



*Audit Report*

Children and Families of Iowa, a Fee-  
for-Service Representative Payee for  
the Social Security Administration

**MEMORANDUM**

**Date:** March 15, 2016

**Refer To:**

**To:** Mike Kramer  
Regional Commissioner  
Kansas City

**From:** Assistant Inspector General for Audit

**Subject:** Children and Families of Iowa, a Fee-for-Service Representative Payee for the Social Security Administration (A-07-16-50055)

The attached final report presents the results of our review. Our objectives were to determine whether Children and Families of Iowa (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with Social Security Administration policies and procedures, and (3) adequately protected beneficiaries' personally identifiable information

If you wish to discuss the final report, please call me or have your staff contact Mark Bailey, Director of the Kansas City Audit Division, at (877) 405 7694 ext. 18800



Steven L. Schaeffer, JD, CPA, CGFM, CGMA

Attachment

cc:

Office of Operations, Audit Liaison

Gary S. Hatcher, Senior Advisor for Records Management and Audit Liaison Staff

Jennifer Pavlovec, Chief Financial Officer for Children and Families of Iowa

# Children and Families of Iowa, a Fee-for-Service Representative Payee for the Social Security Administration

## A-07-16-50055



March 2016

Office of Audit Report Summary

### Objective

To determine whether Children and Families of Iowa (CFI) (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with Social Security Administration (SSA) policies and procedures, and (3) adequately protected beneficiaries' personally identifiable information.

### 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' payments. Representative payees are responsible for managing benefits in the beneficiaries' best interests.

### Findings

CFI adequately protected beneficiaries' personally identifiable information and had effective controls over the receipt of Social Security benefits. However, we found

- CFI did not have an adequate segregation of duties in its accounting process and did not maintain receipts to support all expenditures;
- CFI charged unallowable representative payee fees and served as a conduit payee for some beneficiaries; and
- CFI did not determine whether beneficiaries' living conditions were adequate.

### Recommendations

We recommend SSA:

1. Ensure CFI establishes effective safeguards over the accounting process including a proper segregation of duties.
2. Instruct CFI to establish effective internal controls regarding adequate documentation to support the use of Social Security benefits in the beneficiaries' best interest.
3. Seek restitution from CFI for the \$201 in unallowable representative payee fees.
4. Determine whether CFI is the appropriate representative payee for those beneficiaries for whom it acted as a conduit payee.
5. Direct CFI to obtain sufficient information from beneficiaries to ascertain the adequacy of their living conditions.

SSA agreed with our recommendations.

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## ABBREVIATIONS

CFI	Children and Families of Iowa
C.F.R.	Code of Federal Regulations
GAO	Government Accountability Office
OASDI	Old-Age, Survivors and Disability Insurance
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code

## OBJECTIVE

The objectives of this review were to determine whether Children and Families of Iowa (CFI) (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with Social Security Administration (SSA) policies and procedures, and (3) adequately protected beneficiaries' personally identifiable information.

## 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' payments from the Old-Age, Survivors and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs.<sup>1</sup> A representative payee may be an individual or an organization. SSA's regulations indicate the Agency will select representative payees for beneficiaries when representative payments would serve the individuals' interests.<sup>2</sup> Representative payees are responsible for managing benefits in the beneficiaries' best interests.<sup>3</sup> See Appendix A for representative payee responsibilities.

SSA's Kansas City Regional Office requested that we audit CFI, a nonprofit organization with multiple locations in Iowa. We audited the main location in Des Moines, Iowa, which provided services for mental health, childcare, family support, and victims of domestic violence. Our audit period was March 1, 2014 through February 28, 2015. During this period, CFI served as the representative payee for 357 beneficiaries receiving payments under SSA's OASDI and SSI programs. See Appendix B for our scope and methodology.

## RESULTS OF REVIEW

We found CFI adequately protected beneficiaries' personally identifiable information and had effective controls over the receipt of Social Security benefits. However, we found the following.

- CFI did not have effective safeguards over the disbursement of Social Security benefits. Specifically, CFI did not have adequate segregation of duties in its accounting process and did not maintain receipts to support all expenditures.

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<sup>1</sup> *Social Security Act* §§ 205(j) and 1631(a)(2)(A)(ii); 42 U.S.C. §§ 405(j) and 1383(a)(2)(A)(ii).

<sup>2</sup> 20 C.F.R. §§ 404.2001 and 416.601.

<sup>3</sup> 20 C.F.R. §§ 404.2035 and 416.635. We use the term "benefits" to refer to OASDI benefits and SSI payments. Likewise, we use the term "beneficiaries" to refer to OASDI beneficiaries and SSI recipients.

- CFI did not use and account for Social Security benefits in accordance with SSA policies and procedures. Specifically, CFI charged unallowable representative payee fees and served as a conduit payee for some beneficiaries.<sup>4</sup>
- CFI did not determine whether beneficiaries' living conditions were adequate.

## Safeguards over the Disbursement of Benefits

We found that CFI needed to address internal control weaknesses in the disbursement of benefits. Specifically, CFI did not have adequate segregation of duties or maintain receipts to support all expenditures.

### *Segregation of Duties*

CFI did not have an adequate segregation of employee duties in its accounting process. During the audit period, CFI had five employees whose responsibilities were to control most key aspects of financial transactions. Specifically, for their assigned beneficiaries, these employees

- posted deposits and expenditures in the ledgers,
- authorized bills for payment,
- printed and signed checks,
- accessed and secured check stock, and
- reconciled monthly bank statements with the ledgers.

According to CFI, there was a second signer on every check who also reviewed the documentation underlying the payment to verify its accuracy and legitimacy.<sup>5</sup> In addition, CFI's chief financial officer randomly checked about 30 bank reconciliations each month to verify their accuracy, identify anything odd or unusual, and determine whether fees were charged appropriately.

One person should not control most key aspects of financial transactions. Adequate segregation of duties and oversight of the accounting functions ensure that important duties and responsibilities are divided among different people to reduce the risk of error, misuse, and fraud.<sup>6</sup> The limited number of CFI payee staff makes total segregation of duties difficult. While CFI has

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<sup>4</sup> A conduit payee turns over all or most of the SSA funds to the beneficiary or third party who decides how the funds are used.

<sup>5</sup> We reviewed a sample of checks and confirmed that there were two authorized signatures per check.

<sup>6</sup> GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G), p.47, September 2014; SSA, *Guide for Organizational Representative Payees: Separation of Employee Duties*, p. 50 (2014), available at <http://www.ssa.gov/payee/documents/2014OrgGuide%20-%20FINAL2.pdf>.

some compensating controls, we believe it could institute additional controls to further mitigate the risk of fraud or abuse. For example, key financial transaction duties can be divided among two or more employees. In addition, SSA suggests representative payees separate the disbursement responsibilities from the bank reconciliation tasks.<sup>7</sup> Thus, CFI could have each employee perform the bank reconciliation for another employee's assigned beneficiaries.

### *Receipts to Support Expenditures*

Our detailed review of the expenditures for 12 beneficiaries disclosed that CFI did not maintain receipts and other documentation to support all expenditures.<sup>8</sup> Specifically, of the \$136,539 expended on the 12 beneficiaries' behalf during the audit period, CFI paid \$82,110 (60 percent) to vendors or others on the beneficiaries' behalf.<sup>9</sup> However, CFI did not have documentation to support \$20,889 (25 percent) of these disbursements. For these disbursements, CFI did not maintain rental or board and care agreements; utility bills; or receipts for food, loan payments, telephone minutes, and personal items.

SSA requires that representative payees accurately account for the use of benefits, keep complete and detailed records of how benefits were used, and make those records available at SSA's request.<sup>10</sup> Without documentation to support expenditures, CFI cannot fully account for all expenditures or prove it spent the beneficiaries' funds appropriately. Maintaining this documentation is a safeguard the representative payee must have in place for all expenditures, regardless of the monetary value, to show it spent SSA benefits in the beneficiaries' best interest and to decrease the risk of fraud and abuse.

### **Use and Accounting for Benefits**

We found CFI did not use and account for Social Security benefits in accordance with SSA's policies and procedures. Specifically, CFI charged four beneficiaries unallowable representative payee fees. In addition, CFI paid large portions of six beneficiaries' funds directly to the beneficiaries without accounting for how they used the funds.

### *Unallowable Representative Payee Fees*

We found CFI charged four beneficiaries a total of \$201 in unallowable representative payee fees. SSA approved CFI to collect a fee for its representative payee services that was equal to the lesser of 10 percent of the beneficiary's total monthly benefit or \$40 in 2014 and \$41 in

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<sup>7</sup> SSA, *Guide for Organizational Representative Payees: Separation of Employee Duties*, p. 50 (2014).

<sup>8</sup> We selected these beneficiaries from a random sample of 50 because they had a large number of expenditures or a large amount of spending compared to the other beneficiaries.

<sup>9</sup> CFI paid the remaining \$54,429 directly to the beneficiaries.

<sup>10</sup> SSA, POMS, GN 00502.113 D.5.b (July 15, 2014), SSA, POMS, GN 00605.001 B.1 (May 15, 2013); *see also* 20 C.F.R. §§ 404.2065 and 416.665.

2015.<sup>11</sup> CFI charged two beneficiaries fees when no benefits were due in those months. SSA prohibits a representative payee from charging a fee when no benefits are due.<sup>12</sup> CFI charged the remaining two beneficiaries fees during a month when CFI did not perform any representative payee services. SSA prohibits a payee from charging a fee when it does not perform payee services for a beneficiary.<sup>13</sup>

### *Conduit Payee*

In our review of the 12 beneficiaries, we found that CFI acted as a conduit payee for 6 beneficiaries by paying large portions of the beneficiaries' funds directly to them without accounting for how the beneficiaries used all the funds. SSA defines a conduit payee as a representative payee who turns over all or most of the funds to the beneficiary or a third party, does not exercise control over the benefits, and cannot accurately account for how the benefits were used. A conduit payee situation could indicate the beneficiary's needs are not being met, the payee lacks interest in the beneficiary's care, or the beneficiary no longer needs a payee.<sup>14</sup> Although SSA determined the beneficiaries were incapable of managing or directing the management of their benefits,<sup>15</sup> CFI disbursed the majority of their benefits—less rent and representative payee fees—directly to the beneficiaries to manage.<sup>16</sup> Aside from rent and payee fees, CFI directly paid these beneficiaries 56 to 79 percent of their benefits.

CFI requested the beneficiaries provide receipts for how they spent funds, but CFI did not obtain sufficient receipts to arrive at a reasonable understanding of how the six beneficiaries actually spent the funds. For example, one beneficiary received checks totaling \$6,660 from CFI during the audit period, but CFI could only produce \$105.64 in receipts to support how the beneficiary spent those funds. Because CFI directly paid these beneficiaries a majority of their benefits and did not obtain sufficient receipts to arrive at a reasonable understanding of how the beneficiaries spent the funds, we believe CFI was a conduit payee for these six beneficiaries.

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<sup>11</sup> SSA, POMS, GN 00506.200 A and C.2 (December 11, 2015). During the audit period, CFI was allowed to charge \$40 per month for benefits received in March through December 2014 and \$41 per month for benefits received in January and February 2015.

<sup>12</sup> SSA, POMS, GN 00506.220 A (August 18, 2004).

<sup>13</sup> Id.

<sup>14</sup> SSA, POMS, GN 00605.067 D.1 (September 18, 2007).

<sup>15</sup> SSA, POMS, GN 00502.001 A.2 to A.4 (March 16, 2011).

<sup>16</sup> We excluded rent and CFI's representative payee fee when we determined whether CFI was acting as a conduit payee because those expenses are constant, must be paid for most beneficiaries, and are paid directly to the provider. In total, CFI provided \$32,019 directly to these six beneficiaries.

## Beneficiaries' Living Conditions

CFI did not visit beneficiaries in their residences. CFI employees met with beneficiaries monthly when they visited CFI offices to pick up their personal spending checks or for other purposes. SSA requires that a representative payee regularly meet with the beneficiary to ascertain the beneficiary's current and foreseeable needs, although SSA does not specify the type or frequency of the meeting.<sup>17</sup> According to CFI, visiting beneficiaries in their homes was not required, and travel was cost-prohibitive.

We interviewed 12 beneficiaries in their homes and walked through their residences. Our interviews and observations of their residences disclosed two beneficiaries lived in conditions that were not clean or healthy for them.<sup>18</sup>

- One beneficiary lived in a house where the living room carpet had been removed because pets had saturated the carpet with urine. The furniture was stacked in the middle of the room to keep the animals from urinating on it. There were small piles that appeared to be animal feces around the living room walls. In the kitchen, every counter was piled high with soiled dishes so there was no space for food preparation. The bedroom was tightly packed with furniture and stacks of boxes and clothing. The beneficiary stated she did not have anyone to help her clean or do some maintenance.
- One beneficiary lived in an apartment that had recently flooded. Piles of clothes and other items were stacked in the living room. A box of insect poison was sitting on a kitchen counter. Dirty dishes and pans were piled on every surface of the kitchen, and there was no space for food preparation. The beneficiary could not find his identification card because of the conditions in the apartment.

Based on our visits to these beneficiaries' homes, we believe CFI did not obtain sufficient information from the beneficiaries at the monthly meetings to determine whether their living conditions were adequate. After our visits, CFI reported working with the two beneficiaries to improve their living conditions. According to CFI, much progress had been made on the second beneficiary's behalf.

## CONCLUSIONS

CFI adequately protected beneficiaries' personally identifiable information and had effective controls over the receipt of Social Security benefits. However, CFI did not have effective safeguards over the disbursement of Social Security benefits, did not use and account for Social Security benefits in accordance with SSA's policies and procedures, and did not determine whether beneficiaries' living conditions were adequate.

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<sup>17</sup> SSA, POMS, GN 00502.114 A (February 27, 2014).

<sup>18</sup> CFI was a conduit payee for both beneficiaries. *See* p. 4.

## RECOMMENDATIONS

We recommend that SSA:

1. Ensure CFI establishes effective safeguards over the accounting process including a proper segregation of duties.
2. Instruct CFI to establish effective internal controls regarding adequate documentation to support the use of Social Security benefits in the beneficiaries' best interest.
3. Seek restitution from CFI for the \$201 in unallowable representative payee fees.
4. Determine whether CFI is the appropriate representative payee for those beneficiaries for whom it acted as a conduit payee.
5. Direct CFI to obtain sufficient information from beneficiaries to ascertain the adequacy of their living conditions.

## AGENCY COMMENTS

SSA agreed with our recommendations. See Appendix C for the full text of SSA's comments. CFI reviewed the draft report and informed us that it was evaluating its processes in light of the recommendations to improve the quality of its services.



Steven L. Schaeffer, JD, CPA, CGFM, CGMA  
Assistant Inspector General for Audit

# *APPENDICES*

## **Appendix A – REPRESENTATIVE PAYEE RESPONSIBILITIES**

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Representative payees are responsible for using Social Security benefits to serve the beneficiary's best interests. The responsibilities include, but are not limited to, the following.<sup>1</sup>

- Determine the beneficiary's current needs for day-to-day living and use his/her payments to meet those needs.
- Conserve and invest benefits not needed to meet the beneficiary's current needs.
- Keep benefits received on the beneficiary's behalf separate from the payee's own funds.
- 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 report to account for benefits spent and invested.
- Return any payments to SSA to which the beneficiary is not entitled.
- Return conserved funds to SSA when it is no longer serving as the representative payee for the beneficiary.
- Be aware of other income Supplemental Security Income recipients 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. §§ 404.2035 and 416.635.

## Appendix B – SCOPE AND METHODOLOGY

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Our audit covered the period March 1, 2014 to February 28, 2015. To accomplish our objectives, we:

- Reviewed applicable Federal laws and regulations as well as Social Security Administration (SSA) policies and procedures pertaining to representative payees.
- Communicated with SSA’s Kansas City Regional Office to obtain background information and prior reviews regarding Children and Families of Iowa (CFI).
- Compared and reconciled the payee’s list of SSA beneficiaries in CFI’s care to a list we obtained from SSA’s Representative Payee System.
- Reviewed CFI’s internal controls over the receipt and disbursement of Social Security benefits.
- Selected a random sample of 50 beneficiaries in the representative payee’s care during the audit period and performed the following tests.
  - Compared and reconciled benefit amounts received according to CFI’s records to benefit amounts paid according to SSA’s records.
  - Reviewed CFI’s accounting records to determine whether benefits were properly spent or conserved on the beneficiary’s behalf.
  - For selected beneficiaries, traced all recorded expenses to available source documents and examined the documentation for reasonableness and authenticity.
- Reconciled bank records and CFI’s records for selected beneficiaries in May and June 2014.
- Interviewed 12 beneficiaries and observed their living conditions.
- Reviewed the available annual representative payee reports to determine whether CFI properly reported to SSA how the beneficiaries’ funds were used.

We conducted our fieldwork for this review in Des Moines, Iowa, and Kansas City, Missouri, between April and October 2015. We tested the data obtained for our review and determined them to be sufficiently reliable to meet our objectives. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform 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 – AGENCY COMMENTS

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**Sent:** Thursday, March 03, 2016

**Subject:** Signed Draft Report (A-07-16-50055) - Kansas City Response

Thank you for the opportunity to review the draft audit report, “Children and Families of Iowa, A Fee-for-Service Representative Payee for the Social Security Administration.” Our responses to the recommendations are as follows:

- **Recommendation 1:** *Ensure CFI establishes effective safeguards over the accounting process including a proper segregation of duties.*

**Response:** We agree. We will work with CFI to ensure it has proper safe guards in place, including segregation of duties, accurate ledgers, and documentation.

- **Recommendation 2:** *Instruct CFI to establish effective internal controls regarding adequate documentation to support the use of Social Security benefits in the beneficiaries’ best interest.*

**Response:** We agree. We will work with CFI to ensure it has a plan in place to maintain adequate documentation to support the use of Social Security benefits.

- **Recommendation 3:** *Seek restitution from CFI for the \$201 in unallowable representative payee fees.*

**Response:** We agree. We will request CFI return \$201 in unallowable fees and control for the return of those fees.

- **Recommendation 4:** *Determine whether CFI is the appropriate representative payee for those beneficiaries for whom it acted as a conduit payee.*

**Response:** We agree. We will place the beneficiaries into direct pay if capable or find more appropriate representative payees. In addition, we will educate CFI on conduit payees.

- **Recommendation 5:** *Direct CFI to obtain sufficient information from beneficiaries to ascertain the adequacy of their living conditions.*

**Response:** We agree. We will work with CFI to develop a plan to help ensure it ascertains the adequacy of beneficiary living conditions.

We plan to complete all five recommendations by the third quarter of FY16.

If you have any questions, please contact me. If members of your staff need additional information or assistance, they may contact Shelli Reicks, Center for Disability and Program Support.

Mike Kramer

## Appendix D – ACKNOWLEDGMENTS

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Mark Bailey, Director, Kansas City Audit Division

Tonya Eickman, Audit Manager

Jesse Card, Auditor

Carol Cockrell, Evaluator

Kimberly Beauchamp, Writer-Editor

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