OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SUNSHINE PAYEE CORPORATION, A FEE-FOR-SERVICE REPRESENTATIVE PAYEE FOR THE SOCIAL SECURITY ADMINISTRATION

February 2010 A-08-09-29106

AUDIT REPORT

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SOCIAL SECURITY

MEMORANDUM

Date: February 5, 2010 Refer To:

To: Paul D. Barnes
Regional Commissioner
Atlanta

From: Inspector General

Subject: Sunshine Payee Corporation, a Fee-for-Service Representative Payee for the Social Security Administration (A-08-09-29106)

OBJECTIVE

Our objectives were to determine whether Sunshine Payee Corporation (Sunshine) (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' payments.[1] 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[2] in the beneficiary's best interest. Refer to Appendix B for specific representative payee responsibilities.

Since 2003, Sunshine has operated under the current owners as a fee-for-service (FFS) representative payee for individuals who receive payments under SSA's OASDI and SSI programs. The Atlanta Region considers Sunshine to be a representative payee of last resort, meaning many of the beneficiaries it manages are adults who do not have family members or friends available or willing to represent them. Moreover, many of the beneficiaries have mental disorders, have substance abuse problems, or are homeless and transient.

[1] The *Social Security Act* §§ 205(j) and 1631(a)(2), 42 U.S.C §§ 405(j) and 1383(a)(2).

[2] We use the term “benefits” generically in this report to refer to both OASDI benefits and SSI payments.

During our audit period, January 1 to December 31, 2008, Sunshine served as representative payee for about 1,639 (active and terminated) Social Security beneficiaries. Sunshine currently has only four employees.

We performed audit tests on 100 randomly selected beneficiaries to determine whether Sunshine properly managed their benefits. See Appendix C for our complete Scope and Methodology.

RESULTS OF REVIEW

Sunshine generally (1) had effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensured Social Security benefit payments were used and accounted for properly. However, Sunshine did not always comply with SSA's policies and procedures. We identified the following areas where Sunshine needed to improve its performance as a representative payee.

- Sunshine did not reconcile bank statement balances with its beneficiaries' ledger balances.
- Sunshine did not obtain sufficient bond coverage for loss or theft of beneficiary funds.
- Sunshine did not identify the fiduciary relationship between the payee and the beneficiaries in its bank account title.
- Sunshine charged $342 in fees for months when no benefits were payable.

No Reconciliation of Bank Records to Beneficiary Ledgers

Sunshine did not reconcile its bank statement balances to individual beneficiary ledger balances. Without such reconciliations, Sunshine could not ensure it was complying with SSA's regulation requiring that representative payees maintain accurate and complete records for the Social Security benefits they manage.[3] To test the accuracy of its records, we requested that Sunshine perform a reconciliation for 1 month in the audit period. Sunshine reconciled its October 2008 bank statement and found the bank account contained approximately $38,974 more than the total recorded in its beneficiary ledgers.[4] According to Sunshine, the variance was likely due to uncashed checks.

SSA policy allows a representative payee to commingle Social Security benefits in a bank account as long as the payee maintains a separate ledger account for each

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[3] 20 C.F.R. §§ 404.2065 and 416.665. See also SSA, *Guide for Organizational Representative Payees* - Developing a Representative Payee Accounting System.

[4] The reconciliation produced an adjusted bank account balance of $2,205,825 and an adjusted beneficiary ledger balance of $2,166,851 resulting in a difference of $38,974.

beneficiary.[5] Accordingly, Sunshine maintained a separate ledger account for each beneficiary. However, Sunshine acknowledged that neither its current nor its previous owners had performed reconciliations.

We believe the lack of reconciliations contributed to the $38,974 variance between the bank's and Sunshine's records. Because Sunshine had not performed reconciliations for years before our audit, we could not conclusively determine what caused the variance or when the differences occurred. Although we did not identify instances where Sunshine inaccurately recorded receipts or disbursements, we are concerned the $38,974 represents funds that may belong to current and former Sunshine beneficiaries.

Additionally, we are concerned that some beneficiaries may be ineligible for the payments SSA is sending them. Many of Sunshine's beneficiaries receive SSI and are subject to resource limits, including limits on the amount of conserved funds they may accumulate. Because the $38,974 likely consists of funds that belong to beneficiaries, there could be instances where SSA continues to issue SSI to recipients who are not due payments, as their conserved funds exceed SSA's resource limits.

Both SSA and Sunshine are responsible for ensuring benefits paid to beneficiaries are accounted for properly. Accordingly, we believe SSA should work with Sunshine to reconcile the bank statement balances to the beneficiaries' current general ledger balances and resolve any resulting differences. Once Sunshine balances the accounts, SSA should ensure Sunshine routinely reconciles them.

Insufficient Bond Coverage

Sunshine did not obtain a bond with the coverage required by SSA. The Agency requires that nongovernmental FFS organizations have a bond or insurance policy that is sufficient to compensate the organization or SSA for any loss of SSA client benefits and conserved funds. Therefore, the minimum amount of bonding or insurance coverage must equal the amount of the beneficiaries' conserved funds on hand plus the average monthly amount of Social Security payments the organization received. FFS organizations must maintain coverage for at least the minimum amount described above to be authorized by SSA to collect a fee.[6] SSA has procedures in place to revoke FFS status when a payee no longer meets all criteria for receiving fees.[7] However, SSA policy does not provide guidance as to whether a payee should be allowed to retain fees it collected in months when its bond was insufficient.

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[5] SSA, Program Operations Manual System (POMS), GN 00603.020.A and B.1.e. See also SSA, *Guide for Organizational Representative Payees* – Managing and Conserving Funds.

[6] SSA, POMS, GN 00506.105.A, B and C.5.

[7] SSA, POMS, GN 00506.400

From January 1 through December 31, 2008, Sunshine was bonded for $100,000. However, in a December 2007 review, SSA determined that Sunshine should be bonded for a minimum of $1.1 million.[8] According to an SSA representative, Sunshine made a good-faith effort to secure a bond in the amount required by the Agency. However, Sunshine told us the bond issuer would not provide a bond in the amount required by SSA unless Sunshine had assets of $5 million or more. Because Sunshine's assets were considerably less than this amount, it could not obtain a bond for more than $100,000.

We determined that, in 2008, Sunshine collected $26,887 in fees from the 100 beneficiaries in our sample. Given the amount of fees Sunshine collected for those in the sample, we estimate it collected about $440,680 for the 1,639 beneficiaries it served in 2008 (see Appendix D). Although SSA was aware that Sunshine's bond did not comply with Agency policy, it allowed Sunshine to continue collecting fees. We acknowledge that Sunshine performed services during the audit period. However, had SSA complied with its own policy, it would not have authorized Sunshine to collect the $440,680.

Additionally, in June 2007, SSA began requiring that the bond or insurance policy include misuse and embezzlement as well as loss of, or damage to, money, securities, or property from theft by an employee of the organization or the corporate officer/owner(s). The bonding/insurance contract also must show that SSA is named as an insured party and guaranteed payment as the "loss party."[9] Sunshine could not establish that its bond met these requirements.

Because Sunshine's bond did not meet the Agency's requirements, Sunshine and SSA did not have adequate protection from loss or theft of beneficiary funds. As such, we believe SSA must take the necessary steps to ensure that Sunshine secures a bond and/or insurance policy to fully protect beneficiary funds. If Sunshine cannot obtain a bond in the amount specified by SSA, we believe the Agency should consider reducing the number of beneficiaries Sunshine can serve or initiate steps to revoke Sunshine's authorization to collect fees. Additionally, we believe Atlanta Regional Office staff should work with Central Office staff to specify the steps SSA should take when FFS representative payees do not secure the appropriate bond, but continue to collect fees. That is, SSA's policy should specify whether FFS representative payees should be required to refund fees collected when they do not secure the required bond.

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[8] SSA based the $1.1 million on an average of $600,000 in monthly Social Security payments plus $500,000 in conserved funds.

[9] SSA, AM-07084, *Bonding Requirements for Non-Governmental Fee For Service (FFS) Organizations*.

Improper Bank Account Title

Beneficiary funds may have been at risk because Sunshine's collective checking account did not have a proper title. According to SSA policy, the Federal Deposit Insurance Corporation (FDIC) provides coverage up to $250,000 per depositor in collective bank accounts when properly titled to show the fiduciary relationship between the account holder and its clients.[10] However, the checking account title used by Sunshine, *Sunshine Financial Services Group Inc., Community Account I, Social Security Beneficiary*, did not specifically identify the fiduciary relationship between Sunshine and SSA beneficiaries. Because Sunshine's collective checking account had an average balance of over $2 million from April through December 2008, significant funds may have been at risk.

In today's banking environment, it is particularly crucial that Sunshine protect beneficiary funds from bank failure. Accordingly, we believe SSA should direct Sunshine to modify the title of its checking account to a title that specifically identifies the fiduciary relationship between it and its beneficiaries, such as *Sunshine Financial Services Group Inc., Representative Payee for Social Security Beneficiaries.*[11]

Excessive Fees

Sunshine charged excessive fees totaling $342 to 4 of the 100 beneficiaries in our sample. In these instances, Sunshine charged fees for months in which no benefits were due. Sunshine collected the fees because it provided services in months after benefits stopped. However, SSA policy prohibits payees from collecting fees in months where no payment is due a beneficiary, even if the payee continues to pay the beneficiary's bills.[12] Sunshine promptly refunded the $342 after SSA explained why it was not due the fees.

CONCLUSION AND RECOMMENDATIONS

Sunshine generally (1) had effective safeguards over the receipt and disbursement of Social Security benefits; and (2) ensured Social Security benefit payments were used and accounted for properly. However, Sunshine did not always comply with SSA's policies and procedures. We believe Sunshine should take additional steps to strengthen its procedures to better protect beneficiary funds. Accordingly, we recommend that SSA's Atlanta Regional Office:

1. Work with Sunshine to reconcile its bank statement balances to the beneficiaries' general ledger balances and resolve any resulting differences.

[10] SSA, POMS, GN 00603.020.A and B.

[11] SSA, POMS, GN 00603.020.B.1.a.

[12] SSA, POMS, GN 00506.220.A and B.3. See also SSA, *Fee For Service Fact Sheet* – When an Authorized FFS Payee Cannot Collect a Fee.

2. Ensure Sunshine secures a bond and/or insurance policy that fully protects beneficiary funds. If Sunshine cannot obtain a bond that meets Agency requirements, consider reducing the number of beneficiaries Sunshine can serve or initiate steps to revoke Sunshine's authorization to collect fees.

3. Work with SSA Central Office staff to clarify steps the Agency should take when FFS representative payees do not secure the appropriate bond but continue to collect fees. That is, SSA's policy should specify whether FFS representative payees should be required to refund fees collected when they do not secure the required bond.

4. Direct Sunshine to modify its collective account title to specifically identify the fiduciary relationship between it and the beneficiaries.

AGENCY AND REPRESENTATIVE PAYEE COMMENTS

SSA and Sunshine generally agreed with our recommendations. See Appendix E for the full text of SSA's comments and Appendix F for the full text of Sunshine's comments.

OTHER MATTERS

Although SSA policies and guidelines do not provide a recommended ratio between staff and beneficiaries for representative payees, we are concerned that Sunshine may not have sufficient staff to ensure beneficiary needs are met. Although our limited review did not identify instances where beneficiaries' living arrangements were inadequate or where Sunshine did not meet beneficiaries' needs, we are concerned that Sunshine cannot ensure the well-being of all its beneficiaries at its current staffing level. At the time of our audit, Sunshine had 4 employees to represent more than 1,100 beneficiaries. We understand that many of Sunshine's beneficiaries live in group homes or are assisted by case workers from local agencies, such as mental health organizations. Sunshine can determine whether these beneficiaries' needs are being met. However, because Sunshine does not perform home visits, we are concerned that some of Sunshine's remaining beneficiaries may have no one helping ensure they have sufficient food, clothing, and shelter.

In our September 2008 report, *Help Group Services, Inc., a Fee-for-Service Representative Payee for the Social Security Administration* (A-04-08-28040), we suggested that SSA consider developing a policy that establishes a method for determining the number of beneficiaries who can be assigned to an FFS representative payee. For example, SSA could develop guidelines that establish a representative payee staff-to-beneficiary ratio. Such a ratio would help ensure that a representative payee has adequate staff to regularly visit beneficiaries and determine whether their basic living needs are being met. We continue to believe SSA should consider developing such a policy.

Patrick P. O'Carroll, Jr.

Appendices

Acronyms

C.F.R.	Code of Federal Regulations
FDIC	Federal Deposit Insurance Corporation
FFS	Fee-for-Service
OASDI	Old-Age, Survivors and Disability Insurance
OIG	Office of the Inspector General
POMS	Program Operations Manual System
RPS	Representative Payee System
SSA	Social Security Administration
SSI	Supplemental Security Income
Sunshine	Sunshine Payee Corporation
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:[1]

- 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 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 no longer the representative payee for the beneficiary.

Ensure Supplemental Security Income recipients do not exceed their resource limits, be aware of any other income they may have and monitor their conserved funds.

[1] 20 C.F.R. §§ 404.2035 and 416.635. See also SSA, *Guide for Organizational Representative Payees* - Developing a Representative Payee Accounting System and What are Your Duties as a Representative Payee?

Scope and Methodology

Our audit covered the period January 1 through December 31, 2008. To accomplish our objectives, we:

- Reviewed applicable Federal laws and regulations and Social Security Administration (SSA) policies and procedures pertaining to representative payees.
- Queried SSA's Representative Payee System (RPS) for a list of individuals who were in the care of Sunshine Payee Corporation (Sunshine) as of December 31, 2008 or who left Sunshine's care before January 1, 2009.
- Obtained from Sunshine a list of individuals who were in its care and had received Social Security funds as of December 31, 2008 or who left its care during the period January 1 through December 31, 2008.
- Compared and reconciled RPS' and Sunshine's lists to identify the population of SSA beneficiaries who were in Sunshine's care from January 1 through December 31, 2008.
- Reviewed Sunshine's internal controls over the receipt and disbursement of Social Security benefits.
- Randomly sampled 100 beneficiaries from a population of 1,639 beneficiaries who were in Sunshine's care at some time during the period January 1 through December 31, 2008.
- Performed the following tests for the 100 randomly selected beneficiaries.
  - ✓ Compared and reconciled benefit amounts received according to Sunshine's records to benefit amounts paid according to SSA's records.
  - ✓ Reviewed Sunshine'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.
- Visited and interviewed 10 beneficiaries to determine whether their basic needs were being met.

We determined the data we obtained and analyzed from SSA and Sunshine's beneficiary ledgers were sufficiently reliable to meet the objectives of our review. We performed our fieldwork in Birmingham, Alabama, and St. Petersburg, Florida, between February and October 2009. 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.

Sample Results

Results and Projections	
Total Population of Beneficiaries Served by Sunshine Payee Corporation from January 1 through December 31, 2008	1,639
Sample Size	100
Variable Projections	
Total of Fees Charged to Beneficiaries in Sample	$26,887
Estimate of Total Fees Charged to Beneficiaries in Population	**$440,680**
Projection—Lower Limit	$395,683
Projection—Upper Limit	$485,677
Projections are at the 90-percent confidence level.	

Agency Comments

January 28, 2010

ATLANTA'S REPLY: Signed Draft Report Sunshine Payee Corporation (A-08-09-29106)

To: Inspector General

From: Regional Commissioner, Atlanta

Subject: Sunshine Payee Corporation, a Fee-for-Service Representative Payee for the Social Security Administration (A-08-09-29106) - Atlanta Region's Comments

Thank you for the opportunity to review and comment on the subject draft report. Below you will find our response to the specific recommendations.

The objective of the audit was to determine whether Sunshine Payee Corporation (Sunshine) had effective safeguards over the receipt and disbursement of Social Security benefits and ensure Social Security benefits were used and accounted for in accordance with the Social Security Administration's (SSA) policies and procedures.

The audit identified that Sunshine generally had effective safeguards over the receipt, disbursement and accounting of Social Security benefits.

Recommendation 1

Work with Sunshine to reconcile its bank statement balances to the beneficiaries' general ledger balances and resolve any resulting differences.

SSA Comment

We agree. We are working with Sunshine to ensure the payee reconciles the bank statement balance to the beneficiaries' general ledger balance and resolve any remaining differences.

Recommendation 2

Ensure Sunshine secures a bond and/or insurance policy that fully protect beneficiary funds. If Sunshine cannot obtain a bond that meets Agency requirements, consider reducing the number of beneficiaries Sunshine can serve or initiate steps to revoke Sunshine's authorization to collect fees.

SSA Comment

We agree. Sunshine is working to secure an insurance contract with sufficient coverage. Sunshine has located an insurance company willing to provide sufficient coverage and needed time to secure the insurance contact. If proof of sufficient bond coverage is not provided within thirty days, we will initiate steps to reduce the number of beneficiaries Sunshine serves or revoke Sunshine's authorization to collect fees.

Recommendation 3

Work with SSA Central Office staff to clarify steps the Agency should take when FFS representative payees do not secure the appropriate bond but continue to collect fees. That is, SSA's policy should specify whether FFS representative payees should be required to refund fees collected when they do not secure the required bond.

SSA Comment

We agree with the intent of the recommendation. Policy GN 00506.400 outlines the steps needed when a fee for service representative payee does not secure the appropriate bond but continues to collect fees. It is SSA's responsibility to monitor a payee's performance and ensure continued eligibility to collect a fee**.** We will issue operational reminders to our Region IV field sites.

Recommendation 4

Direct Sunshine to modify its collective account title to specifically identify the fiduciary relationship between it and the beneficiaries.

SSA Comment

We agree with the intent of the recommendation. There are many acceptable titles of a fiduciary account. We have requested the payee to provide proof that the collective account is fiduciary. If the payee can provide proof that the collective account is fiduciary, the title of the account can remain as is. Otherwise, SSA will advise Sunshine to modify the title of the account to "Sunshine Financial Service Group Inc., Representative Payee for Social Security Beneficiaries."

If you have any questions, please contact Tiffany Schaefer of the RSI Programs Team. She can be reached at (404) 562-1322.

Paul D. Barnes

Representative Payee Comments

Sunshine Payee Corporation
Audit dated 12/22/2009 - Management Response

Sunshine Payee Corporation (Payee) did not reconcile bank statement balances with its ledger balances.

Payee was following SSA policy by using a comingled bank account while maintaining separate individual ledgers for each beneficiary. Payee acknowledges it would have been beneficial to have done a monthly reconciliation. The company is currently initiating procedures using the Bank of America reconciliation program to see that monthly reconciliations are completed on a timely basis.

The difference between the bank balance and the Payee account balances is attributable to old outstanding checks. The $38,974 is an accumulation of outstanding checks over a period of more than 15 years. Some checks may or may not ever be presented for payment to the bank, although stale checks do appear from time to time. Therefore Payee must maintain the bank balances for possible future presentation. Payee will make all reasonable efforts to identify outstanding checks beginning with the segregation of the excess on internal accounting to facilitate the process.

The auditors expressed concern that the lack of reconciliations may have caused SSI beneficiaries to exceed their allowed maximum savings. This concern is unfounded because Payee runs a separate report monthly on SSI accounts to insure compliance.

Payee had insufficient Bond Coverage

Payee has on multiple occasions attempted to get additional bond coverage without success because in the past we have not had audited financial statements to present to the bonding companies. Smaller bonds, up to $100,000 such as the one payee currently holds often do not require audited statements. Payee had engaged the Certified Public Accounting firm of Lewis Birch & Ricardo LLC, to perform an audit of the years ended December 2008 and 2009. Bond applications are in currently in process awaiting the audit report. Payee has every reason to believe that they will be able to secure the required bond once the audit process has been completed. The bond shall have SSA as an additional insured party.

Payee has an Improper Bank Account Title

The title on the bank account was changed in response to an SSA audit in December 2007. It is word for word the title that SSA directed Payee to use at that time. If a further title change is required Payee will do so but respectfully requests that all parties concerned come to agreement on the exact wording to end this question permanently.

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Jeff Pounds, Audit Manager

Acknowledgments

In addition to those named above:

Ken Coward, Senior Program Analyst

Jessica Harmon, Auditor

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