
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**DEDICATED ACCOUNT
UNDERPAYMENTS PAYABLE
TO CHILDREN**

November 2010

A-09-09-29110

AUDIT REPORT



Mission

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SOCIAL SECURITY

MEMORANDUM

Date: November 10, 2010

Refer To:

To: The Commissioner

From: Inspector General

Subject: Dedicated Account Underpayments Payable to Children (A-09-09-29110)

OBJECTIVE

Our objective was to determine whether the Social Security Administration (SSA) had adequate controls to ensure Supplemental Security Income (SSI) recipients were paid dedicated account funds.

BACKGROUND

SSA administers the SSI program under Title XVI of the *Social Security Act*. This program provides payments to individuals who have limited income and resources and are age 65 or older, blind, or disabled.¹

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. A representative payee may be an individual or an organization. SSA selects representative payees for SSI recipients when representative payment would serve the individual's interests.²

The *Social Security Act* requires that representative payees establish and maintain separate dedicated accounts in a financial institution for certain large, past-due payments³ for SSI recipients under age 18. Generally, this applies to any past-due payments that are more than six times the SSI Federal benefit amount, including any State supplement paid by SSA. Representative payees must establish these accounts

¹ *Social Security Act* § 1601 *et seq.*, 42 U.S.C. § 1381 *et seq.*

² The *Social Security Act*, §§ 205(j), 1631(a)(2); 42 U.S.C. §§ 405(j), 1383(a)(2); *see also* 20 C.F.R. §§ 404.2001 *et seq.*, 416.601 *et seq.*

³ Past-due payments (also referred to as underpayments) are benefits payable to SSI recipients. For example, SSA may determine that a recipient was eligible for a prior period in which the recipient was not paid.

before SSA releases the past-due payments.⁴ The accounts must be separate from other savings or checking accounts into which regular monthly SSI payments are deposited.⁵

Representative payees may only use funds deposited into these accounts for such expenses as education or job skills training, medical treatment, or certain other expenses provided they are related to a child's impairment.⁶ If a representative payee does not establish a dedicated account, SSA will not release the past-due payments and may need to determine whether it should select a new representative payee.⁷

For our review, we identified 12,881 dedicated account underpayments totaling \$66.1 million recorded on the Supplemental Security Record (SSR) as of January 2009.

RESULTS OF REVIEW

SSA needs to improve controls to ensure it pays dedicated account underpayments to representative payees for the children in their care. Based on a random sample of 275 underpayments, we estimate that SSA had not paid about 7,775 underpayments totaling approximately \$35 million (see Appendix C). This included 3 organizational representative payees who did not establish dedicated accounts for \$367,612 in underpayments for 47 children. Generally, these funds were not paid because SSA did not have adequate controls to ensure that representative payees established dedicated accounts. In addition, SSA staff did not

- notify representative payees about the existence of underpayments that required the establishment of dedicated accounts or
- adequately control the issuance of underpayments after dedicated accounts were established.

DEDICATED FUNDS WERE NOT PAID

Based on a random sample of 275 underpayments, we found SSA did not pay 166 (60 percent) underpayments totaling \$746,726 in dedicated funds:

- 71 were not paid to representative payees for children who were receiving SSI, and

⁴ The *Social Security Act* § 1631(a)(2)(F); 42 U.S.C. § 1383(a)(F).

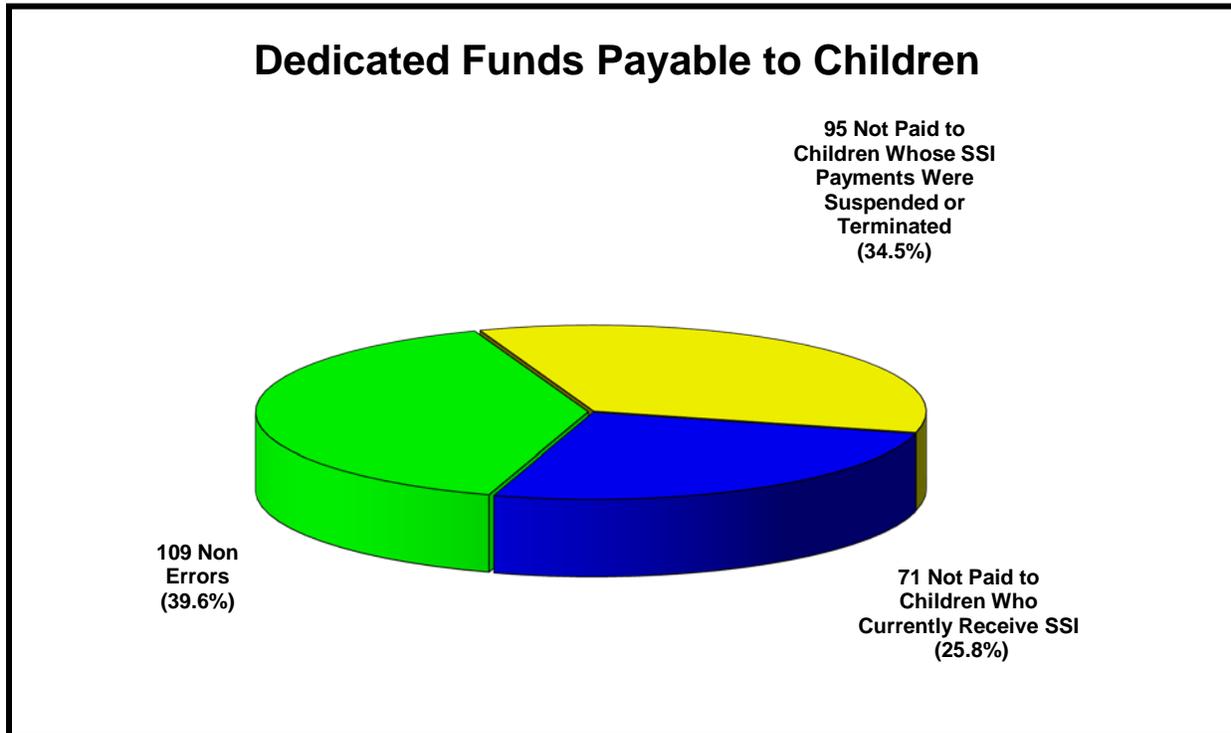
⁵ SSA, Program Operations Manual System (POMS), GN 00602.140.B.1.

⁶ The *Social Security Act* § 1631(a)(2)(F); 42 U.S.C. § 1383(a)(F).

⁷ SSA, POMS, SI 02101.010.A.1.

- 95 were not paid to representative payees for children whose SSI payments had been suspended or terminated.⁸

Our sample results are summarized below.



Procedures and Controls for Paying Dedicated Funds

When SSA identifies underpayments that require a dedicated account, it notifies the child's representative payee about the underpayment and the steps necessary to receive the funds. After the representative payee informs SSA that a dedicated bank account has been established and provided SSA the account information, SSA will deposit the funds into the account. Generally, SSA issues these dedicated funds in installments (each installment is paid at 6-month intervals for a maximum of three payments).

⁸ For 58 of these underpayments, the recipients had more than 1 period of SSI eligibility or had reapplied for SSI after their payments were terminated.

SSA has controls to remind staff to pay dedicated funds. This includes a follow-up diary that is established when SSA sends a notice to a representative payee about the requirement to establish a dedicated account. At the end of 30 days, if the representative payee has not established an account, an alert is generated to SSA staff to take appropriate follow-up action. Additional follow-up alerts are generated every 15 days until payment is made to a dedicated account. When dedicated funds are paid by installments, an alert is generated 6 months after an installment payment was made to remind SSA staff the next payment is due. Additional follow-up alerts are generated every 15 days until the installment is paid.

Dedicated Funds for Children Receiving SSI

Our review disclosed that SSA did not pay 71 (25.8 percent) of the 275 underpayments in our sample to representative payees for children who were receiving SSI. This occurred because SSA did not have adequate controls to ensure that representative payees established dedicated accounts. In addition, SSA staff did not notify representative payees about the existence of underpayments that required the establishment of dedicated accounts or adequately control the issuance of installment payments. As a result, SSA did not pay \$323,182 in underpayments to representative payees of 71 children.

We found that the 71 underpayments had not been paid for an average of 22.7 months (about 1.9 years).⁹ SSA had not made any payments for 51 of the 71 underpayments. This included six underpayments where SSA staff did not notify the children's representative payees of the underpayment and the requirement to establish a dedicated account. For the remaining 20 underpayments, SSA had made at least 1 installment payment, but subsequent installment payments were not made.

For example, in June 2007, SSA notified a child's representative payee that \$4,248 in dedicated funds was payable to the child. In June 2008, SSA appointed another representative payee for the child. However, SSA staff did not notify the new representative payee that dedicated funds were payable to the child and the steps required to establish a dedicated account to receive these funds. As of April 2010, the representative payee had not been paid.

In October 2002, SSA notified a child's representative payee (the mother) that \$4,611 in dedicated funds was payable to the child. SSA staff sent a second notice to the mother in June 2006 regarding the dedicated funds and the steps necessary to receive the funds. Although SSA's records indicate a dedicated account was established, SSA had not paid the \$4,611 as of April 2010.

⁹ The length of time for the 71 unpaid underpayments ranged from 1 to 83 months.

Dedicated Funds for Children Whose SSI Payments Had Been Suspended or Terminated

SSI payments may be suspended for any month in which an individual does not meet the eligibility requirements. For example, if a recipient has excess income or resources, SSA will suspend payments. In addition, if there is a 12-month period of suspension, SSI payments are generally terminated, and the individual must file a new application to reestablish eligibility for SSI. When this occurs, SSA will establish a new SSI record for the subsequent application or period of eligibility.

Dedicated account underpayments are usually still payable when a child's SSI payments are suspended or terminated. However, when this occurs, SSA staff must establish manual controls to ensure it sends notices to the representative payees and issues the underpayments after a dedicated account has been established.¹⁰

Our review found that SSA did not pay 95 (34.5 percent) of the 275 underpayments in our sample to representative payees for children whose SSI payments had been suspended or terminated:

- 70 underpayments for children whose SSI payments had been terminated,
- 21 underpayments for children whose SSI payments had been suspended, and
- 4 underpayments payable to the parents of deceased children.

The dedicated funds were not paid primarily because the children's representative payees had not established dedicated accounts. In addition, SSA staff did not manually control the issuance of the underpayments after the children's SSI payments were suspended or terminated. As a result, SSA did not pay \$423,544 in underpayments to the representative payees of 95 children.

[Children Whose SSI Payments Were Terminated](#) – We found that 70 of the 95 underpayments were payable to children whose SSI payments had been terminated. We determined that the 70 underpayments had not been paid for an average of 60.7 months (about 5.1 years).¹¹ In total, SSA did not pay \$294,563 in underpayments to the representative payees of 70 children.

For 44 of the 70 children, SSA did not pay any of the underpayments before their SSI payments were terminated. For the remaining 26 underpayments, SSA staff had made at least 1 installment payment before the children's payments were terminated. For 64 of the children, the systems diaries that generate alerts to remind SSA staff that a dedicated account needs to be established or the next installment is due were removed.

¹⁰ SSA, POMS, SI 02101.020-C.9, D.2, and D.3.

¹¹ The length of time for the 70 unpaid underpayments ranged from 2 to 131 months.

We found that 57 of the 70 underpayments were for children who had (1) more than 1 period of SSI eligibility or had reapplied for SSI after their payments were terminated, and (2) an underpayment on a prior SSI record. Consequently, SSA had an opportunity to resolve these underpayments during the subsequent eligibility period or SSI application.

For example, in June 2007, SSA notified a child's representative payee that \$6,296 in dedicated funds was payable to the child. SSA made one payment of \$1,869 to the dedicated account in July 2007. After this payment was made, the child's payments were terminated in August 2007. SSA subsequently determined the child was eligible for SSI and established a new record for the child. However, the diary that generates alerts to remind SSA staff that the next installment is due was removed. In addition, SSA staff did not manually control this underpayment to ensure it was paid in January 2008, 6 months after the first installment. As a result, SSA did not pay the remaining \$4,427.

[Children Whose SSI Payments Were Suspended](#) – We found that 21 of the 95 underpayments were payable to children who had their SSI payments suspended. We determined that the 21 underpayments had not been paid for an average of 40.4 months (about 3.4 years).¹² This included (1) four underpayments where SSA did not notify the representative payees about the underpayments and the requirement to establish a dedicated account and (2) five underpayments where SSA made one installment payment before the children's payments were suspended. As a result, SSA did not pay \$109,359 in underpayments to the representative payees of 21 children.

Although SSI payments were suspended for these children, alerts were generated every 15 days to remind SSA staff that dedicated funds were payable to the children. However, SSA staff did not take appropriate action to send the required notices to the representative payees or to issue the payments.

For example, in August 2006, SSA paid a representative payee \$4,712 of the \$7,431 in dedicated funds payable to a child. In November 2006, SSA suspended the child's SSI payments because she received income that made her ineligible. Generally, SSA policy requires that its staff issue the scheduled installment payment to the representative payee if a child's regular payments are suspended during the installment process.¹³ However, SSA staff did not take appropriate action to issue the child's remaining \$2,719 underpayment to the representative payee.

¹² The length of time for the 21 unpaid underpayments ranged from 12 to 117 months.

¹³ SSA, POMS, SI 02101.010.A.10.

[Deceased Children](#) – We found that 4 of the 95 underpayments were for deceased children. The dedicated funds were not paid while the children were alive because the children’s representative payees had not established a dedicated account. These children died from 3 to 38 months after their representative payees were notified of the underpayments. As a result, SSA did not pay \$19,622 in underpayments to the representative payees of four children.

According to SSA’s policy, a parent can be paid the amount that was due a deceased child if the child was living in the same household with the parent within 6 months preceding the month of death.¹⁴ According to SSA’s records, these children lived with a parent at the time of their death. Therefore, the parents of these children should have been paid the \$19,622 in underpayments.

ORGANIZATIONAL REPRESENTATIVE PAYEES WITHOUT DEDICATED ACCOUNTS

During our review, we identified three large organizational representative payees that had not established dedicated accounts for the children in their care. The three representative payees are government agencies in California; New Jersey; and Washington, D.C., that care for children in foster care or who have developmental disabilities. These organizations serve as representative payees for about 4,800 children and have not established dedicated accounts since this requirement became effective in August 1996. According to SSA’s records, \$367,612 in underpayments was payable to 47 children in the care of these 3 representative payees. As a result of our review, SSA stated it would take appropriate actions to ensure the representative payees establish dedicated accounts.

CONCLUSION AND RECOMMENDATIONS

SSA did not always ensure it paid dedicated account underpayments to representative payees for the children in their care. Based on a random sample of 275 underpayments, we estimate that SSA did not pay about 7,775 underpayments totaling approximately \$35 million. Generally, this occurred because SSA did not have adequate controls to ensure that representative payees established dedicated accounts. In addition, SSA staff did not notify representative payees about the existence of underpayments that required the establishment of dedicated accounts or adequately control the issuance of installment payments.

Finally, we found that three organizational representative payees had not established dedicated accounts for the children in their care. As a result, SSA had not paid \$367,612 in dedicated funds to 47 children.

¹⁴ SSA, POMS, SI 02101.007.A.1.

We recommend that SSA:

1. Take corrective action to resolve and pay as appropriate the 166 underpayments identified by our audit.
2. Identify and take corrective action on the population of SSI recipients who have dedicated account underpayments.
3. Remind employees to ensure they (a) notify representative payees of any underpayments that require the establishment of a dedicated account, (b) control for the issuance of initial and installment payments after a dedicated account has been established, and (c) review prior SSI records to identify any unpaid dedicated funds.
4. Determine whether additional controls should be established to ensure dedicated funds are properly paid.
5. Take appropriate actions for the three organizational representative payees identified by our audit that had not established dedicated accounts.

AGENCY COMMENTS

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



Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Sampling Methodology and Results

APPENDIX D – Agency Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

Acronyms

OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
SSR	Supplemental Security Record

Scope and Methodology

We obtained a data extract from the Social Security Administration's (SSA) Supplemental Security Record (SSR). This extract contained all dedicated account underpayments as of January 2009.¹ We refined this population by removing any underpayments for which SSA had begun paying the recipient. This resulted in a population of 12,881 underpayments totaling \$66.1 million. This included 6,818 underpayments for children who were receiving Supplemental Security Income (SSI) payments, 4,521 for children whose SSI payments had been terminated, and 1,542 for children whose SSI payments had been suspended. From this population, we randomly selected a sample of 275 underpayments for review.

To accomplish our objective, we

- reviewed the applicable sections of the *Social Security Act*, Federal regulations, and SSA's Program Operations Manual System (POMS);
- interviewed SSA employees from the Western Program Service Center and Office of Income Security Programs;
- selected a random sample of 275 underpayments; and
- reviewed queries from SSA's SSR for each sample item to determine whether SSA had paid the dedicated funds or had started installment payments as of December 2009.

We also obtained information from 9 SSA Regional Offices regarding whether 13 organizational representative payees had established dedicated accounts for the SSI recipients in their care.

We determined the computer-processed data from the SSR were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data. These tests allowed us to assess the reliability of the data and achieve our audit objectives.

We evaluated the adequacy of SSA's controls to ensure SSI recipients are paid dedicated account funds. This included a determination of whether SSA's diary and alert procedures and the instructions for the manual processes properly controlled and resolved the underpayments.

¹ These underpayments were established between August 1996, when the dedicated account requirements became effective, and January 2009.

We performed our audit in Richmond, California, between December 2009 and May 2010. The entities reviewed were the Offices of the Deputy Commissioners for Operations and Systems.

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.

Sampling Methodology and Results

From the Social Security Administration’s (SSA) Supplemental Security Record (SSR), we identified all dedicated account underpayments as of January 2009.¹ We refined this population by removing any underpayments in which SSA had begun paying the recipient. This resulted in a population of 12,881 underpayments, totaling \$66.1 million, on SSRs that had (1) a diary showing that SSA was waiting for the representative payee to open a separate bank account before a payment could be made or (2) no diary because the SSRs had been terminated. The 12,881 underpayments consisted of 6,818 for children who were receiving SSI payments, 4,521 for children whose SSI payments had been terminated, and 1,542 for children whose SSI payments had been suspended. We randomly selected a sample of 275 underpayments and reviewed the SSRs to determine whether SSA had paid the dedicated funds or had started installment payments as of December 2009.

Of the 275 underpayments in our sample, we found that SSA had not paid 166 underpayments totaling \$746,726 in dedicated funds. Projecting these results to our population of 12,881 underpayments, we estimate that SSA had not paid about 7,775 underpayments totaling approximately \$35 million in dedicated funds. The following tables provide the details of our sample results and statistical projections.

Table 1 – Population and Sample Size

Description	Number of Records
Population Size	12,881
Sample Size	275

Table 2 – Statistical Projections

Description	Number of Records	Underpayments
Sample Results	166	\$746,726
Point Estimate	7,775	\$34,976,646
Projection - Lower Limit	7,126	\$30,850,862
Projection - Upper Limit	8,404	\$39,102,430

Note: All statistical projections are at the 90-percent confidence level.

¹ These underpayments were established between August 1996, when the dedicated account requirements became effective, and January 2009.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: October 25, 2010 **Refer To:** S1J-3

To: Patrick P. O'Carroll, Jr.
Inspector General

From: James A. Winn /s/
Executive Counselor
to the Commissioner

Subject: Office of the Inspector General (OIG) Draft Report, "Dedicated Account Underpayments Payable to Children" (A-09-09-29110)--INFORMATION

Thank you for the opportunity to review the subject report. Please see our attached response to the report recommendations.

Please let me know if we can be of further assistance. Please direct staff inquiries to Rebecca Tothero, Acting Director, Audit Management and Liaison Staff, at (410) 966-6975.

Attachment

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “DEDICATED ACCOUNT UNDERPAYMENTS PAYABLE TO CHILDREN” (A-09-09-29110)

We offer the following responses to your recommendations.

Recommendation 1

Take corrective action to resolve and pay as appropriate the 166 underpayments identified by our audit.

Response

We agree. We are taking actions to resolve the 166 Supplemental Security Income (SSI) cases.

Recommendation 2

Identify and take corrective action on the population of SSI recipients who have dedicated account underpayments.

Response

We agree. We may already be taking action independent of this audit on some of these cases. To avoid duplicating our efforts, we will initially identify and take corrective actions for the population of SSI recipients who have dedicated account underpayments pending for more than one year. We expect to complete our actions by the end of July 2011.

Recommendation 3

Remind employees to ensure they: a) notify representative payees of any underpayments that require the establishment of a dedicated account; b) control for the issuance of initial and installment payments after a dedicated account has been established; and c) review prior SSI records to identify any unpaid dedicated funds.

Response

We agree. We will issue a policy reminder as you suggest by the end of December 2010.

Recommendation 4

Determine whether additional controls should be established to ensure dedicated funds are properly paid.

Response

We agree. We will accept your recommendation, and by the end of December 2010, we will determine whether we should establish additional controls for dedicated accounts.

Recommendation 5

Take appropriate actions for the three organizational representative payees identified by our audit who have not established dedicated accounts.

Response

We agree. We are working with the organizational representative payees you identified. We expect to have dedicated accounts established by no later than December 2010.

OIG Contacts and Staff Acknowledgments

OIG Contacts

James J. Klein, Director, San Francisco Audit Division

Joseph Robleto, Audit Manager

Acknowledgments

In addition to those named above:

James Sippel, Senior Auditor

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