$251,884	Employee Theft
8	682	$4,000,000	$249,275	Crime - Primary
9	502	$500,000	$238,380	Crime
10	696	$100,000	$205,567	Employee Theft[2]
11	456	$850,000	$196,075	Employee Dishonesty
12	582	$1,000,000	$195,217	Employee Dishonesty
13	436	$10,000,000	$190,831	Crime

[1] These cases were taken from an earlier SSA Office of the Inspector General audit, *Representative Payees' Ability to Monitor the Individual Needs of a Large Volume of Beneficiaries* (A-04-11-11146), June 2012.

[2] See FFS Representative Payee #10 in Table C–1.

FFS Representative Payees	Total Number of Beneficiaries Managed During FY 2011[1]	Bond or Insurance Coverage	Total Monthly Benefit Payments Managed	Type of Policy Listed on Bond or Insurance Document
14	621	$1,000,000	$185,920	Employee Theft/Dishonesty
15	460	$500,000	$132,421	Employee Theft
16	325	$1,000,000 or $5,000,000	$91,968	General Liability or Excess/Umbrella Liability
17	281	$900,000	$81,477	Commercial Crime
18	266	$400,000	$80,586	Social Security Bond
19	311	$1,000,000	$78,696	Employee Theft
20	267	$1,000,000	$67,380	Professional Liability
21	268	$500,000	$56,941	Crime
22	204	$290,000	$52,173	Employee Theft
23	241	$500,000	$50,880	Employee Theft
24	141	$1,000,000	$33,712	Professional Liability Coverage
Totals	**15,492**		**$5,531,267**	

Note 1: This includes beneficiaries who may have been with the representative payee for only part of the FY.

Note 2: The representative payee's $100,000 employee theft policy was $105,567 less than our estimate of monthly benefit payments in FY 2011 of $205,567. As of March 2013, the representative payee increased its bond coverage to $1,000,000, which would sufficiently cover potential beneficiary losses.

We determined 19 of the 24 non-governmental FFS representative payees purchased bond or insurance coverage from 5 insurance companies. Most insurers offered bond and insurance coverage policies with a minimum of 1-year coverage. Bond and insurance coverage offered by the insurers included Employee Theft, Crime, Professional Liability, Fidelity Bonds, and Surety Bonds. Agency guidance provided the field office staff with a description on bond and insurance policies available to representative payees.[3] We also obtained information on various types of bonds from the Insurance Information Institute (see Table C–2).[4]

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[3] Social Security Administration, POMS, GN 00506.105—*Bonding and Licensing Guidelines for Non-Governmental Fee-for-Service (FFS) Organizations* (effective October 24, 2011).

[4] The Insurance Information Institute is a U.S. industry organization whose mission is to improve public understanding of insurance – what it does and how it works. The Institute provides information to consumers, the media, researchers, and the public on a wide range of insurance topics.

Figure C–1: Types of Bond and Insurance Coverage Associated with the 24 Non-Governmental FFS Representative Payees

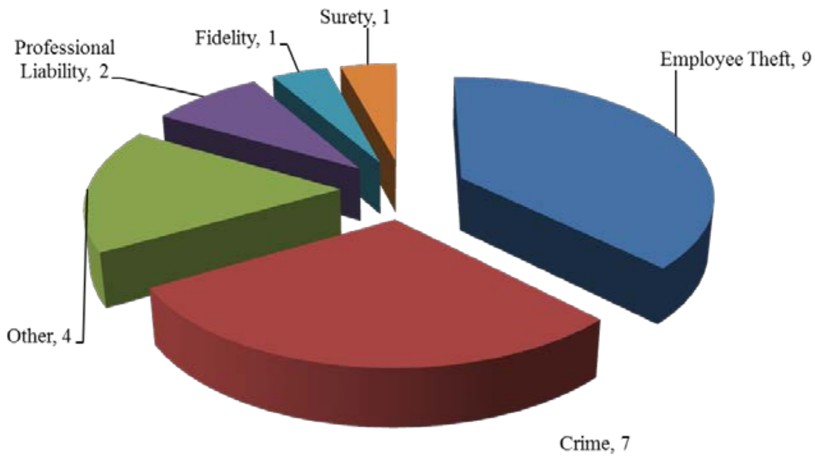

Table C–2: Types of Bond and Insurance Policies and Definitions of Coverage

Type of Policy	Description of Coverage
Crime	Refers to property coverage for the perils of burglary, theft and robbery.
Employee Dishonesty	Covers direct losses and damage to businesses resulting from the dishonest acts of employees.
Fidelity Bond	Protection covers policyholders for losses resulting from fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees.
Fiduciary Liability	Fiduciary liability insurance covers breaches of fiduciary duty such as misstatements or misleading statements, errors and omissions, by guaranteeing the performance of certain parties' responsibilities.
Professional Liability	Protects professionals that operate their own businesses against financial losses from lawsuits filed against them by their clients.
Surety Bond	A surety bond guarantees performance in the face of a set of particular risks. Surety bonds are also uniquely tailored to meet specific needs.

Source: Insurance Information Institute.

Appendix D – PRIOR FEE-FOR-SERVICE REPRESENTATIVE PAYEE REVIEWS

We reviewed two Social Security Administration (SSA) Office of the Inspector General (OIG) payee misuse cases to gain insight on the importance of adequate bond coverage in helping Agency collection efforts.[1] The two fee-for-service (FFS) representative payees, Scope Payee Services, Inc. (Scope), and Consciously Aware Services that Empower, Inc. (CASE), involved FFS payees that misused approximately $1.5 million in beneficiary funds. Both cases illustrate the complexity of ensuring bond sufficiency and timely collection of bonds. The findings regarding Scope and CASE, as well as the results of subsequent discussions with SSA managers, are provided below.

Scope Payee Services, Inc.

Scope did not maintain adequate bond coverage to protect beneficiaries or SSA from financial loss caused by its officers or employees.[2] As of April 2008, Scope's bond requirement was approximately $1.9 million. However, Scope maintained only $900,000 of bond coverage and improperly named itself as the insurance contract beneficiary rather than SSA. In 2005, independent accountants reviewing Scope's operations reported the bond deficiency to SSA, but the problem was never corrected. On April 2, 2008, the Office of the San Francisco Regional Chief Counsel (RCC) formally notified Scope's bondholder of SSA's intent to pursue a claim against the bond if the OIG's investigation identified any misuse of funds by Scope's owners or employees. The OIG review of available accounting records indicated that more than $1.3 million belonging to 744 Social Security beneficiaries was missing from the collective bank account. On September 6, 2011, the San Francisco Region's Center for Program Support drafted a letter to the insurer tendering a $900,000 claim for the full dishonesty coverage amount under Scope's bond.

During our review, we discussed this case with RCC staff and learned that, in April 2008, SSA advised the insurer that there was a criminal investigation into Scope, and SSA would make a claim on the policy in the event of a finding of misuse. SSA also indicated that the U.S. Attorney's Office's Financial Litigation Unit contacted the insurer on SSA's behalf and advised SSA that a policy was in place for only one of the many years which the theft of funds took place.

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[1] SSA, OIG, Memorandum: *Scope Payee Services, Inc.: A Fee-for-Service Representative Payee* (A-06-09-49067), July 2012, and *Organizational Representative Payee in Ohio* (A-05-08-48109), June 2010.

[2] The minimum amount of bonding or insurance coverage must equal the average monthly amount of Social Security payments received by the organization plus the amount of the beneficiaries' conserved funds.

On July 11, 2012, the attorneys representing the payee's insurer sent a letter to the Department of Justice, anticipating a claim on SSA's behalf. The attorney's letter discussed the underwriters' position regarding the claim, and indicated the following.

- The policy language was unambiguous and precluded the underwriters from having an obligation to pay any claim submitted by SSA to make restitution either to SSA or the defrauded Social Security beneficiaries for benefits converted by the payee.
- The policy's intention as stated was to protect the insured in the event it suffered a diminution of its assets resulting from employee dishonesty.
- The policy did not intend to be a liability policy protecting third parties from wrongful acts by either the insured's principals or its employees.

For all of the reasons stated above, it appeared the underwriters believed they did not have a duty to pay SSA with respect to this matter.

At the time of our review, collection activities on the bond were still underway.

Consciously Aware Services that Empower, Inc.

CASE was a nonprofit agency founded in February 2004 and based in Cleveland, Ohio. A periodic financial review conducted in December 2007 by an SSA contractor raised a number of questions about the condition of the accounting records. In our June 2010 audit report, we noted that CASE owes SSA approximately $172,200 related to funds owed to specific beneficiaries from our audit period ($30,200) and unreturned funds related to the ending balances when it ceased to operate as a representative payee ($142,000). We also found CASE did not maintain appropriate bond insurance coverage protecting the Agency's interests, as required. CASE held a bond insuring employee theft during the period January 18, 2007 through January 18, 2008 covering losses totaling $50,000 of insurance per occurrence. However, during our audit period, the conserved funds plus the average monthly amount of Social Security payments of the SSA beneficiaries totaled approximately $100,000.

The bond had expired when SSA notified CASE that beneficiaries would be transferred to new representative payees. A review of the bond document determined that SSA was never named on the bond, so the Agency most likely had no coverage under the bond regardless of the document's expiration. We learned that CASE was not included in an Agency mailing to FFS representative payees in August 2007 advising them to have SSA's name added to their bond. The Cleveland FO manager indicated that CASE was not advised of this requirement because they were not listed as a FFS representative payee within SSA records, even though CASE had been a FFS representative payee since January 2005. As a result, SSA's beneficiaries lacked the required protection under the bond and any losses may now be the responsibility of SSA.

Appendix E – QUESTIONNAIRE RESPONSES

We obtained feedback from managers and staff in 10 Regional Office (RO) Centers for Programs Support, 10 Regional Chief Counsel (RCC) offices, and 87 field offices (FO)[1] we surveyed regarding their experiences with assessing bond and insurance coverage,[2] as well as the credit risk review process for non-governmental fee-for-service (FFS) representative payees. We highlighted selected questionnaire responses below. Overall, we identified two areas from the questionnaire indicating a need for greater management attention: (1) increasing regional coordination regarding bond policy language and (2) improving the credit risk review process. We also found the regions were still resolving the majority of the collection attempts on bond and insurance policies.

Guidance and Training

About 70 percent of the RO respondents indicated they monitored FO efforts to ensure adequate bond coverage at FFS representative payees. In addition, 60 percent of the RO respondents indicated they participated in the decision to approve an organizational representative payee's request to collect a fee. We also found that 7 of the 10 RCC respondents provided guidance to regional staff regarding bond coverage, and the 3 remaining RCC respondents were not sought out to assist regional staff regarding bond coverage issues. Moreover, about 90 percent of the FO respondents indicated they were satisfied with the support or guidance they received regarding the monitoring of FFS organizations. Finally, the majority of the FOs indicated they received guidance on monitoring FFS organizations from regional operations. Although most FOs stated they were not provided with training in these areas, they used the RO as a resource as well as available policy and procedure instructions when they had questions.

Regional Coordination on Bond Language

Some RO respondents stated that, given the complexity of bond language, the Agency would benefit from greater sharing of best practices related to bond policy sufficiency, including having RCC staff review the policies to assess and enhance policy language adequacy and consistency.

For instance, one RCC respondent noted,

> We believe it is important to look at the bond/insurance policy to determine whether they cover all individuals involved in the organizational representative payee—one policy we looked at excluded officer-shareholders, partners, and owners. We believe it is important to ensure that SSA can make a claim and receive direct payment under the policy. We believe it is important to ensure that there are no limiting clauses, such as those that would limit recovery to the time at which the theft is initially discovered.

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[1] Of the 96 FOs we contacted, 87 (91 percent) responded to our questionnaire.

[2] Throughout the report, the term "bond" can represent either a bond or insurance policy.

> Finally, we believe it is important to ensure that the policy does not have a substantial deductible.

Greater coordination between the FO, RO, and RCC could help ensure the bond policies are properly structured to protect the Agency's interest in any cases of misuse. While the Social Security Administration (SSA) provides guidance to Agency staff on what to consider when reviewing a bond policy, this is a complex area where a legal expert's skill can enhance the process.

Improving the Credit Risk Review Process

We determined that 4 of the 10 RO respondents thought the Headquarters-prepared credit report summaries were not valuable when they decided whether to approve an organization's request to become an FFS representative payee. Moreover, 7 of the 10 RO respondents indicated that credit report summaries provided limited information for determining whether to approve an organization's FFS request. Among the FO questionnaires, we found additional comments that the credit report summaries contained limited information on newer organizations. As noted in the body of the report, we believe SSA would benefit from additional guidance on ways staff can monitor new FFS representative payees projected as high risk, or where the contractor-prepared credit reports provided limited financial information.

Collection on Bond and Insurance Policies

We also obtained feedback from the regions on their ability to collect on bond and insurance policies.[3] In the case of the regional offices, four regions reported a total of six attempts to collect on such policies during the previous 2 years. Of the six attempts,

- one collection attempt was successful, though the bond amount was insufficient and covered only 56 percent of the loss;
- one collection attempt failed because SSA was not named in the policy; and
- four collection attempts were still pending at the time of our review.

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[3] We are conducting a separate review to learn more about the Agency's ability to collect on bond and insurance policies. See SSA, Office of the Inspector General, *Agency Actions Concerning Misuse of Benefits by Organizational and Volume Individual Representative Payees* (A-13-12-21247).

Appendix F –BACKGROUND CHECKS ON FEE-FOR-SERVICE REPRESENTATIVES PAYEES

SSA background checks on FFS organizations are limited to credit checks on the organization rather than the officers of the FFS organization. However, other options have been discussed and implemented related to criminal risk analysis of representative payees.

In July 2007, the National Academy of Sciences (NAS) issued a report on *Improving the Social Security Representative Payee Program: Serving Beneficiaries and Minimizing Misuse* that contained several recommendations to improve SSA's representative payment program. For example, NAS recommended SSA screen potential payees (including organizational payees) for suitability based on specified factors associated with misuse, particularly credit history and criminal background.

At the time of our review, SSA was conducting a limited suitability assessment of individual representative payees nationwide, such as reviewing prisoner and fugitive information reported to the Agency, and asking a number of questions regarding prior convictions as part of the representative payee application process.[1] In addition, in FY 2012, following a news story of representative payee abuses, SSA began piloting a new payee selection policy barring payee applicants with certain violent or financial crimes from serving as individual payees in the Philadelphia Region.[2] Before SSA initiated this new policy, individuals who committed such crimes were not automatically barred from serving as representative payees.[3] As of June 2013, the Philadelphia Region had reviewed 26,395 individual representative payee applications and

[1] Individual and organizational representative payees use the same application when applying to serve as a representative payee. However, only individual representative payees are asked multiple questions about past convictions, imprisonment, and outstanding warrants.

[2] The Philadelphia Region includes Delaware, Maryland, Pennsylvania, Virginia, West Virginia, and the District of Columbia. The violent or financial crimes that could bar potential representative payee applicants under the pilot included human trafficking, false imprisonment, kidnapping, rape/sexual assault, first degree homicide, robbery, fraud to obtain governmental assistance, fraud by scheme, theft of government funds/property, abuse/neglect, forgery, and identity theft. There was an exception to the policy for certain custodial relationships.

[3] SSA, POMS, GN 00502.132A.1—*Persons barred from serving as representative payee, states that some individuals are prohibited from serving as payees* (effective October 28, 2011).

barred 223 applicants from becoming representative payees.[4] In January 2014, SSA's Acting Commissioner approved nationwide implementation of the new payee selection process.[5]

While the nationwide suitability assessments and new payee selection process are limited to individual representatives payees, these oversight procedures may provide SSA managers with ideas for overseeing FFS representative payee organizations. Moreover, given the lack of credit risk information on some FFS representative payee organizations, we believe SSA should consider expanding its risk review process to organizations not already vetted by State or local authorities, which could include additional financial questions as well as obtaining credit reports for officers of FFS representative payees. In addition, given how SSA has expanded its use of criminal background checks for individual payees, SSA should consider a similar pilot requiring greater information on prior criminal activity for FFS representative payee organizations, which could include additional background questions as well as background checks for officers of FFS organizational representative payees.

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[4] *How Social Security Protects the Benefits of Those Who Cannot Protect Themselves: Hearing Before the Social Security Subcommittee, House Committee, on Ways and Means*, 113th Cong. (June 5, 2013) (statement of LaTina Burse Greene, Assistant Deputy Commissioner for Retirement and Disability Policy, Social Security Administration). At the hearing, the Assistant Deputy Commissioner also noted that the Agency planned to expand the pilot in the Philadelphia region to include use of an electronic system to obtain third-party criminal information on payee applicants.

[5] *National Implementation of the Representative Payee Criminal Bar Policy – DECISION*, Memorandum from Carolyn W. Colvin, Acting Commissioner of SSA, January 23, 2014.

Appendix G – AGENCY COMMENTS

SOCIAL SECURITY

MEMORANDUM

Date:	February 18, 2014	Refer To: S1J-3
To:	Patrick P. O'Carroll, Jr. Inspector General	
From:	Katherine Thornton Deputy Chief of Staff	
Subject:	OIG Draft Report, "Bond and Financial Credit Risk Requirements for Non-Governmental Fee-for-Service Representative Payees" (A-05-12-11225)--INFORMATION	

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL'S DRAFT REPORT, "BOND AND FINANCIAL CREDIT RISK REQUIREMENTS FOR NON-GOVERNMENTAL FEE-FOR-SERVICE REPRESENTATIVE PAYEES" (A-05-12-11225)

Recommendation 1

Issue a reminder to employees to follow policy related to bond and insurance oversight, including reviewing bond and insurance coverage annually, completing all sections of the triennial site review questionnaires, and reviewing credit report summaries before authorizing fees.

Response

We agree. We will publish a reminder in fiscal year (FY) 2014.

Recommendation 2

Continue sharing regional best practices related to bond and insurance coverage and the credit risk review process, including those mentioned in this report, such as greater coordination with RCC staff.

Response

We agree. In FY 2014, we will share regional best practices related to bond coverage, insurance coverage, and the credit-risk review process.

Recommendation 3

Determine whether the Agency needs to standardize and streamline its bond and insurance coverage methodology to ensure the type and amount of bond or insurance coverage is appropriate for the underlying risk.

Response

We agree. In calendar year (CY) 2014, we will review our bond and insurance coverage policy to determine if we can streamline the methodology while ensuring fee-for-service (FFS) organizations have appropriate bond coverage.

Recommendation 4

Provide additional guidance on the steps staff should take for new FFS representative payees projected either high risk or where contractor-prepared credit reports provide limited financial information.

Response

We agree. By the end of CY 2014, we will provide additional guidance to staff on actions to take if an organization has a high-risk credit report or limited financial information.

Recommendation 5

Consider enhancements to its current credit risk review process for FFS representative payee organizations not already vetted by State or local authorities to add a greater level of fraud risk protection.

Response

We agree. In CY 2014, we will analyze our current review process for FFS representative payee organizations to determine if we should enhance the current requirements.

Appendix H– MAJOR CONTRIBUTORS

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