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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SCOTT COUNTY COMMUNITY SERVICES  
DEPARTMENT, A FEE-FOR-SERVICE  
REPRESENTATIVE PAYEE FOR THE  
SOCIAL SECURITY ADMINISTRATION**

**June 2006**

**A-07-06-16040**

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**AUDIT REPORT**

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**We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.**

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# SOCIAL SECURITY

## MEMORANDUM

Date: June 5, 2006

Refer To:

To: Michael W. Grochowski  
Regional Commissioner  
Kansas City

From: Inspector General

Subject: Scott County Community Services Department, A Fee-for-Service Representative Payee for the Social Security Administration (A-07-06-16040)

## OBJECTIVE

Our objectives were to determine whether the Scott County Community Services Department (CSD) (1) had effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensured Social Security benefits were used and accounted for in accordance with the Social Security Administration's (SSA) policies and procedures.

## BACKGROUND

Some individuals cannot manage or direct the management of their finances because of their youth or mental and/or physical impairments. Congress granted SSA the authority to appoint representative payees to receive and manage these beneficiaries' <sup>1</sup> payments. <sup>2</sup> A representative payee may be an individual or an organization. SSA selects representative payees for Old-Age, Survivors and Disability Insurance (OASDI) beneficiaries or Supplemental Security Income (SSI) recipients when representative payments would serve the individuals' interests. Representative payees are responsible for managing benefits <sup>3</sup> in the best interest of the beneficiary. Refer to Appendix B for additional Representative Payee responsibilities.

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<sup>1</sup> We use the term "beneficiary" generically in this report to refer to both OASDI beneficiaries and SSI recipients.

<sup>2</sup> 42 U.S.C. §§ 405(j), 1382(a)(2).

<sup>3</sup> We use the term "benefits" generically in this report to refer to both OASDI benefits and SSI payments.

CSD is a county government agency that has operated for more than 20 years as a fee-for-service organizational representative payee for individuals who received payments under SSA's OASDI and SSI programs. In 2005, a former CSD employee was convicted of diverting SSA monies from beneficiaries due to an improper segregation of duties relating to the disbursement of benefits. As a result, SSA's Kansas City Regional Office requested that we perform an audit of CSD. Refer to Appendix C for the Scope and Methodology.

## **RESULTS OF REVIEW**

We found CSD generally had adequate internal controls for the receipt and disbursement of Social Security benefits. Particularly, CSD had adequate segregation of duties, proper authorization for transactions, and adequate physical safeguards over assets and records.<sup>4</sup> However, we found two areas where CSD needs to improve its procedures to ensure Social Security benefits are used and accounted for in accordance with SSA's policies and procedures. Specifically, CSD needs to:

- Maintain adequate documentation to support expenses, and
- Properly title the bank account used to hold beneficiary funds.

## **BENEFICIARIES' EXPENSES LACKED SUPPORTING DOCUMENTATION**

CSD did not maintain supporting documentation (receipts) for the disbursement of approximately \$88,000 in SSA benefits.<sup>5</sup> Of this amount, approximately \$72,000 was disbursed directly to beneficiaries for personal allowances and personal needs. The remaining \$16,000 was paid to vendors or individuals other than the beneficiary for personal needs items such as utilities, clothing, and food.

SSA requires representative payees to keep accurate and complete records to show the amount of benefits received and how the money was used.<sup>6</sup> Supporting documentation for beneficiary expenses was lacking primarily because CSD did not require the collection or retention of receipts for personal allowances or for most personal needs as the following discusses.

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<sup>4</sup> Because of the employee theft, CSD revised its benefit disbursement procedures to include separation of approval, processing, and reconciling procedures. In addition, CSD installed a new software program for its payee program that contains security features that allow CSD to limit user functions based on employee job descriptions.

<sup>5</sup> CSD received \$266,346 in benefits for the 50 beneficiaries from September 1, 2004 to August 31, 2005.

<sup>6</sup> 20 C.F.R. §§ 404.2065 and 416.665.

## Personal Allowances

A personal allowance is money provided directly to the beneficiary for food and personal items. To determine the amount and frequency of personal allowances for beneficiaries that do not reside in nursing home facilities, CSD meets with the beneficiaries to establish a budget. During this meeting, CSD ensures the beneficiaries' shelter needs are met then it establishes the amount, purpose, and frequency of personal allowance checks.<sup>7</sup>

During our audit period, CSD disbursed approximately \$59,000 in personal allowance checks. Of this amount, approximately \$54,000 was disbursed directly to beneficiaries while approximately \$5,000 was disbursed to nursing homes on behalf of the beneficiaries. However, CSD did not require the beneficiaries or nursing home facilities to provide receipts to show how the personal allowance money was spent. Therefore, beneficiaries and nursing homes were able to use the funds at their own discretion. In fact, we found that 9 of the 50 beneficiaries included in our review received 40 percent or more of their benefits in the form of personal allowances as illustrated in Table 1.

<b>Table 1 Benefits Disbursed as Personal Allowances</b>		
<b>Percent of Benefits Disbursed</b>	<b>Number of Beneficiaries</b>	<b>Benefits Disbursed</b>
Less than 30% <sup>8</sup>	34	\$25,639
30% to 40%	7	14,257
40% or more	9	18,701
<b>Total</b>	<b>50</b>	<b>\$58,597</b>

SSA deemed the beneficiaries under CSD's care incapable of managing or directing the management of their funds. However, CSD released a significant portion of benefits to some beneficiaries without requiring documentation of how the money was spent. CSD stated these funds were released to beneficiaries to provide a sense of financial independence and it hoped the beneficiaries would use the funds in their best interests. Although it is not against SSA policy to promote financial independence, we believe CSD's insufficient oversight of the use of personal allowances places the funds at risk for misuse. In addition, without evidence to show how personal allowances are used, CSD is not performing one of its primary responsibilities of ensuring beneficiaries' needs are met and benefits are used in the best interest of the beneficiary.

<sup>7</sup> Most beneficiaries receive a personal allowance check monthly, bi-monthly, weekly, or even daily depending on the beneficiary and pick up their checks at the CSD office. Beneficiaries are required to sign the check stub to acknowledge receipt of their check. For the individuals residing in a nursing home facility, CSD sends a minimum of \$30 monthly for personal allowances to the nursing homes on behalf of the beneficiaries.

<sup>8</sup> Nursing homes received personal allowances totaling \$4,715 on behalf of 10 of these beneficiaries.

## Personal Needs

Personal needs monies are requested by the beneficiary for expenses above and beyond the amount received as a personal allowance.<sup>9</sup> CSD requires beneficiaries to request personal needs money in person. Also, the beneficiaries must complete a form that requires an explanation of the intended use of the money and their signature. Beneficiaries requested money for items such as food, clothing, travel expenses, and gifts.

Our review found that CSD did not always have receipts to support how beneficiaries used their personal needs monies. For personal needs requests of \$100 or less, CSD did not require the beneficiaries to provide any documentation (receipts) to show how the monies were spent. During our audit period, CSD provided beneficiaries approximately \$8,000 for personal needs requests of \$100 or less.

While CSD did have a policy that required submission of receipts for personal needs requests in excess of \$100, it did not consistently adhere to the policy. Specifically, CSD did not collect receipts for 82 percent of the amount it disbursed for personal needs requests that exceeded the \$100 limit as shown in Table 2.

<b>Table 2</b>			
<b>Benefits Disbursed as Personal Needs Requests over \$100</b>			
<b>Personal Needs Requests</b>	<b>Number of Transactions</b>	<b>Total Amount of Transactions</b>	<b>Percent of Total Transactions</b>
Receipts Provided	5	\$1,046	18%
Receipts Not Provided	18	\$4,787	82%
<b>Total</b>	<b>23</b>	<b>\$5,833</b>	<b>100%</b>

SSA requires representative payees to keep accurate and complete records to show how benefits are used.<sup>10</sup> Receipt maintenance is a safeguard CSD should have in place for all personal needs requests regardless of the monetary value to verify that items purchased by beneficiaries were reasonable, that is, the items purchased were needed and appropriate for the beneficiary.

<sup>9</sup> Personal needs checks are paid to beneficiaries or to others on behalf of beneficiaries. Generally, the beneficiaries pick up and sign that they have received their personal needs checks at the CSD office.

<sup>10</sup> 20 C.F.R. §§ 404.2065 and 416.665.

## **CSD Policy Changes for Personal Allowances and Needs**

During the course of our review, CSD implemented new policies that require beneficiaries who receive personal allowance or personal needs checks of \$50 or more to provide receipts to support how the monies were spent. CSD also notified nursing homes that supporting documentation must be provided on a monthly basis for personal allowances for beneficiaries residing in the facility.

CSD's new policies regarding personal allowances and personal needs requests provide improved oversight of how beneficiaries spend personal allowance and personal needs monies. However, CSD did not consistently follow its previous receipt maintenance policies. Therefore, lowering the threshold for receipt maintenance will only be effective if CSD adheres to its new policies and collects the requested receipts from the beneficiaries or nursing home facilities.

## **BANK ACCOUNT NOT PROPERLY TITLED**

The bank account used by CSD was not titled in accordance with SSA instructions because it did not reflect ownership of the account by SSA beneficiaries. Specifically, the bank account currently used by CSD for SSA beneficiary funds is titled "Community Services Dept." This title does not reflect ownership of the account by SSA beneficiaries. According to SSA instructions, a representative payee may establish collective checking and savings accounts to hold monies belonging to multiple beneficiaries.<sup>11</sup> However, to protect beneficiaries' funds, the account title must show that the representative payee has only a fiduciary interest in the account.<sup>12</sup> CSD stated it was unaware the bank account was not properly titled and plans to re-title the account.

The improper titling of the bank account results in beneficiary funds being underinsured. The Federal Deposit Insurance Corporation (FDIC) insures bank deposits up to \$100,000 per individual account. FDIC provides additional coverage of \$100,000 per individual for collective bank accounts if the relationship between the account holder and its clients is properly shown in the account title.<sup>13</sup> FDIC recognizes a claim for insurance coverage based on a fiduciary relationship only if bank deposit account records clearly define the relationship.<sup>14</sup> As of August 2005, the bank account balance for SSA beneficiaries was approximately \$453,000. Since the bank account is not properly titled, beneficiary funds are underinsured by \$353,000, the difference between the bank account balance and the FDIC insured amount.

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<sup>11</sup> POMS GN 00603.020.

<sup>12</sup> POMS GN 02402.055.

<sup>13</sup> 12 C.F.R. § 330.5.

<sup>14</sup> 12 C.F.R. § 330.5(b)(1).

## **CONCLUSION AND RECOMMENDATIONS**

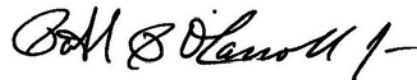
CSD generally had adequate internal controls for the receipt and disbursement of Social Security benefits. However, we found that CSD did not maintain adequate documentation to support beneficiary expenses and did not title the bank account in accordance with SSA's instructions. During the course of our review, CSD strengthened its policies over receipt maintenance; however, the new policy will only be as strong as its ability to enforce the collection of supporting documentation for those expenses.

We recommend SSA instruct CSD to:

1. Maintain sufficient documentation to show that personal allowance and personal needs monies are used in the best interest of the beneficiaries.
2. Title its checking account to reflect beneficiary ownership interest.

## **AGENCY AND REPRESENTATIVE PAYEE COMMENTS**

SSA and CSD agreed with our recommendations and reported that appropriate actions were implemented. See Appendix D for the full text of SSA's comments and Appendix E for the full text of CSD's comments.



Patrick P. O'Carroll, Jr.



# *Appendices*

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APPENDIX A – Acronyms

APPENDIX B – Representative Payee Responsibilities

APPENDIX C – Scope and Methodology

APPENDIX D – Agency Comments

APPENDIX E – Representative Payee Comments

APPENDIX F – OIG Contacts and Staff Acknowledgments

## Acronyms

C.F.R.	Code of Federal Regulations
CSD	Scott County Community Services Department
FDIC	Federal Deposit Insurance Corporation
OASDI	Old-Age, Survivor, and Disability Insurance
POMS	Program Operations Manual System
RPR	Representative Payee Accounting Report
RPS	Representative Payee System
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code

# Representative Payee Responsibilities

Representative payees are responsible for using benefits to serve the beneficiary's best interests. The responsibilities include:<sup>1</sup>

- Determine the beneficiary's current needs for day-to-day living and use his or her payments to meet those needs;
- Conserve and invest benefits not needed to meet the beneficiary's current needs;
- Maintain accounting records of how the benefits are received and used;
- Report events to the Social Security Administration (SSA) that may affect the individual's entitlement or benefit payment amount;
- Report any changes in circumstances that would affect their performance as a representative payee;
- Provide SSA an annual Representative Payee Accounting Report to account for benefits spent and invested;
- Return any payments to SSA for which the beneficiary is not entitled;
- Return conserved funds to SSA when you are no longer the representative payee for the beneficiary; and
- Be aware of any other income Supplemental Security Income beneficiaries may have and monitor their conserved funds to ensure they do not exceed resource limits.

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<sup>1</sup> 20 C.F.R. § 404, subpart U, and § 416, subpart F.

# Scope and Methodology

Our audit covered the period September 1, 2004 through August 31, 2005. To accomplish our objectives, we:

- Reviewed applicable Federal regulations, the Social Security Act and Social Security Administration (SSA) policies and procedures pertaining to representative payees.
- Contacted SSA regional office and field office staffs to obtain background information about the Scott County Community Services Department (CSD) performance.
- Obtained from SSA's Representative Payee System (RPS) a list of individuals who were in CSD's care as of August 31, 2005 or who left CSD's care after September 1, 2004.
- Obtained from CSD a list of individuals who were in its care and had received SSA funds as of August 31, 2005 or who left its care after September 1, 2004.
- Compared and reconciled the RPS list to CSD's list to identify the population of SSA beneficiaries who were in the CSD's care from September 1, 2004 through August 31, 2005.
- Reviewed CSD's internal controls over the receipt and disbursement of Social Security benefits.
- Randomly selected a sample of 50 beneficiaries from a population of 503 beneficiaries in CSD's care from September 1, 2004 through August 31, 2005.
- Performed the following tests for the 50 randomly selected beneficiaries:
  - Compared and reconciled benefit amounts received according to the CSD's records to benefit amounts paid according to SSA's records.
  - Reviewed the CSD's accounting records to determine whether benefits were properly spent or conserved on the individual's behalf.
  - Traced a sample of recorded expenses to source documents and examined the underlying documentation for reasonableness and authenticity.
- Interviewed a non-random sample of 10 beneficiaries to determine whether their basic needs were being met.

- Reviewed the Representative Payee Accounting Reports (RPR) for 27 of the 50 beneficiaries in our sample to determine whether CSD properly reported to SSA how benefits were used.
- Reviewed a non-random sample of four Representative Payee Applications (Form SSA-11-BK) to evaluate the completeness and appropriateness of the information provided on the applications.

We determined computer-processed data to be reliable for our intended use. Further, any data limitations were minor in the context of this assignment, and the use of the data should not lead to an incorrect or unintentional message. We tested certain data elements of data extracts generated from the Agency's RPS. We completed tests to determine the completeness, accuracy and validity of the data. These tests allowed us to assess the reliability of the data and achieve our audit objectives.

We performed our fieldwork in Kansas City, Missouri and Davenport, Iowa, between September 2005 and January 2006. We conducted our audit in accordance with generally accepted government auditing standards.

## Agency Comments

May 23, 2006

Signed Draft Report (A-07-06-16040) Scott County Community Services - Kansas City  
Response

Thank you for the opportunity to comment on the attached OIG Draft Audit Report for Scott County Community Services Department. The Kansas City Region agrees with the recommendations outlined on the draft report. Regional and field office staff had a conference call with the payee to further discuss the policy related to OIG's recommendations. As a result, the payee has already implemented a different process for controlling receipts to maintain better control of their expenditures.

Staff with questions may contact Kathy Kazee, Center for Programs Support at 816-936-5643.

/s/

Michael W. Grochowski

## Representative Payee Comments

May 16, 2006

Subject: Audit Response

We received a copy of the draft audit report on April 24, 2006. Our office understands the objectives of the audit and the need for the audit.

Scott County Community Services has taken many steps over the past two years so as to prevent another incident of theft. During the actual audit, your staff gave suggestions and clarified policies for us. We have revised our internal policies regarding needed documentation to support expenses. We know this may be difficult for some of our clients due to limited cognitive ability, but we continue to look for new ways to get the needed documentation. Staff have created files and envelopes to help the clients when returning with receipts. We understand the importance of being responsible for all funds and ensuring funds are used in the best interest of the beneficiaries. A supervisor in our office is monitoring the documentation requirements. We have had contact with the bank regarding the account used to hold the beneficiary funds and how to rename it. We appreciate the input and suggestions from your staff during the audit. We really want to make our Representative Payee Program the best it can be.

Lori A. Elam

Scott County Community Services Director

Davenport, Iowa

## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Mark Bailey, Director, Kansas City Audit Division (816) 936-5591

Ron Bussell, Audit Manager (816) 936-5577

### ***Acknowledgments***

In addition to those named above:

Karis Gaukel, Auditor

Deborah Taylor, Auditor

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Social Security Advisory Board  
Scott County Community Services Department

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