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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**AN INDIVIDUAL REPRESENTATIVE PAYEE  
FOR THE SOCIAL SECURITY ADMINISTRATION  
IN GRAND RAPIDS, MICHIGAN**

**February 2011**

**A-15-10-11077**

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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:

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- 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.

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- Access to all information necessary for 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: February 23, 2011

Refer To:

To: James F. Martin  
Regional Commissioner  
for Chicago

From: Inspector General

Subject: An Individual Representative Payee for the Social Security Administration in Grand Rapids, Michigan (A-15-10-11077)

## OBJECTIVE

Our objectives were to determine whether the selected 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 policies and procedures, and (3) adequately protected the beneficiaries' personally identifiable information (PII).

## 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 disburse benefits for those beneficiaries' payments.<sup>1</sup> A representative payee may be an individual or an organization. SSA selects representative payees for Old-Age, Survivors and Disability Insurance (OASDI) beneficiaries and Supplemental Security Income (SSI) recipients when representative payments would serve the individuals' interests. Representative payees are responsible for managing benefits in the beneficiary's best interest.<sup>2</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> We use the term "benefits" in this report to refer to both OASDI benefits and SSI payments.

The representative payee under review is a volume individual payee, which is a payee that administers benefits for 15 or more SSA beneficiaries.<sup>3</sup> This representative payee was the Executive Director of a nonprofit organization focused on outreach services to people in unfortunate circumstances. During our audit period, April 1, 2009 to March 31, 2010, this representative payee received payments under SSA's OASDI and SSI programs on behalf of approximately 182 beneficiaries. The representative payee was the court-appointed guardian and/or conservator for approximately 25 percent of the beneficiaries he served. Most of the beneficiaries the representative payee served had mental or mood disorders, such as schizophrenia.

To accomplish our objectives, in May 2010, we conducted a site visit to the representative payee's office, where we reviewed a sample of 55 beneficiaries: 25 beneficiaries for whom the representative payee served as both representative payee and court-appointed guardian, and 25 beneficiaries for whom the representative payee served only as payee. We also reviewed five beneficiaries' files where the representative payee served as the court-appointed conservator. See Appendix C for the scope and methodology of our review.

## RESULTS OF REVIEW

Before our May 2010 site visit, SSA completed a review of this individual representative payee in February 2010. During its review, SSA noted the representative payee was charging unauthorized fees to most of the beneficiaries. Although the fees were unauthorized, SSA concluded that a small payment to the representative payee for business expenses was in the beneficiaries' best interests because the payee provided high-quality relationships and numerous support services. For example, the representative payee had four professional staff who served as independent contractors and worked with volunteers from local churches, colleges, and seminaries to provide services to SSA beneficiaries, including arranging medical appointments; finding housing and employment; providing transportation to and from appointments; and delivering food, clothing, and medications. This representative payee met the requirements for being a fee-for-service organization as defined by SSA's Program Operations Manual System (POMS). After our review, the representative payee converted to a fee-for-service, which allows for the collection of a minimal monthly fee.<sup>4</sup>

During our site visit, the representative payee informed us of SSA's finding during the 2010 review. Upon notification from SSA, the representative payee stated he ceased collecting fees in February 2010. During our review of 55 beneficiaries' files from April 1, 2009 to March 31, 2010, we noted that the representative payee had charged

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<sup>3</sup> SSA, POMS, GN 00605.400(C)(1).

<sup>4</sup> SSA, POMS, GN 00506.100: Section 5105 of the *Omnibus Budget Reconciliation Act of 1990*, Pub. L. No. 101-508, included a provision permitting qualified organizations to collect a fee. This fee is deducted from the beneficiary's payment and is used for expenses (including overhead) incurred by the organization in providing services performed as the beneficiary's representative payee.

53 beneficiaries a total of \$12,598 for his representative payee services; however, no fees were collected in February or March 2010. This totaled an average of \$24 per beneficiary each month. Because of the level of service provided by the representative payee, these fees do not appear excessive.

The representative payee also informed us that during the triennial review, SSA identified two SSI recipients whose bank balances had exceeded the \$2,000 resource limit. These recipients were included in our sample and noted during our review; however, SSA had already assessed an overpayment, which the representative payee repaid during our review period. SSA informed the representative payee of the importance of reporting changes in circumstances that may affect a beneficiary's payment.

In addition to the issues SSA noted during its triennial review, we found that the representative payee

- did not maintain documentation to support how most of the beneficiaries' funds were used;
- did not maintain a signed record of cash transactions to beneficiaries;
- did not properly title individual bank accounts for six beneficiaries;
- failed to invest conserved funds for the benefit of one beneficiary; and/or
- held funds received for six Social Security beneficiaries in a collective trust account that did not meet SSA requirements.

Further, we found the representative payee's controls for physically securing beneficiaries' PII and financial records needed improvement.

### **Insufficient Supporting Documentation**

Although the representative payee did not always maintain proper or complete documentation to support the beneficiaries' expenses, we believe the representative payee used their benefit payments to meet their current needs. Federal regulations<sup>5</sup> require that representative payees keep accurate and complete records of the funds received and spent to determine whether the beneficiaries' current needs are being met. The representative payee did not retain invoices for such expenses as rent, utilities, and medical care. Although we could not confirm these expenses without receipts, we were able to examine the representative payee's check register transactions to identify the purpose of the expenditures. The check register documented expenditures for what appeared to be legitimate purposes, such as rent, utilities, and other miscellaneous expenses. Although we cannot confirm how these funds were expended without receipts, nothing came to our attention during our examination of the check register that led us to believe the expenditures were not for the beneficiaries' needs. Further, our interviews with several beneficiaries did not disclose any concerns that led us to believe

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<sup>5</sup> 20 C.F.R. §§ 404.2065 and 416.665.

the beneficiaries' needs were not being met. After our review, the representative payee informed us that it began scanning supporting documents, such as receipts, to retain for each beneficiary.

### **Lack of Cash Receipt Log**

We found that approximately 60 percent of our sampled beneficiaries received a cash disbursement. Each week, the representative payee disbursed cash to beneficiaries for personal allowances and other needs. For these cash disbursements, the representative payee did not maintain a log of signed cash receipts to show the beneficiary actually received the cash. Based on monthly budgets created for each beneficiary, the representative payee's office manager determined the amount of allowance available for each beneficiary weekly. Each week, one of the representative payee's employees put the weekly allowances into an envelope with a label including the beneficiary's name, address, and allowance amount. A different employee would then deliver the envelopes to the beneficiaries at the end of each week.

During our site visit, we observed the representative payee's employee distributing cash to several beneficiaries. If a beneficiary was not available, the employee would slip the envelope under the beneficiary's door. We noted that the employee did not make any of the beneficiaries sign a cash log to indicate receipt of the cash.

Internal controls serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Maintaining a cash receipt log for beneficiary cash transactions is an effective safeguard the individual representative payee should use.

### **Individual Bank Accounts Did Not Meet SSA Requirements**

We found that the representative payee did not properly title the individual bank accounts for six beneficiaries in our sample. While the accounts included the payee and beneficiaries' names, they did not show the payee had only a fiduciary interest. According to SSA guidelines,<sup>6</sup> if a representative payee requests direct deposit, the title of the account or subaccount must show that the representative payee has only a fiduciary interest in the account or subaccount. The beneficiary must not have direct access to the account. The representative payee stated he had been working with the bank to correct this issue. He was working with several banks to find one that will meet the needs of his beneficiaries, including ensuring the correct bank account titles.

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<sup>6</sup> SSA, POMS, GN 02402.055.

### **Excess Conserved Funds Were Not Invested**

During our review, we noted one beneficiary who had an account balance over \$10,000 for 8 months during our audit period. Representative payees are responsible for using benefits for the beneficiary's immediate and reasonably foreseeable needs.<sup>7</sup> The representative payee must conserve or invest any remaining funds for the benefit of the beneficiary. SSA encourages payees to place accumulated Title II funds in excess of \$500 in interest-yielding investments. Although funds over \$500 may be needed for the beneficiary's foreseeable needs, an account balance over \$10,000 appears excessive. The representative payee should have invested the excess funds in an interest-bearing account or other investment that was relatively free of risk.<sup>8</sup>

### **Collective Bank Account Did Not Meet SSA Requirements**

We found that the representative payee had transferred large amounts of funds from six beneficiaries' checking accounts into a single trust account. The representative payee used this account as a collective savings account for beneficiaries with excess funds. Our review of the collective bank account disclosed that the representative payee did not

- request SSA approval to use the collective account for Social Security beneficiaries or
- properly title the account to show the funds belonged to the beneficiaries.

A representative payee with a collective bank account must seek approval from SSA for the account. Approval is required so SSA can monitor these accounts every 3 years to ensure they comply with SSA requirements.<sup>9</sup> The representative payee must properly title the collective accounts to protect beneficiaries' funds from loss or theft if the payee has financial problems or declares bankruptcy. The Federal Deposit Insurance Corporation insures bank deposits for individuals in collective accounts if the deposit account record shows a relationship between the account holder and its clients.<sup>10</sup> The account title must show that funds belong to the beneficiary, and the representative payee only has fiduciary rather than personal interest in the funds.<sup>11</sup> We found that the representative payee titled the collective account with the representative payee's nonprofit company name only, and the account title did not reflect the beneficiaries' ownership of their Social Security benefits. Because the representative payee titled the account to show his company owned the funds, the beneficiaries' assets were at risk for

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<sup>7</sup> SSA, POMS GN 00603.001.

<sup>8</sup> SSA, POMS, GN 00603.020.B.1.c.

<sup>9</sup> SSA, POMS, GN 00603.020.B.

<sup>10</sup> 12 C.F.R. § 330.5(b)(1).

<sup>11</sup> SSA, POMS, GN 00603.020.B.1.a; SSA, *A Guide for Representative Payees* (No. 05-10076), p. 15, January 2009.

loss or theft. After our review, the representative payee returned all funds from the collective account to each beneficiary's checking account.

### **Protection of PII and Other Assets**

We found that the representative payee did not have internal controls to adequately protect the beneficiaries' PII and financial records. Specifically, the representative payee did not have adequate physical security controls to restrict unauthorized access to beneficiaries' records and assets. During our site visit, we noted that the representative payee kept the beneficiaries' files in unlocked filing cabinets in the office. These files contained bank statements, personal correspondence, and court documentation--all with PII such as name, address, bank account numbers, and Social Security numbers. The representative payee's office manager stated that each of the employees, as well as the cleaning company personnel, had a key to the office.

In addition, we noted that the representative payee left the blank check stock and the representative payee's signature stamp on the office manager's desk each evening. The lack of access restrictions and physical safeguards for maintaining beneficiaries' sensitive personal and financial information increases the risk of loss or unauthorized use of beneficiaries' personal information and funds. We also noted there was a lack of segregation of duties relating to paying beneficiaries' expenses. The representative payee's office manager wrote, signed, and mailed all checks. He was also in charge of all the accounting of beneficiaries' funds. There was no approval process to ensure the representative payee paid expenses to the correct vendor and in the correct amount. The lack of segregation of duties increases the risk of loss or unauthorized use of beneficiaries' funds.

## **CONCLUSION AND RECOMMENDATIONS**

Although we found various deficiencies in the representative payee's business practices, we found that the representative payee generally accounted for benefits in accordance with SSA's policies and procedures. We noted that the representative payee provided high-quality relationships and numerous support services for the beneficiaries in his care; however, we found that the representative payee did not have effective safeguards over the receipt and disbursement of Social Security benefits. We also noted that the representative payee did not adequately protect the beneficiaries' PII. Although the representative payee did not have effective safeguards, we did not find that the benefits were misused. In addition, we did not find any quality of care issues. During our audit, the representative payee began taking corrective actions on our findings.

We recommend that SSA instruct the representative payee to:

1. Maintain sufficient documentation for all the beneficiaries it serves to support that Social Security benefits are used in the best interest of the beneficiaries.
2. Maintain a cash receipt log for cash disbursements to beneficiaries.
3. Follow SSA's requirements for the proper titling of individual bank accounts.
4. Place beneficiaries' conserved funds of \$500 or more in an interest-bearing account or a relatively risk-free investment.
5. Follow SSA's requirements for the use of collective bank accounts.
6. Implement internal and physical security controls to safeguard beneficiaries' financial records, PII, and assets.
7. Implement adequate segregation of duties for the disbursement of benefits.

## **AGENCY COMMENTS**

SSA agreed with all our recommendations. The Agency's comments are included in Appendix D, and the representative payee's comments are included in Appendix E.



Patrick P. O'Carroll, Jr.

# Appendices

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APPENDIX A – Acronyms

APPENDIX B – Representative Payee Responsibilities

APPENDIX C – Scope and Methodology

APPENDIX D – Agency Comments

APPENDIX E – Representative Payee Comments

APPENDIX F – OIG Contacts and Staff Acknowledgments

## Acronyms

C.F.R.	Code of Federal Regulations
OASDI	Old-Age, Survivors and Disability Insurance
OIG	Office of the Inspector General
PII	Personally Identifiable Information
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
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/her payments to meet those needs.
- Conserve and invest benefits not needed to meet the beneficiary's current needs.
- Maintain account 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 to 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. §§ 404.2035, and 416.635.

### Scope and Methodology

Our audit covered the period April 1, 2009 through March 31, 2010. To accomplish our objectives, we:

- Reviewed applicable Federal laws and regulations as well as the Social Security Administration's (SSA) policies and procedures pertaining to representative payees.
- Reviewed prior Office of the Inspector General and SSA work in the representative payee area.
- Contacted SSA Chicago Regional Office and Grand Rapids, Michigan, field office personnel to obtain background information and prior audits regarding the individual representative payee.
- Compared and reconciled a list of SSA beneficiaries in the representative payee's care from the payee to a list obtained from the representative payee system.
- Reviewed the representative payee's internal controls over the receipt and disbursement of Social Security benefits.
- Reviewed a sample of 55 beneficiaries: 25 beneficiaries for whom the representative payee served as both the representative payee and court-appointed guardian and 25 beneficiaries for whom the representative payee served only as payee. We also reviewed five of beneficiaries' files where the representative payee served as the court-appointed conservator. For our three samples of beneficiaries, we performed the following tests.
  - Compared benefit amounts paid according to SSA's record to the benefit payment recorded in the payee's accounting records.
  - Reviewed the bank statements of the beneficiaries' and payee's accounting records to determine whether benefit payments were properly deposited.
  - Reviewed beneficiary files for supporting documentation of expenses and personal spending.
- Conducted site visits at two care facilities that housed several of beneficiaries in the representative payee's care in addition to four single-family homes where beneficiaries rented a room. We interviewed several beneficiaries to determine whether their basic needs were being met.

We determined that the computerized data used during our review were sufficiently reliable given our objective, and the intended use of the data should not lead to incorrect or unintentional conclusions.

We performed our fieldwork in Grand Rapids, Michigan, in May 2010 and finalized our analysis at Headquarters from May through September 2010. 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 finding and conclusion based on our audit objectives.

## Agency Comments

SOCIAL SECURITY ADMINISTRATION

**MEMORANDUM**

DATE: January 24, 2011

TO: Inspector General

FROM: Regional Commissioner  
Chicago

SUBJECT: OIG Draft Report, An Individual Representative Payee for the Social Security Administration in Grand Rapids, Michigan (A-15-10-11077) AUDIT # 22010048)--(Your Email Dated December 23, 2010)--REPLY

Thank you for the opportunity to comment on the draft report presenting the results of your audit of an Individual Representative Payee for the Social Security Administration in Grand Rapids, Michigan. Having reviewed the report, we submit the following comments.

You recommended that SSA instruct the Representative Payee to:

- 1. Maintain sufficient documentation for all the beneficiaries it serves to support that Social Security benefits are used in the best interest of the beneficiaries.**  
We agree with this recommendation.
- 2. Maintain a cash receipt log for cash disbursements to beneficiaries.**  
We agree with this recommendation.
- 3. Follow SSA's requirements for the proper titling of individual bank accounts.**  
We agree with this recommendation.
- 4. Place beneficiaries' conserved funds of \$500 or more in an interest-bearing account or a relatively risk-free investment.**  
We agree with this recommendation.
- 5. Follow SSA's requirements for the use of collective bank accounts.**  
We agree with this recommendation.
- 6. Implement internal and physical security controls to safeguard beneficiaries' financial records, PII, and assets.**  
We agree with this recommendation.
- 7. Implement adequate segregation of duties for the disbursement of benefits.**  
We agree with this recommendation.

We will work with the field office staff to act upon the information set forth in this audit, and follow up to ensure the representative payee corrects the deficiencies.

Again, we thank you for your assistance and we appreciate being given the opportunity to comment on the draft report. If members of your staff have questions, they may contact Marva Watkins at 312-575-4207.

/s/  
James F. Martin

## Representative Payee Comments

**From:** [REDACTED]  
**To:** Vetter, Victoria  
**Sent:** Thu Jan 27 09:50:45 2011  
**Subject:** [REDACTED] Audit

Victoria Vetter  
Audit Director  
Social Security Administration

The facts of last year's audit are valid.

Recommendations have been or are in the process of implementation, including finding a new bank to meet our needs as a representative payee.

Executive Director  
[REDACTED]  
800 Monroe NW, Suite 202  
Grand Rapids, MI 49503

## OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Victoria Vetter, Director for Financial Audit Division

Mark Meehan, Audit Manager

### ***Acknowledgments***

In addition to those named above:

Judi Kammer, Senior Auditor

Kelly Stankus, Auditor

Lori Lee, Auditor

Charles Zaepfel

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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.

### **Office of Investigations**

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

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### **Office of Technology and Resource Management**

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