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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SALINA EMERGENCY-AID FOOD BANK,  
A FEE-FOR-SERVICE REPRESENTATIVE PAYEE  
FOR THE SOCIAL SECURITY ADMINISTRATION**

**July 2009      A-07-09-19065**

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**AUDIT REPORT**

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## Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

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The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.
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- Authority to publish findings and recommendations based on the reviews.

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We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



# SOCIAL SECURITY

## MEMORANDUM

Date: July 29, 2009

Refer To:

To: Michael W. Grochowski  
Regional Commissioner  
Kansas City

From: Inspector General

Subject: Salina Emergency-Aid Food Bank, A Fee-for-Service Representative Payee for the Social Security Administration (A-07-09-19065)

## OBJECTIVE

Our objectives were to determine whether this fee-for-service representative payee for the Social Security Administration (SSA) (1) had effective safeguards over the receipt and disbursement of Social Security benefits, (2) used and accounted for Social Security benefits in accordance with SSA's policies and procedures, and (3) adequately protected the beneficiaries' personally identifiable information (PII). In addition, we quantified the amount of SSA funds stolen by a former employee of the representative payee.

## 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 best interest of the beneficiary.<sup>3</sup> See Appendix B for additional representative payee responsibilities.

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

<sup>2</sup> 20 C.F.R. §§ 404.2001(a) and (b)(2) and 416.601(a) and (b)(2).

<sup>3</sup> 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.

The Salina Emergency-Aid Food Bank (SFB) is a fee-for-service organization in Salina, Kansas. The representative payee is a nonprofit social service agency that received benefits under SSA's OASDI and SSI programs on behalf of 105 adults from March 1, 2007 through February 29, 2008. SSA's Kansas City Regional Office requested an audit of the representative payee because of a former employee's theft of Social Security funds. See Appendix C for the scope and methodology of our review.

## **RESULTS OF REVIEW**

We found that SFB did not have effective safeguards over the disbursement of Social Security benefits. Specifically, SFB did not

- maintain documentation to support how most of the beneficiaries' funds were used, or
- have adequate segregation of duties in approving, recording, processing, and reviewing financial transactions on behalf of beneficiaries.

We also found that SFB did not use and account for Social Security benefits in accordance with SSA's policies and procedures. Specifically, SFB did not

- report changes in the circumstances of two SSI recipients in a timely manner, which resulted in \$9,016 in overpayments, or
- properly disburse \$1,143 in conserved funds for two beneficiaries.

Further, we found that improvements were needed in SFB's controls for physically securing beneficiaries' PII and financial records. Finally, we quantified the amount of funds stolen by a former SFB employee.

## **SAFEGUARDS FOR THE DISBURSEMENT OF BENEFITS**

We found SFB did not have adequate internal controls for the disbursement of Social Security benefits. Specifically, SFB did not maintain supporting documentation that would account for most of the expenditures of beneficiaries' funds. In addition, SFB did not have adequate segregation of duties in the disbursement of beneficiaries' funds.

### **Supporting Documentation**

We found SFB did not maintain receipts or other documentation to support how 52 percent of the total expenditure of beneficiaries' funds was spent. Specifically, of the \$367,208 expended, SFB did not have receipts or other supporting documentation<sup>4</sup>

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<sup>4</sup> Missing documentation included lease agreements and care facility agreements, receipts for personal allowances, food, clothing, personal care and other expenses.

for \$190,940.<sup>5</sup> We found that 48 percent of expenditures supported by receipts was for the beneficiaries' needs. For the \$190,940 not supported by receipts, we examined SFB's check register transactions and bank account statements to identify the purpose of the expenditures. The check registers and bank account statements provided expense information for what appeared to be legitimate purposes, such as rent, utilities and miscellaneous items. Although we cannot confirm how these funds were actually expended without receipts, nothing came to our attention during our examination of the check registers and bank statements that led us to believe the expenditures were not for the beneficiaries' needs. Further, our interviews with 10 Social Security beneficiaries did not disclose any concerns that led us to believe the beneficiaries' needs were not being met.

In addition, we found about \$77,000 (40 percent) of the undocumented \$190,940 was disbursed to beneficiaries in personal allowance checks. We learned that SFB stopped collecting receipts for personal allowance funds after SSA's 2006 triennial site review.<sup>6</sup> According to SFB, SSA informed it that receipts did not have to be maintained for personal allowances. We informed SFB that this is contrary to SSA's policy of keeping accurate and complete records to show how benefits are used.<sup>7</sup> SFB stated it would resume collecting receipts.

SFB should maintain receipts, canceled checks, bills, bank statements and other applicable documentation to show that Social Security benefits were spent for the beneficiaries' needs. Maintenance of this documentation is a safeguard the representative payee must have in place for all beneficiary expenditures regardless of the monetary value.<sup>8</sup> Accordingly, SSA should also remind the triennial review teams about the importance of the representative payee's responsibility to maintain accurate and complete records, including documentation for all expenditures.

### **Segregation of Duties**

SFB did not have adequate segregation of duties in the disbursement of Social Security funds. Specifically, each of the two employees in SFB's representative payee program had complete oversight of a group of beneficiaries. The same person approved a disbursement; recorded the transaction; wrote, signed and issued the check; and later

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<sup>5</sup> This amount does not include \$2,640 that was stolen from one beneficiary (see "Employee Theft" section of this report).

<sup>6</sup> Once every 3 years, SSA performs site reviews of some representative payees, such as fee-for-service organizations, to determine whether the representative payees are meeting their responsibilities.

<sup>7</sup> SSA, POMS, GN 00502.113.C.1 and D.3.b.

<sup>8</sup> SSA regulations indicate that representative payees must account for the use of benefits, should keep records of how benefits were used to complete accounting reports, and must make those records available upon SSA's request. 20 C.F.R. §§ 404.2065 and 416.665.

reconciled the bank statement. The lack of segregation of duties gave a former employee the opportunity to steal a beneficiary's funds (see "Employee Theft" section of this report).

No one person should control all aspects of financial transactions.<sup>9</sup> Adequate segregation of duties ensures that key duties and responsibilities are divided among different people to reduce the risk of error, misuse and/or fraud. The limited number of staff in SFB's representative payee program makes total segregation of duties difficult to achieve, but compensating controls could be instituted. For example, after the audit period, SFB improved the reconciliation process by having two other individuals randomly select bank reconciliations every month to verify their accuracy. However, additional improvements could strengthen SFB's internal controls, such as approval and review procedures for personal allowance checks and for checks over a designated threshold amount. SSA guidance is needed to assist SFB in establishing segregation of duties and additional compensating controls.

## **USE AND ACCOUNTING FOR BENEFITS**

We found that SFB did not use and account for Social Security benefits in accordance with SSA's policies and procedures. Specifically, SFB did not timely report other sources of income received by two SSI recipients, which affected their eligibility for payments. In addition, conserved funds were not properly disbursed on behalf of two recipients.

### **SSI Eligibility**

Our interviews with 10 beneficiaries disclosed that 2 had sources of income other than SSI, which SFB did not timely report to SSA. We referred these cases to SSA for SSI eligibility determinations. SSA found that one beneficiary was overpaid \$2,072 and will receive a reduced monthly SSI payment. SSA found that the other beneficiary was ineligible for SSI and had been overpaid \$6,944.<sup>10</sup>

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<sup>9</sup> General Accounting Office (now known as the Government Accountability Office [GAO]), *Standards for Internal Control in the Federal Government*, AIMD-00-21.3.1, pp. 12, 14; SSA, *Best Practices for Maintaining an Effective Representative Payee Accounting System - Separation of Employee Duties*.

<sup>10</sup> Two remittances, totaling \$6,944, were posted by SSA in the beneficiary's SSI record on April 1, 2009, which resolved the overpayment.

To be eligible for SSI payments, an individual's resources cannot exceed \$3,000 for a married couple and \$2,000 for a single person.<sup>11</sup> Representative payees are responsible for promptly reporting to SSA changes in a beneficiary's circumstances, such as additional income or assets.<sup>12</sup> Without timely notification of changes in a beneficiary's circumstances, SSA cannot adjust payment amounts to avoid overpayments.

### Conserved Funds

Conserved funds totaling \$1,143 were not properly disbursed on behalf of two beneficiaries. For one beneficiary, who was given a new representative payee, SFB sent conserved funds to the successor representative payee instead of returning the funds to SSA. For the second beneficiary, who was deceased, SFB sent conserved funds to SSA instead of to the beneficiary's estate.

SSA requires that representative payees return conserved or unused funds to SSA when their representative payee services are terminated or are no longer required. SSA then reissues the funds to the successor representative payee or the beneficiary in direct payment.<sup>13</sup> If a beneficiary dies, SSA requires that the representative payee send conserved funds to the legal representative of the beneficiary's estate because SSA is not responsible for deciding who is entitled to the estate funds.<sup>14</sup>

### PROTECTION OF PII

We found SFB did not have adequate physical security controls to restrict unauthorized access to beneficiaries' records and assets. SFB maintained a separate folder for each beneficiary with checkbooks, financial information, and other PII. The folders were stored in two file cabinets in the conference room. The file cabinets remained unlocked, which allowed access to the beneficiaries' files at all times.

Physical control and access restrictions over beneficiaries' sensitive financial information and PII are essential internal controls to reduce the risk of loss and unauthorized use.<sup>15</sup> By not maintaining adequate safeguards over the beneficiaries' financial information and PII, SFB increased the risk of loss or unauthorized use of the information.

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<sup>11</sup> 20 C.F.R. § 416.1205; SSA, POMS SI 01110.003.A.2.

<sup>12</sup> 20 C.F.R. §§ 416.635(d), 416.708(c) and (d), and 404.2035(d); SSA, POMS, GN 00502.113.C.1; SSA, *A Guide for Representative Payees* (No. 05-10076), pp.17-18, January 2009.

<sup>13</sup> SSA, POMS, GN 00603.055.A, GN 00502.113.C.1; SSA, *A Guide for Representative Payees* (No. 05-10076), p. 19, January 2009.

<sup>14</sup> SSA, POMS, GN 00603.100.B.2.

<sup>15</sup> GAO, AIMD-00-21.3.1, *supra*, pp. 12, 14 and 15.

## **EMPLOYEE THEFT**

A former employee in SFB's representative payee program stole \$2,640 from an SSA beneficiary during the audit period. SFB discovered the theft shortly after the employee was fired for not paying beneficiaries' bills timely and not reconciling the monthly bank statements. SFB determined the amount of the stolen funds and restored the funds to the beneficiary. The former employee pled guilty to theft in the State's district court and was ordered to pay restitution to SFB.

We quantified the amount of stolen funds, compared it to SFB's amount, and found no material difference. We also examined the financial records of the remaining beneficiaries for whom the former employee was responsible and did not find any other indications of misuse or fraud.

## **CONCLUSION AND RECOMMENDATIONS**

We found that SFB did not (1) effectively safeguard the disbursement of Social Security benefits, (2) use and account for benefits in accordance with SSA's policies and procedures, or (3) adequately protect beneficiaries' PII.

We recommend that SSA instruct SFB to:

1. Maintain sufficient documentation to show that Social Security benefits are used in the best interest of the beneficiaries.
2. Ensure adequate segregation of duties is in place for the disbursement of benefits, including appropriate compensating controls to monitor the disbursement of beneficiaries' funds.
3. Report changes in a beneficiary's circumstances to SSA timely.
4. Return conserved funds according to SSA's instructions.
5. Implement physical security controls to safeguard beneficiaries' financial records and PII.

In addition, we recommend that SSA:

6. Remind the triennial site review teams of the representative payee's responsibility to maintain complete and accurate records so the payee can account for how Social Security benefits are used.

**AGENCY COMMENTS**

SSA agreed with our recommendations (see Appendix D).

**SFB COMMENTS**

SFB stated that it took corrective actions on our recommendations.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

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 – OIG Contacts and Staff Acknowledgments

## Acronyms

C.F.R.	Code of Federal Regulations
GAO	Government Accountability Office
OASDI	Old-Age, Survivors and Disability Insurance
PII	Personally Identifiable Information
POMS	Program Operations Manual System
SFB	Salina Emergency-Aid Food Bank
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 the following.<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 no longer serving as the representative payee for the beneficiary.
- Be aware of any 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, subpart U, and § 416, subpart F.

### Scope and Methodology

Our audit covered the period March 1, 2007 through February 29, 2008. 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.
- Reviewed prior work performed by the Office of the Inspector General and SSA in the representative payee area.
- Contacted the SSA Kansas City Regional Office and the Salina, Kansas, field office to obtain background information and prior audits regarding the Salina Emergency-Aid Food Bank (SFB).
- Compared and reconciled the payee's list of SSA beneficiaries in SFB's care to a list obtained from SSA's Representative Payee System. We tested certain data elements generated from this system for completeness, accuracy, and validity. We determined the data were sufficiently reliable for the purposes of this audit.
- Reviewed SFB's internal controls over the receipt and disbursement of Social Security benefits.
- Selected a sample of 50 beneficiaries<sup>1</sup> in the representative payee's care during the audit period and performed the following tests.
  - Compared and reconciled benefit amounts received according to SFB's records to benefit amounts paid according to SSA's records.
  - Reviewed SFB'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 (72 canceled checks) and examined the documentation for reasonableness and authenticity.
  - Reconciled bank records and SFB's records for three judgmentally selected beneficiaries.
- Interviewed a sample of 10 beneficiaries to determine whether their basic needs were being met and observed their living conditions.

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<sup>1</sup> We selected (1) the 32 beneficiaries who were the responsibility of the employee who stole Social Security funds from a beneficiary during the audit period and (2) a random sample of 18 beneficiaries who were the responsibility of the other employee working in SFB's representative payee program.

- Quantified the amount of Social Security funds stolen by an employee in SFB's representative payee program during the audit period.
- Reviewed the current Representative Payee Accounting Reports for 25 of the 50 beneficiaries in the sample to determine whether SFB properly reported to SSA how benefits were used.

We performed our fieldwork for this review in Salina, Kansas, and Kansas City, Missouri, between September 2008 and February 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 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.

## Agency Comments

5/29/2009

FROM: Audit Liaison for Operations

SUBJECT: OIG Draft Report - Salina Food Bank - A Fee-for-Service Representative Payee

Thank you for the opportunity to comment on the draft OIG Report on Salina Food Bank. The Kansas City Region agrees with the OIG recommendations and dollar amounts defined in this report. The servicing field office will continue working with the Salina Food Bank to ensure all recommendations are implemented and to educate them on Social Security's policies for fee-for-service representative payees. In addition the Regional Office will issue a reminder to the SSA representatives conducting expanded monitoring reviews regarding a payee's responsibility to maintain complete and accurate records so they can provide Social Security accountings for how Social Security benefits and Supplemental Security Income payments are used.

If you have questions, you may contact Kathy Woolsey at 816-936-5630. If members of your staff need additional assistance or information, they may contact Kathy Smith, Center for Programs Support, at 816-936-5643.

Thank you,

*Tracie Carter*

Audit Liaison for Operations  
DCO, OPSOS, DOACS  
(410) 965-1886

## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Mark Bailey, Director, Kansas City Audit Division

### ***Acknowledgments***

In addition to those named above:

Carol Cockrell, Evaluator

Ken Bennett, Information Technology Specialist

For additional copies of this report, please visit our web site at [www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-07-09-19065.

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OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

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