



SOCIAL SECURITY

MEMORANDUM

Date: May 29, 2003

To: Larry G. Massanari
Regional Commissioner
for Philadelphia

From: Assistant Inspector General
for Audit

Subject: Audit of Key Point Health Services, Inc. – An Organizational Representative Payee for the Social Security Administration (A-13-02-22014)

Attached is a copy of our final report. Our objectives were to determine whether Key Point Health Services, Inc., (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 policies and procedures.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me or have your staff contact Shirley Todd, Director of General Management Audit Division, at (410) 966-9365.

A handwritten signature in cursive script that reads "Steven L. Schaeffer".

Steven L. Schaeffer

Attachment

cc:
Fritz Streckewald
JoEllen Felice
Candace Skurnik

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**AUDIT OF KEY POINT
HEALTH SERVICES, INC. –
AN ORGANIZATIONAL
REPRESENTATIVE PAYEE FOR THE
SOCIAL SECURITY ADMINISTRATION**

May 2003

A-13-02-22014

AUDIT REPORT



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

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.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

Executive Summary

OBJECTIVE

Our objectives were to determine whether Key Point Health Services, Inc., (KPHS) (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 (Rep Payee) to receive and manage these beneficiaries' payments. A Rep Payee may be an individual or an organization. SSA selects Rep Payees for Old-Age, Survivors and Disability Insurance beneficiaries or Supplemental Security Income recipients when representative payments would serve the individual's interests. Rep Payees are responsible for using benefits in the beneficiary's best interests.

KPHS is a private, nonprofit corporation, incorporated in April 1983 to serve adults and children with mental health concerns. KPHS has about 180 full-time employees and serves about 100 patients who receive Social Security benefits. From July 1, 2000 through June 30, 2001, KPHS received about \$705,388 in benefit payments for these beneficiaries. KPHS provides psychiatric services and other mental health programs. KPHS also has a residential rehabilitation program to provide housing, support services, and living skills training. Maryland Health Partners, client resources, and entitlements provide funding for residential services.

RESULTS OF REVIEW

We could not determine whether KPHS properly used Social Security benefits for the beneficiaries' use and benefit. Our audit showed that KPHS did not (1) have effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensure Social Security benefits were used and accounted for in accordance with SSA's policies and procedures. Specifically, we found that KPHS did not

- establish a Rep Payee accounting system to track \$705,388 in annual benefits received, disbursed, and/or conserved;
- have a system of internal controls to safeguard beneficiaries' receipts and disbursements;
- establish a separate bank account for beneficiaries' funds;

- obtain SSA approval before using benefits to reimburse itself for prior expenses; and
- establish direct deposit for beneficiary payments, leaving beneficiary checks vulnerable to loss and theft.

Also, KPHS improperly endorsed and deposited checks made payable to beneficiaries for whom KPHS was not the Rep Payee. Finally, we found that KPHS was the Rep Payee for six beneficiaries who were not recorded in SSA's Representative Payee System (RPS).

OTHER MATTERS

SSA conducted a site review at KPHS on August 29 and 30, 2001. According to the site review report, dated January 23, 2002, SSA performed an in-depth review of the accounting and recordkeeping operation. Had SSA reviewed the accounting and recordkeeping operations, it may have discovered, as we did, that KPHS did not have an adequate Rep Payee accounting system or complete supporting documentation for the beneficiary expenses.

CONCLUSIONS AND RECOMMENDATIONS

KPHS has significant internal control and accounting weaknesses, which prevent it from meeting its responsibilities as a Rep Payee. Given the seriousness of the conditions identified, we believe KPHS needs to improve several areas of its Rep Payee program.

We recommend that SSA:

1. Ensure KPHS maintains a Rep Payee accounting system, including supporting documentation, to track benefits received, spent, and conserved.
2. Ensure KPHS establishes appropriate internal controls over benefit receipts and disbursements.
3. Ensure KPHS maintains a properly titled bank account to show the funds belong to the beneficiaries.
4. Require that KPHS submit appropriate documentation that the \$40,401 in benefits was used for the beneficiaries' benefit. If KPHS, is unable to do so, it should reimburse the affected beneficiaries.
5. Establish a control to ensure that KPHS obtains SSA approval before using benefits for self-reimbursement for past debts.
6. Ensure that KPHS establishes direct deposit for all beneficiaries in its care.

7. Ensure that KPHS no longer negotiates Social Security checks that are made payable to beneficiaries for whom KPHS is not the Rep Payee.
8. Determine whether the seven beneficiaries that have their checks sent directly to KPHS need a Rep Payee.
9. Correct RPS to include all beneficiaries for whom KPHS was selected as a Rep Payee. (Recommendation withdrawn per SSA comments.)

AGENCY COMMENTS

SSA agreed with all but one of our recommendations. We had recommended that SSA correct RPS to include all beneficiaries for whom KPHS was selected as Rep Payee. SSA stated that KPHS was no longer the Rep Payee for the affected beneficiaries. Since a new Rep Payee has been selected for these beneficiaries, SSA cannot change previous Rep Payee information in RPS (see Appendix A for the full text of SSA's comments).

REP PAYEE COMMENTS

KPHS stated it has improved its accounting and internal control system. KPHS also stated that direct deposit would make it difficult to control, document, and determine each payment for each beneficiary (see Appendix B for the full text of KPHS' comments).

OIG RESPONSE

We acknowledge the limitations RPS has regarding changing previous Rep Payee information. Therefore, we withdrew our recommendation. However, SSA may want to consider improving RPS to allow for such changes.

We continue to believe direct deposit provides improved safeguards over benefit payments and is an effective and efficient process that would save KPHS the time and effort of handling numerous benefit checks. Finally, we contacted KPHS' bank, and it advised us it would automatically provide individual payment information for each beneficiary in KPHS' care.

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Acronyms

CFR	Code of Federal Regulations
KPHS	Key Point Health Services, Inc.
OASDI	Old-Age, Survivors and Disability Insurance
POMS	Program Operations Manual System
Rep Payee	Representative Payee
RPR	Representative Payee Report
RPS	Representative Payee System
SSA	Social Security Administration
SSI	Supplemental Security Income
USC	United States Code

OBJECTIVE

Our objectives were to determine whether Key Point Health Services (KPHS), Inc., (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 (Rep Payee) to receive and manage these beneficiaries' and recipients' payments.¹ A Rep Payee may be an individual or an organization. SSA selects Rep Payees for Old-Age, Survivors and Disability Insurance (OASDI) beneficiaries or Supplemental Security Income (SSI) recipients when representative payments would serve the individual's interests.

Rep Payees are responsible for using benefits to serve the beneficiary's best interests. Their duties include:²

- using benefits to meet the beneficiary's current and foreseeable needs;
- conserving and investing benefits not needed to meet the beneficiary's current needs;
- maintaining accounting records of how the benefits are received and used;
- reporting events to SSA that may affect the individual's entitlement or benefit payment amount;
- reporting any changes in circumstances that would affect their performance as a Rep Payee; and
- providing SSA an annual *Representative Payee Report* (RPR) accounting for how benefits were spent and invested.

¹ 42 U.S.C. §§ 405(j) and 1383(a)(2).

² Id.; 20 C.F.R. Part 404, Subpart U, and Part 416, Subpart F.

About 7.6 million individuals have Rep Payees—approximately 4.5 million are OASDI beneficiaries, 2.3 million are SSI recipients, and 800,000 are entitled to both OASDI and SSI. The following chart reflects the types of Rep Payees and the number of individuals they serve.

Type of Rep Payee	Number of Rep Payees	Number of Individuals Served
<i>Individual Payees: Parents, Spouses, Adult Children, Relatives, and Others</i>	5,333,200	6,685,100
<i>Organizational Payees: State Institutions, Local Governments and Others</i>	41,500	807,400
<i>Organizational Payees: Fee-for-Service</i>	900	104,200
TOTAL	5,375,600	7,596,700

Source: Master Representative Payee File as of January 2003.

Key Point Health Services, Inc.

KPHS is a private, nonprofit corporation, incorporated in April 1983 to serve adults and children with mental health concerns. KPHS has about 180 full-time employees. A Board of Directors meets to consult with the Chief Executive Officer and approve policy for the corporation. KPHS provides psychiatric services and other mental health programs. Patients are treated in individual, group, or family therapy. KPHS also has a residential rehabilitation program to provide housing, support services, and living skills training. Maryland Health Partners, client resources, and entitlements provide funding for residential services. KPHS serves about 100 patients that receive Social Security benefits. KPHS received about \$705,388 in benefit payments from July 1, 2000 through June 30, 2001.

SCOPE AND METHODOLOGY

Our audit covered the period July 1, 2000 through June 30, 2001. To accomplish our objectives, we:

- Reviewed the Social Security Act and SSA policies and procedures pertaining to Rep Payees.
- Contacted SSA regional office and field office staffs to obtain background information about the Rep Payee’s performance.
- Obtained from SSA’s Representative Payee System (RPS) a list of individuals who were in the Rep Payee’s care as of June 30, 2001 or who left the Rep Payee’s care after July 1, 2000.

- Obtained from the Rep Payee a list of individuals who were in its care and had received SSA funds as of June 30, 2001 or who left its care after July 1, 2000.
- Compared and reconciled the RPS list to the Rep Payee's list to identify the population of SSA beneficiaries who were in the Rep Payee's care from July 1, 2000 to June 30, 2001.
- Reviewed the Rep Payee's internal controls over the receipt and disbursement of OASDI benefits and SSI payments.
- Performed the following tests for each beneficiary and recipient:
 - compared and reconciled benefit amounts received according to the Rep Payee's records to benefit amounts paid according to SSA's records;
 - reviewed the Rep Payee's accounting records to determine whether benefits were properly spent or conserved on the individual's behalf; and
 - traced a sample of recorded expenses to source documents and examined the underlying documentation for reasonableness and authenticity.
- Interviewed a sample of beneficiaries to determine whether their basic needs were being met.

Given the lack of an accounting system and ineffective internal controls, we determined the Rep Payee's computer-processed data to be insufficiently reliable for our intended use (see the *Results of Review* section of this report, pages 4 and 5). We performed our audit in Bel Air and Baltimore, Maryland, between June 2001 and September 2002. We conducted our audit in accordance with generally accepted government auditing standards.

Results of Review

We could not determine whether KPHS properly used Social Security benefits for the beneficiaries' use and benefit. Our audit showed that KPHS did not (1) have effective safeguards over the receipt and disbursement of Social Security benefits and (2) ensure Social Security benefits were used and accounted for in accordance with SSA's policies and procedures. Specifically, we found that KPHS did not

- establish a Rep Payee accounting system to track \$705,388 in annual benefits received, disbursed, and/or conserved;
- have an effective system of internal controls to safeguard beneficiaries' receipts and disbursements;
- establish a separate bank account for beneficiaries' funds;
- obtain SSA approval before using benefits to reimburse itself for prior expenses; and
- establish direct deposit for beneficiary payments, leaving beneficiary checks vulnerable to loss and theft.

Also, KPHS improperly endorsed and deposited checks made payable to beneficiaries for whom KPHS was not the Rep Payee. Finally, we found that KPHS was the Rep Payee for six beneficiaries who were not recorded in SSA's RPS.

KPHS Neither Established a Representative Payee Accounting System nor Had an Effective System of Internal Controls

SSA's *Guide for Organizational Representative Payees* states that a Rep Payee must establish some form of accounting system to track how much money is received; how much money is spent; and the balance saved for each beneficiary. SSA also requires that the Rep Payee's financial records and supporting documentation of beneficiary receipts and expenses are available upon request. Finally, a Rep Payee should have appropriate internal controls to ensure the accuracy, completeness and proper authorization of transactions related to the receipt and disbursement of beneficiaries' funds.

We found that KPHS had not established a Rep Payee accounting system to track individual beneficiary funds received, spent, and saved. In addition, beneficiaries' funds were deposited into KPHS' operating account and commingled with other operating funds. We also found that KPHS did not retain supporting documentation for all beneficiary expenses. KPHS only had documentation for rent, utilities and weekly allowances given to beneficiaries; however, KPHS admitted these records were unreliable.

Our audit also showed that KPHS' internal controls over the receipt and disbursement of Social Security funds were ineffective. One KPHS employee handled all of the receipt

and disbursement of Social Security funds. Disbursements under \$1,000 did not require Chief Executive Officer or Chief Financial Officer review or approval. Finally, any errors or irregularities could go undetected because the same employee was responsible for beneficiaries' receipts and disbursements and reconciling KPHS' bank accounts.

As a result of the above conditions, the following events occurred.

- ***Unidentified Beneficiary-Conserved Funds*** - KPHS asserted there were no conserved funds for any beneficiary in its care. Since KPHS did not keep track of all transactions for each beneficiary and retain all supporting documentation of beneficiary expenses, we applied alternative procedures to obtain some level of assurance of whether beneficiary-conserved funds existed. We used a cost-of-care amount of \$34 per day, approved by the Maryland Department of Health and Mental Hygiene, to determine whether there were any conserved funds during our audit period. Applying this rate to all 111 cases, we found \$592 in conserved funds for 1 beneficiary.
- ***Improper Expenditures of Beneficiary Funds*** - KPHS wrote checks for clothing (\$600) and to open a bank account (\$200) for a beneficiary; however, the checks were made payable to a KPHS employee. The KPHS employee subsequently cashed the checks at a local liquor store. KPHS was unable to provide evidence the money was used for the beneficiary's needs.
- ***Failure to Identify Beneficiaries' Checks Not Received, Lost, or Stolen*** - Our review of beneficiaries' receipts showed that KPHS did not have complete records for the \$705,388 in Social Security payments it received. As a result of our audit, KPHS learned a beneficiary improperly cashed three of his own beneficiary payments at a local liquor store.
- ***Improper Completion of Rep Payee Reports*** - KPHS used estimated expenditure amounts to complete the RPRs. Because KPHS did not track individual expenditures, it could not provide an accurate report of beneficiary funds spent on food, housing, clothing, medical, dental, recreation or personal items during our audit period.

KPHS informed us it had established a Rep Payee accounting system and improved its internal controls. The accounting system was instituted after the period covered by our audit. Consequently, we did not test the accounting system. In addition, we have not independently assessed the effectiveness of the internal control improvements KPHS reports it has implemented.

Separate Bank Account was not Established

Social Security regulations state that any benefits that are not needed for the beneficiaries' current needs must be conserved or invested.³ All investments must show that the Rep Payee holds the benefits in trust for the beneficiary.⁴ SSA prefers that excess funds be invested in U.S. savings bonds or deposited in an interest- or dividend-bearing account in a bank, trust company, credit union, or savings and loan association, which is insured under either Federal or State law.⁵ SSA policy states that a Rep Payee may establish collective checking and savings accounts to hold monies belonging to several beneficiaries.⁶ However, to protect the beneficiaries' funds, the account title must show the funds belong to the beneficiaries and not the Rep Payee.⁷

We found that KPHS had not established a separate bank account for the beneficiaries in its care. Instead, beneficiary funds were deposited into KPHS' operating account; therefore, the account was not properly titled to show the funds belonged to the beneficiaries. A properly titled account is important because, if the Rep Payee has financial problems and/or bankruptcy occurs, beneficiary funds may not be protected. During our audit, KPHS established a proper bank account for the Social Security beneficiaries in its care.

Noncompliance with Creditor Payee Requirements

If a beneficiary's current and reasonably foreseeable needs are met, a Rep Payee may use the beneficiary's funds to satisfy a beneficiary's past debt.⁸ However, if the Rep Payee is also a creditor, the Rep Payee must obtain SSA approval before using benefits for self-reimbursement. In doing so, SSA must establish the debt's validity, determine whether the beneficiary's current and reasonably foreseeable needs are met, and determine whether some or all of the past debt may be paid.⁹ We found that KPHS reimbursed itself \$40,401 in retroactive benefits for seven beneficiaries for prior debts without SSA's approval. In addition, KPHS did not provide any evidence that these funds were only used for the beneficiaries' benefit.

Direct Deposit was not Used

Federal regulations¹⁰ require that all Federal payments be made by electronic funds transfer, otherwise known as direct deposit. However, the requirement to receive payments by direct deposit can be waived if it would impose a hardship on the individual.¹¹ SSA's *Guide for Organizational Representative Payees* encourages the Rep Payee to have benefit payments direct deposited in a bank account. Direct deposit is a more secure way of receiving payments and protects beneficiaries from the loss, theft, or delays associated with mailing paper checks. For a Rep Payee, direct deposit is an effective and efficient process that saves the time and effort of handling numerous benefit checks.

³ 20 C.F.R. §§ 404.2045, 416.645.

⁴ Id.

⁵ 20 C.F.R. §§ 404.2045(b), 416.645(b).

⁶ SSA Program Operations Manual System (POMS), GN 00603.020.

⁷ Id.

⁸ POMS, GN 00602.030.

⁹ Id.

¹⁰ 31 C.F.R. § 208.3.

¹¹ 31 C.F.R. § 208.4.

Given the internal control weaknesses we previously discussed with KPHS' handling of beneficiary receipts, we reviewed 39 beneficiary payments totaling about \$54,000 to ensure they were properly deposited in a KPHS bank account. We found three SSA benefit checks were improperly endorsed and cashed at a liquor store by a beneficiary. Although we did not determine whether theft occurred, these incidents demonstrate the vulnerability of physical checks to theft. If KPHS establishes direct deposit to the beneficiary bank account for these payments, risk of theft and loss will be minimized.

Improper Endorsement of Beneficiary Checks

According to SSA policy, a beneficiary's mailing address should generally be the address where he/she resides.¹² Any other address is questionable and is not acceptable if it facilitates an assignment of benefits, directs checks to a location where the beneficiary cannot readily negotiate them, or permits the beneficiary to conceal information that would result in nonpayment of benefits.¹³ SSA policy also states that, if the mailing address is that of a hospital, nursing home, rest home, etc., the beneficiary may need a Rep Payee.

During our audit, we identified seven beneficiaries who had their benefit checks sent directly to KPHS. None of the seven beneficiaries had a Rep Payee; therefore, all of the checks were made payable to the beneficiaries. However, we found that KPHS improperly endorsed and deposited into its own operating account at least 100 benefit checks, totaling approximately \$47,000, without any of the beneficiaries' signatures. As a result, there is a risk that beneficiary funds were improperly assigned to KPHS or these beneficiaries may need a Rep Payee to manage their funds.

We informed KPHS of our findings and requested SSA to determine whether the beneficiaries were capable of managing their own funds. If SSA determines these beneficiaries were incapable of managing their own funds, KPHS, which was not the Rep Payee of record for these beneficiaries, was not subject to SSA oversight and accountability for the use of those benefit payments.

Representative Payee System

The Omnibus Budget Reconciliation Act of 1990¹⁴ requires that SSA provide for specific identification and control of all Rep Payees and the beneficiaries they serve. As a result, SSA established RPS, an on-line system for entering and retrieving information about Rep Payees and those applying to be Rep Payees. RPS contains data about Rep Payee applicants, beneficiaries in the Rep Payee's care, and the relationship between the Rep Payee and the beneficiaries. In addition, SSA uses the RPS to select a sample of beneficiaries for review during its site visits of Rep Payees.

¹² POMS, GN 02605.025.

¹³ Id. Assignment is defined as the transfer of the right to, or payment of, benefits to a party other than the beneficiary or his/her Rep Payee. The Social Security Act prohibits the assignment of benefits. 42 U.S.C. § 407(a).

¹⁴ Pub. L. No. 101-508, sec. 5105(a)(2)(codified at 42 U.S.C. § 405(j)(2)).

To determine the number of beneficiaries in KPHS' care, we compared KPHS records of beneficiaries to SSA's records of beneficiaries in RPS. As a result, we identified six beneficiaries for whom KPHS served as the Rep Payee that were not recorded in RPS. We provided SSA the names of the six beneficiaries so it could take corrective action to add them to RPS.

Conclusions and Recommendations

KPHS has significant internal control and accounting weaknesses, which prevent it from meeting its responsibilities as a Rep Payee. Given the seriousness of the conditions identified, we believe KPHS needs to improve several areas of its Rep Payee program.

We recommend that SSA:

1. Ensure KPHS maintains a Rep Payee accounting system, including supporting documentation, to track benefits received, spent, and conserved.
2. Ensure KPHS establishes appropriate internal controls over benefit receipts and disbursements.
3. Ensure KPHS maintains a properly titled bank account to show the funds belong to the beneficiaries.
4. Require that KPHS submit appropriate documentation that the \$40,401 in benefits was used for the beneficiaries' benefit. If KPHS, is unable to do so, it should reimburse the affected beneficiaries.
5. Establish a control to ensure that KPHS obtains SSA approval before using benefits for self-reimbursement for past debts.
6. Ensure that KPHS establishes direct deposit for all beneficiaries in its care.
7. Ensure that KPHS no longer negotiates Social Security checks that are made payable to beneficiaries for whom KPHS is not the Rep Payee.
8. Determine whether the seven beneficiaries that have their checks sent directly to KPHS need a Rep Payee.
9. Correct RPS to include all beneficiaries for whom KPHS was selected as a Rep Payee. (Recommendation withdrawn per SSA comments.)

AGENCY COMMENTS

SSA agreed with all but one of our recommendations. We had recommended that SSA correct RPS to include all beneficiaries for whom KPHS was selected as Rep Payee. SSA stated that KPHS was no longer the Rep Payee for the affected beneficiaries. Since a new Rep Payee has been selected for these beneficiaries, SSA cannot change previous Rep Payee information in RPS (see Appendix A for the full text of SSA's comments).

REP PAYEE COMMENTS

KPHS stated it has improved its accounting and internal control system. KPHS also stated that direct deposit would make it difficult to control, document, and determine each payment for each beneficiary (see Appendix B for the full text of KPHS' comments).

OIG RESPONSE

We acknowledge the limitations RPS has regarding changing previous Rep Payee information. Therefore, we withdrew our recommendation. However, SSA may want to consider improving RPS to allow for such changes.

We continue to believe direct deposit provides improved safeguards over benefit payments and is an effective and efficient process that would save KPHS the time and effort of handling numerous benefit checks. Finally, we contacted KPHS' bank, and it advised us it would automatically provide individual payment information for each beneficiary in KPHS' care.

Other Matters

Representative Payee Reports

One method SSA uses to monitor Rep Payees is the RPR. The RPR is intended to assist SSA in determining the (1) use of benefits during the preceding 12-month reporting period, (2) Rep Payee's continuing suitability, and (3) continuing need for representative payment.¹⁵ Depending on the Rep Payee's responses, SSA may contact the Rep Payee to determine its continued suitability. We found that SSA could not always retrieve KPHS' completed RPRs.

As part of our audit, we planned to review a sample of completed RPRs to determine whether KPHS met its reporting responsibilities. We requested the most recently completed RPRs for 82 beneficiaries. However, SSA only provided 53 of the 82 RPRs we requested. For the remaining 29, we could not determine whether KPHS properly submitted RPRs.

However, in February 2003, SSA established an electronic imaging system that will image and electronically store all RPR forms. The imaging system should improve SSA's ability to timely obtain RPRs

Social Security Administration Site Review

SSA instituted a site review process to help ensure stronger oversight of Rep Payee organizations. The site visit is a formal process for reviewing the performance of Rep Payees. The visit includes an opening meeting with the organization's administrators, an examination of the Rep Payee's financial records and reporting performance, interviews with the beneficiaries and/or their custodians, and a close-out meeting and notice.

SSA conducted a site review at KPHS on August 29 and 30, 2001. According to the site review report, dated January 23, 2002, the review team examined the records for 11 of the 106 clients KPHS served and interviewed several beneficiaries. The report stated that SSA performed an in-depth review of the accounting and recordkeeping operation, and the review team noted two areas that required KPHS' attention.

- Beneficiary funds were being deposited in KPHS' operating account.
- KPHS had approximately 20 SSA checks in its possession for clients who were no longer in its program. According to the report, the checks were returned and receipts issued.

Had SSA reviewed the accounting and recordkeeping operations, it may have discovered, as we did, that KPHS did not have an adequate Rep Payee accounting system or complete supporting documentation for the beneficiary expenses.

¹⁵ POMS, GN 00605.001.

**Check Cashing
Arrangement
with Liquor Store**

According to SSA policy¹⁶ a Rep Payee receives Social Security benefits with the full right and duty to spend them, in the best interests of the beneficiary, according to the Rep Payee's best judgment. During our audit, we found that KPHS had had an agreement for several years with a local liquor store to allow SSA beneficiaries in KPHS' care to cash checks as a courtesy to KPHS. This includes cashing beneficiaries' weekly allowance checks, up to about \$65, issued by KPHS. We believe KPHS used poor judgment in making this arrangement, and it was not in the best interest of SSA beneficiaries with mental disabilities.

¹⁶ POMS, GN 00602.001 A.1.

Appendices

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: May 1, 2003

To: Assistant Inspector General for Audit

From: Regional Commissioner
Philadelphia

Subject: Audit of Key Point Health Services, Inc. – An Organizational Representative Payee for the Social Security Administration (A-13-02-22014)

Attached are our comments on the draft report. We appreciate the opportunity to provide our views. If you wish to discuss the draft report, please call me at 215-597-5157.

/s/
Larry G. Massanari

Attachment

cc: Fritz Streckewald
JoEllen Felice
Candace Skurnik
Roger McDonnell

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, “AUDIT OF KEY POINT HEALTH SERVICES, INC. – AN ORGANIZATIONAL REPRESENTATIVE PAYEE FOR THE SOCIAL SECURITY ADMINISTRATION” (A-13-02-22014)

Thank you for the opportunity to review and comment on this report. We agree with the majority of the recommendations and will work closely with Key Point to insure that they are implemented. At the entrance conference for this audit, we both agreed that a concomitant “trigger event” site visit was also warranted, in accordance with existing policy instructions. We saw the parallel reviews as an opportunity to validate the effectiveness of current site visit methodology in evaluating payee performance.

Our site visit did uncover some of the same findings as your audit. The fact that there were other findings not identified during the site visit underscores the need for continued refinements to this process. The site visits that our field office employees perform do not replicate the extensive financial analysis that is part of your audit process. This difference in methodology may inherently account for some of the inconsistent findings. We anticipate your summary report to the Agency will consider this point, and offer tangible ways for us to improve our site visit protocols by incorporating recommendations that unite the different approaches to our reviews.

Our responses to the specific recommendations are provided below:

Recommendation 1

Ensure KPHS establishes and maintains a Rep Payee accounting system, including supporting documentation, to track benefits received, spent, and conserved.

Philadelphia Region Response

We agree that KPHS needs to refine its accounting system to provide reliable data regarding receipts, disbursements and conserved funds. At the time of our site visit, the reviewer reported that KPHS was using Quickbooks software as their accounting system for monitoring beneficiaries’ funds. The recommendation as presently worded suggests that no system exists. We question whether the software was determined to be inadequate as an accounting system or if there was no evidence that this software had ever been used by KPHS.

Recommendation 2

Ensure KPHS establishes appropriate internal controls over benefit receipts and disbursements.

Philadelphia Region Response

We agree. As your cover memo indicates, KPHS was also requested to comment on this report. Absent any substantive change to this recommendation based on their response, we will work with KPHS to insure that their plan to remedy this matter is in accordance with accepted practices.

Recommendation 3

Ensure KPHS establishes and maintains a properly titled bank account to show that the funds belong to the beneficiaries.

Philadelphia Region Response

We agree. We made this recommendation to KPHS in our site visit report.

Recommendation 4

Require that KPHS submit appropriate documentation that the \$40,401 in benefits was used for the beneficiaries' benefit. If KPHS is unable to do so, it should reimburse the affected beneficiaries.

Philadelphia Region Response

We agree. As your cover memo indicates, KPHS was also requested to comment on this report. Absent any substantive change to this recommendation based on their response, we will review the documentation provided and insure that reimbursement is made if applicable.

Recommendation 5

Establish a control to ensure that KPHS obtains SSA approval before using benefits.

Philadelphia Region Response

We agree. The field office manager has already reviewed this procedure in depth with KPHS staff when it was first discovered that it was not being followed.

Recommendation 6

Ensure that KPHS establishes direct deposit for all beneficiaries in its care.

Philadelphia Region Response

While we agree that the use of direct deposit should be considered, there is currently no directive that mandates the use of direct deposit without exception by organizational payees. We will encourage KPHS to consider the use of direct deposit, unless their reply to this report indicates that it would impose a hardship. Conversely, if they agree to establish direct deposit, we will work with them to make the appropriate inputs.

Recommendation 7

Ensure that KPHS no longer negotiates Social Security checks that are made payable to beneficiaries for whom KPHS is not the Rep Payee.

Philadelphia Region Response

We agree. This matter was discussed with KPHS as part of the site visit report when it was discovered that checks were being deposited incorrectly into their operating account.

Recommendation 8

Determine whether the seven beneficiaries that have their checks sent directly to KPHS need a Rep Payee.

Philadelphia Region Response

We agree. We have already begun to determine capability.

Recommendation 9

Correct RPS to include all beneficiaries for whom KPHS was selected as Rep Payee.

Philadelphia Region Response

This recommendation is not actionable. In September 2001, the servicing field office responded to a request from the auditor to determine why 6 beneficiaries listed on KPHS' records were not shown in the RPS Terminated Listing for KPHS. In 5 of the 6 cases, KPHS had been payee at one time, but was terminated and another payee selected. The remaining beneficiary was his own payee and should not have been on the list.

A review of the 5 cases revealed that all but one were SSI recipients. Field offices are able to change a payee for a SSI recipient either via a SSA-1719 or through RPS. If the SSA-1719 is used, RPS will not reflect current payee information or when a payee has been terminated. Once a new payee has been selected, however, we are unable to go back and change previous payee information for either RSDI or SSI beneficiaries. Thus we cannot comply with the recommendation.

Representative Payee's Comments

April 10, 2003

Steven L. Schaeffer
Assistant Inspector General for Audit
Office of the Inspector General
Social Security Administration
Baltimore, MD 21235-0001

Dear Mr. Schaeffer:

Thank you for forwarding the draft audit report dated March 10, 2003, and for the opportunity to comment upon it. As you are aware, shortly before you began your audit Key Point had obtained a new chief financial officer, reorganized our financial department and had already begun to improve upon our financial procedures. Your audit staff was very helpful in furthering that process. As the auditors raised questions about specific items during the course of the audit, Key Point's financial staff went to work immediately to clarify and improve upon our internal accounting system and documentation. Key Point is very pleased, as I am sure is the Social Security Administration, that, in the end, all funds received by Key Point as Representative Payee were adequately accounted for and documented as applied to the beneficiaries' use and benefit.

Most of our clients for whom we are Representative Payee live in residences provided by Key Point. Maryland's COMAR, Regulation 10.21.25.08, permits Key Point to charge \$34.00 per day for cost of care for each client. Nevertheless, Key Point does not collect from our clients any more than the Social Security benefits that they receive. In addition, Key Point presented data to the auditors to show that every week a personal living and grocery check was paid to each beneficiary while in our care. These amounts were paid directly out of the Social Security benefits received. In any case, if we collected Social Security benefits for a period while the beneficiary was not in our care, we returned the funds to the client.

Concerning safeguards over the receipt and disbursement of benefits, Key Point's current process with regard to all checks received is as follows:

- A. Receptionist receives the check in the mail.

- B. A financial clerk records the checks, photocopies the checks, and makes all deposits.
- C. The accounts payable clerk writes all disbursement checks.
- D. The accounting manager reviews all checks and prepares the Representative Payee reports. Any check over \$1,000.00 must have the signature of either the chief executive officer or the chief financial officer of Key Point. Checks greater than \$10,000.00 require dual signature
- E. The chief financial officer reviews and signs off on all Representative Payee reports.

As to the accounting system to track benefits received, disbursed, and/or conserved, note that the process was being reviewed for improvement at the time the audit began. While the auditors were with Key Point, Key Point replaced its entire accounting system. Nevertheless, even with the old system, Key Point was able to recreate an accounting for each beneficiary during the audit. Key Point has established a separate bank account specifically for Social Security benefits received on behalf of clients, as of January 28, 2002. The Guide for Organizational Representative Payees, page 13, concerning claims of creditors, states that any debt incurred before the beneficiary's entitlement must be approved by the Social Security Administration prior to reimbursement. The auditors' complaint about failing to obtain Social Security Administration approval for reimbursements concerns only debts incurred after entitlement but before actual receipt of the funds. Key Point has never reimbursed itself for debts incurred before entitlement. Nevertheless, due to the auditors' concerns, Key Point has established a policy of obtaining Social Security Administration approval for reimbursement of any and all debts whatsoever. Debt to Key Point is only for the client/beneficiary's housing expense.

Direct deposit of beneficiary payments is not a requirement, but is only a suggestion or recommendation for representative payees. During the audit, Key Point was able to reproduce a copy of each and every Social Security check that was received. This practice proved very helpful during the course of the audit, and Key Point continues to do that. Receipting the actual checks, and documenting each one, has proven most helpful to Key Point, and to the auditors as well. Direct deposit would make such documentation impossible, and would make application of each payment for each different beneficiary extremely difficult. Direct deposit makes the bank responsible for reporting to Key Point which beneficiary gets which amount each month. By providing oversight of the check receipt and deposit process, Key Point is much better able to control, document, review, and account for the client/beneficiary's receipts.

On a few occasions, Key Point deposited, under our old process, checks payable to beneficiaries for whom Key Point was not the Representative Payee. Key Point no longer does that and has not done that since having changed chief financial officers

prior to the beginning of the audit. All such checks that come into the hands of Key Point are returned to the beneficiary for that beneficiary's endorsement and deposit.

Again, thank you for assisting Key Point while we improve our internal accounting and audit procedures. Please note that Key Point also retains separate outside auditors for an annual audit, which includes an annual audit of Social Security benefits received by Key Point as Representative Payee.

Very truly yours,

/S/

Karl D. Weber
Chief Executive Officer

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Acknowledgments

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